REGISTRATION DOCUMENT

2012

ANNUAL FINANCIAL REPORT

VEOLIA
ENVIRONNEMENT

Registration Document 2012

Annual Financial Report

Pursuant to article 28 of European Regulation n° 809/2004, the following information is incorporated by reference in this registration document: (i) the consolidated financial statements and the corporate financial statements for the 2011 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's registration document for the 2011 fiscal year, filed with the French Regulatory Authority (AMF) on March 24, 2012 under number D.12-0192 and (ii) the consolidated financial statements and the corporate financial statements for the 2010 fiscal year and the corresponding statutory auditor's report, included in chapter 20, paragraphs 20.1 and 20.2, respectively, of Veolia Environnement's registration document for the 2010 fiscal year, filed with the French Regulatory Authority (AMF) on March 30, 2011 under number D.11-0200.

AMF

This registration document was filed with the French Regulatory Authority (AMF) on March 21, 2013, pursuant to Article 212-13 of its general regulations. This registration document may be used in connection with a financial transaction if supplemented by a *note d'opération* approved by the French Regulatory Authority (AMF).

This document has been prepared by the issuer under the liability of the signatories.

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1

Persons assuming responsibility for the registration document

1.1 Person assuming responsibility for information contained herein RFA

Mr Antoine Frérot, Chairman and Chief Executive Officer of Veolia Environnement [(1)]

1.2 Certification

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

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

I have obtained a letter *(lettre de fin de travaux)* from the statutory auditors indicating that they have verified the information relating to the Company's financial condition and the financial statements included in this document and that they have read this document in its entirety. This letter contains no observations.

The historical financial information for the 2011 fiscal year presented in this registration document were the subject of the statutory auditors' report on page 386 of the 2011 registration document which contains the following observation: 'Without qualifying our opinion, we draw your attention to note 1.1.5 of the consolidated financial statements which sets out the correction of errors related to a series of accounting irregularities identified during the second quarter of the year and whose effects were apprehended in its accounts by your company in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors.' The letter from the statutory auditors (*lettre de de fin de travaux*) concerning the 2010 fiscal year contains no observations.

Given at Paris, on March 21, 2013

The Chairman and Chief Executive Officer

Antoine Frérot

(1) Hereinafter the "Company" or "Veolia Environnement". Unless otherwise indicated, the term "Group" used in this document refers to Veolia Environnement and all its direct and indirect subsidiaries located in France or abroad.

2

Persons responsible for auditing the financial statements

2.1 Principal statutory auditors

KPMG SA

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

A company represented by Mr. Jean-Paul Vellutini and Ms. Karine Dupré.

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

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

Ernst & Young et Autres

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

A company represented by Messrs Nicolas Pfeuty and Gilles Puissochet

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

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

2.2 Deputy statutory auditors

Mr Philippe Mathis

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

Appointed by the combined general shareholders' meeting of May 10, 2007 for a period of 6 fiscal years, expiring at the end of the general shareholders' meeting that will approve the financial statements for the fiscal year ended December 31, 2012.

AUDITEX

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

Company appointed on May 25, 2005 with a term that was renewed at the combined general shareholders' meeting held on May 17, 2011 for a period of 6 fiscal years, expiring at the end of the general shareholders' meeting that will approve the financial statements for the fiscal year ending December 31, 2016.

3

Selected financial information[(1)]

Selected Consolidated financial statement figures presented in accordance with IFRS

(€ million)	**31/12/2012**	**31/12/2011[(i)]**	**31/12/2010[(i) (ii)]**
Revenue	29,438.5	28,576.5	27,851.6
Operating cash flow before changes in working capital[(v)]	3,084.7	3,352.9	3,718.7
Operating income	1,095.0	829.1	1,776.1
Net income attributable to owners of the Company	393.8	(489.8)	558.5
Net income attributable to owners of the Company per share - Diluted *(in euros)*	0.78	(0.99)	1.16
Net income attributable to owners of the Company per share - Basic *(in euros)*	0.78	(0.99)	1.16
Dividends paid[(iii)]	353.8	586.8	579.5
Dividend per share paid during the fiscal year *(in euros)*	0.70	1.21	1.21
Total assets	44,612.1	50,405.6	51,427.3
Total current assets[(iv)]	22,038.4	21,948.5	20,371.9
Total non-current assets	22,573.7	28,457.1	31,055.4
Equity attributable to owners of the Company	7,152.1	7,069.7	7,875.9
Equity attributable to non-controlling interests	1,973.6	2,765.4	2,928.5
Adjusted Operating cash flow[(v)]	2,722.8	2,852.6	2,982.2
Adjusted operating income	1,193.7	1,557.8	1,685.4
Adjusted net income attributable to owners of the Company	59.5	194.7	360.4
Net financial debt	11,283.4	14,729.9	15,218.0

(i) In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the income statements of:

- *discontinued operations in the course of divestiture, i.e. the entire contribution of Veolia Transdev, excluding the activities of Société Nationale Maritime Corse Méditerranée (SNCM) Group, Water activities in Morocco, urban lighting activities (Citelum) in the Energy Services Division and European wind energy activities;*
- *discontinued operations divested, i.e. regulated activities in the United Kingdom in the Water Division, divested in June 2012, Solid Waste activities in the United States in the Environmental Services Division, divested in November 2012 and American wind energy activities, divested in December 2012;*

are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2012, 2011 and 2010.

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

(iii) Dividends paid by the Company.

(iv) Including assets classified as held for sale of €3,974.3 million as of December 31, 2012, €3,256.5 million as of December 31, 2011, and €805.6 million as of December 31, 2010.

(v) Operating cash flow before changes in working capital, as presented in the Cash Flow Statement, is composed of three components: adjusted operating cash flow consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses, and operating cash flow from discontinued operations composed of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5.

(1) Definitions of the non-GAAP indicators appearing in the table are presented in Chapter 9, section 9.7.2 of the 2012 Registration Document.

4

Risk factors RFA

The Veolia Environnement Group's position as a major player in the Environmental sector and the diversity of its activities and establishments exposes it to a variety of risks: human, financial, industrial and commercial (see Section 4.1 below).

The global economic crisis since 2011, has influenced the Company's risk profile, intensifying some of its risks (country risks, counterparty risks, customer failure, etc.). The Group deals with these risks by deploying a risk management process (see Section 4.2 below) as well as through audit and internal control (see Section 4.3 below). Special attention is also given to compliance with a set of ethics within the Group (see Section 4.4 below).

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

- Risks relating to the business environment in which the Group operates (see Section 4.1.1 below):
  - Market risks (see Section 4.1.1.1 below),
  - Risks relating to the retention of licenses, permits and authorizations and regulatory changes regarding health, the environment, hygiene and safety (see Section 4.1.1.2 below),
  - Risks relating to climatic uncertainty (see Section 4.1.1.3 below),
  - Country risks (see Section 4.1.1.4 below).
- Risks relating to conducting the Group's businesses (see Section 4.1.2 below):
  - Risks relating to changes in the Group's activities (see Section 4.1.2.1 below),
  - Risks relating to changes in the Company's markets (see Section 4.1.2.2 below),
  - Risks arising from human resource management (see Section 4.1.2.3 below),
  - Operational risks (see Section 4.1.2.4 below),
  - Legal, contractual and commercial risks (see Section 4.1.2.5 below),
  - Risks relating to the security of persons, tangible and intangible property, securities and information systems (see Section 4.1.2.6 below).
  - Risks relating to non-compliance with ethical rules (see Section 4.1.2.7 below).

4.1 Risks relating to the issuer

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

4.1.1.1 Market risks

Interest rate and foreign exchange risks

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

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

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

At the end of 2012, net financial debt amounted to €11,283.4 million, with 2% at floating rates and 98% at fixed rates (see Chapter 20, Section 20.1, Note 27.1.1 to the consolidated financial statements below). For information on the management of interest rate and foreign exchange risks, please refer to Section 4.2.2.1.1 below as well as Chapter 20, Section 20.1, Notes 27.1.1 and 27.1.2 to the consolidated financial statements below.

Counterparty risk

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

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

Management rules require cash surpluses to be invested with monetary UCITS managers or in short-term notes and deposits with leading banks and financial institutions (banks and financial institutions with minimum credit ratings awarded by Moody's, Standard & Poor's or Fitch of A1/P1/F1 (short-term) and A2/A/A (long-term), unless justified).

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

For information on the management of counterparty risk, please refer to Section 4.2.2.1.1 as well as Chapter 20, Section 20.1, Note 27.4 to the consolidated financial statements below.

Risks relating to the price of energy, commodities and recycled raw materials

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

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

Group activities also include the production of electricity, particularly in France, Germany, the United Kingdom and Central Europe. A significant portion of these sales concern so-called "unavoidable" production, co-generated with heat or resulting from the incineration of waste. In the initial years of service of an installation, the electricity produced is generally covered by guaranteed purchase tariffs pursuant to specific domestic regulations. At the end of this guaranteed tariff period, production is sold on the wholesale market and is exposed to fluctuations in the price of electricity. A significant and long-term drop in the market price of electricity in the countries concerned could, therefore, impact the Company's operating results.

For more details on the hedging of risks arising from the price of energy, commodities and raw materials and sensitivity to these risks, see also Section 4.2.2.1.1 and Chapter 20, Section 20.1, Note 27.1.3 below.

For information on the management of commodity risks, please refer to Chapter 20, Section 20.1, Note 27.1.3 below.

Risks arising from the greenhouse gas emission allowance trading scheme

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

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

In all this, Veolia Environnement is exposed to a dual risk: firstly, not being able to achieve the emission reductions imposed by the system on a multi-year basis, requiring the Group to incur extra expense to obtain the shortfall in allowances and, secondly, not being able to adjust its pricing policy to pass on the extra cost of purchasing allowances from January 1, 2013.

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

4.1.1.2 Risks relating to the retention of licenses, permits and authorizations and regulatory changes regarding health, the environment, hygiene and safety

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

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

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

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

4.1.1.3 Risks relating to climatic uncertainty

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

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

4.1.1.4 Country risks

Veolia Environnement generates over 59% of its revenue outside France, with activities centered mainly in Europe, the United States, China and Australia. The Group also conducts business in certain emerging countries. In a complex and sometimes unstable international environment, risks relating to conducting business in certain countries can affect the Company's financial position and results and even its reputation and outlook. In particular, given the nature of Veolia Environnement's activities and the term of its contracts, the Company's results can partially depend on external operating conditions, whether the geopolitical, economic, social or financial situation or the level of development, working conditions and environmental conditions of a given country.

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

The Group may be exposed to the political, economic or social instability of the country, making it difficult to carry out its activities. This risk could be reinforced in certain cases for companies of foreign origin exposed to nationalization or expropriation of private assets.

Conducting business in certain countries can also expose the Group to risks tied to the general terms of doing business in the country for companies, and particularly foreign companies, such as a risk of non-payment or slower payment of invoices, sometimes aggravated by the absence of legal coercive measures, increased foreign exchange risk or restrictions on fund repatriation. The lack or limited development of the legal and social infrastructures necessary to the conduct of economic activities, administrative delays, a lack of visibility of future regulatory or tax developments, a lack of qualified labor, as well as foreign exchange control measures and other adverse measures or restrictions imposed by governments are all factors which can, in certain countries, impact the conditions of Group operations.

The Group can also be confronted with a worsening of the local environment tied to the conduct of its specific activities. The setting of public utility fees and their structure may depend on political decisions that can impede increases in fees for several years, such that they would no longer cover service costs and provide compensation for the Company. Major amendments to or the imperfect application of regulations, political opposition to the conduct of the Company's activities in public markets and local authority challenges to the application of contractual provisions could stop the Group from obtaining or renewing certain contracts. The Company could be faced with a deterioration in the local economic, social or environmental conditions underpinning its activities, changing the economic balance of contracts, through an increase in unpaid household debts or a reduction in available environmental resources such as water or biomass.

The Company may be unable to insure or hedge against these risks. Furthermore, the Group may find it is unable to defend its rights before a court of law in certain countries and particularly emerging countries, should it come into conflict with their governments or other local public entities. Unfavorable events or circumstances in certain countries may lead the Company to record exceptional provisions and/or impairments, which could have a significant adverse effect on Veolia Environnement's financial position, results and outlook.

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

In certain cases, the exacerbation of these risk factors can lead to the general political and economic destabilization of the country and even make it difficult for the Company to conduct business because of reduced security and stability. The Company's businesses can be the subject of acts of malice or terrorism. In this respect, Energy Services, Environmental Services or water distribution can be targets. In addition, certain Veolia Environnement employees work or travel in countries where the risks of occurrence of acts of terrorism or malice can be temporarily or permanently high (see also Section 4.1.2.4 below).

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

Accordingly, despite the forward-planning and protection measures implemented by the Company and the insurance policies subscribed, the occurrence of these exceptional situations could affect the Company's results.

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

4.1.2 Risks relating to conducting the Group's businesses

4.1.2.1 Risks relating to changes in the Group's activities

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

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

These plans could take longer to implement than expected and, for the "Convergence" plan, generate greater costs than planned.

Risks relating to changes in the scope of activities

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

Risks relating to divestitures

At the end of 2011, the Group announced an ambitious transformation plan encompassing the refocusing of its activities and a reduction in the Company's net debt. To this end, the Group launched an extensive €5 billion asset divestiture program for 2012 and 2013. This program is threefold: withdrawal from the Transportation business; divestiture of regulated Water activities in the United Kingdom and solid waste activities in the United States; and continued rationalization of the Group's geographical coverage.

At the end of 2012, 70% of the program was completed. In addition to Water divestitures in the United Kingdom and Environmental Services divestitures in the United States, Veolia Environnement signed an agreement for negotiation with Caisse des dépôts et consignations on October 22, 2012, under which the Company should see its stake in Veolia Transdev reduced from 50% to 40% and the refinancing of its shareholders' loan. Several other small and medium-sized divestitures were also completed and particularly the divestiture of Ridgeline, the US wind energy subsidiary, part of Veolia Propreté's activities in Switzerland, an incinerator in Italy and Veolia Propreté's entire activities in Estonia and Lithuania, as well as Dalkia's activities in Switzerland and Estonia.

The conditions under which the activities sold are hived-off expose the Group to risks relating to the need to set up independent functional services in each activity, when those services were previously provided on a shared basis. These risks concern human resources, as certain individuals with significant expertise may leave the Company, and the means used to manage these functional services, such as methods, suppliers or IT tools. The main areas concerned are financial services, human resources (including the training campus), real estate and general services. In addition, planned divestitures may not be carried out within the forecast deadlines, may not achieve the expected valuation level or may not be completed. In addition, the business sales agreements include vendor warranties covering certain risks identified by the buyer. Their future occurrence and the resulting warranty calls could have financial consequences for the Group.

Risks relating to growth transactions

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

Liquidity risk

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

For information on liquidity risk, please refer to Section 4.2.2.2.1 below and the description of loan arrangements as well as the tables in Chapter 20, Section 20.1, Note 27.3 to the consolidated financial statements.

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

4.1.2.2 Risks relating to changes in the Company's markets

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

The Company's operations are carried out in highly competitive sectors. Large international companies, niche companies and companies whose overheads or profitability requirements are lower than those of Veolia Environnement serve each of the markets in which the Company competes. The Group may not remain competitive enough to convince its potential customers of the quality and value of its services and could thus suffer the loss of existing contracts or a substantial fall in profitability on contract renewal or have access to new contracts blocked.

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

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

For information on the management of risks relating to changes in the Company's markets and offerings, please refer to Section 4.2.2.2.2 below.

4.1.2.3 Risks arising from human resource management

Risks relating to employee health and safety

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

Risks relating to availability of skills

The Group engages in highly diverse businesses, which require varied skills that constantly evolve to adapt to changes in environmental businesses. The need to constantly seek out new profiles, train staff in new techniques and recruit and train managers in every country where the Group operates represents a risk if the Group is unable to mobilize in a timely manner the skills required at all of its locations. The current transformations within the Group under the Convergence plan and other related plans increase the risk that certain key expertise will be lost if the Company is unable to identify and retain such individuals.

Risks relating to deterioration of the industrial relations climate

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

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

4.1.2.4 Operational risks

Third-party liability risks and particularly health and environmental risks in respect of past and present activities

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

Some of Veolia Environnement's activities could cause injury to people (sickness, injury or death), business interruption or damage to the environment (including biodiversity), movable property or real estate. It is the Company's general policy to contractually limit its liability, implement the necessary prevention and protection measures and to take out insurance policies that cover its main accident and operational risks (see Section 4.2.3 below). However, these precautions may prove to be insufficient, and this could generate significant costs for the Company.

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

See also Chapter 6, Section 6.3.2 and Chapter 20, Section 20.1, Note 16 to the consolidated financial statements.

Risks relating to design and construction activities

The Company carries out, particularly through Veolia Water Solutions & Technologies, "turnkey" structure design and build contracts, which are remunerated on a non-revisable fixed-price basis. The Company's remuneration is often conditional on meeting performance objectives, and non-compliance with these objectives triggers penalties. The risks to which the Company is exposed under this type of contract are generally technical (design and choice of tailored versus tried-and-tested technology), operational (site management during the performance, acceptance and warranty phases or ability to use technology imposed by the customer) and economic (fluctuations in raw material prices, foreign exchange rates or commodities). In accordance with standard practice, to the extent possible, the Company seeks to hedge this risk contractually. The Company may, however, encounter difficulties over which it has no control, relating, for example, to the complexity of certain infrastructure, climate or economic risks or construction contingencies, the purchasing and ordering of equipment and supplies of commodities, or changes in performance schedules for some work. In certain cases also, the Company must integrate existing information or studies provided by the customer that may prove inaccurate or inconsistent or may be required to use existing infrastructure with poorly-adapted operating characteristics. These difficulties and hazards may result in non-compliance with contractual performance indicators, additional expense, lost revenue and/or the application of contractual penalties that could negatively affect the Company's financial position, results or outlook. In addition, the Company and its subsidiaries generally have recourse to sub-contractors and suppliers in the performance of their contracts. While these sub-contactors and suppliers are subject to a selection process and credit review, their failure could generate delays and significant additional costs without the ability to recover all costs incurred.

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

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

Emerging health or environmental risks

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

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

4.1.2.5 Legal, contractual and commercial risks

Risks relating to long-term contracts

As the majority of the Company's activities are performed under long-term contracts this can hinder its ability to react rapidly and appropriately to new financially negative situations.

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

Risk relating to the rights of public authority

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

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

Risks relating to the set-up of partnerships

The Group may be required to conduct its activities in France and abroad through partnerships with public authorities or private players. These partnerships offer a means of sharing the economic and financial risks associated with certain major projects or activities. While the partial loss of control granted in return for reduced capital exposure is managed contractually, changes in the project or activity concerned or the economic or political context, or a downturn in the economic position of the partner(s) could lead to conflict between the partners and in certain cases the rupture of the partnership. These situations, tied to the poor performance of a partnership, could have a significant impact on the Group's activities, financial position, results or outlook.

Significant litigation

In the normal course of its activities, the Company and/or its subsidiaries are involved in litigation, arbitration procedures and inquiries, such as, in particular, (a) the procedure opened by the European Commission in January 2012 aimed at determining whether behavior in the French water and wastewater markets has been coordinated and (b) the various procedures and inquiries involving Société Nationale Maritime Corse Méditerranée (SNCM), including two which could potentially lead to the reclassification of certain measures in SNCM's favor as State assistance incompatible with European Union rules. There remains a risk that the final resolution of these actions, procedures and inquiries or other disputes could have an adverse effect on the Company's activities, financial position or results.

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

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

4.1.2.6 Risks relating to the security of persons, tangible and intangible property, securities and information systems

The protection of the Group's employees, activities and resources is subject to extremely strict constraints and particularly regulatory constraints, which expose the Group to legal liability. Given the nature of the Group's activities and its geographical spread, its employees, tangible and intangible property, securities and information systems could be the target of malicious or terrorist acts. For example, the distribution of drinking water is an activity of vital importance and a major public health consideration. Energy Services and Environmental Services and industrial installations managed by the Group could be targeted by criminal action.

In addition, Veolia Environnement employees work or travel in countries where the political, geopolitical or social climate can occasionally expose them to criminal or terrorist acts or violent situations.

Information systems are indispensable tools for carrying out our operational activities and managing the functional departments (Finance, HR, etc.) of the Company. The unavailability of information systems because of a disaster or a malicious intrusion involving one or more of these information systems could have major consequences on the quality or even the continuity of the service delivered internally and the availability, integrity and confidential and strategic nature of the Group's data and thus potentially have an impact on the activity of its customers.

As a result, despite the numerous preventive and safety measures implemented by the Company and the insurance policies subscribed, the occurrence of such acts cannot be excluded and could adversely affect the Company's ability to continue in activity, as well as its reputation, financial position or results.

For information on the management of risks relating to the security of persons, tangible and intangible property, securities and information systems, please refer to Section 4.2.2.2.6 below.

4.1.2.7 Risks relating to non-compliance with ethical rules

Actions by employees, agents and representatives who do not comply with the Group's "Ethics, Commitment and Responsibility" program (see Section 4.4 below) or the specific ethics codes that have been implemented, could expose the Group to civil or criminal penalties and adversely affect its reputation.

4.2 Risk management process within Veolia Environnement

4.2.1 Risk management organization

4.2.1.1 Implementation of a coordinated risk management system

Veolia Environnement builds long-lasting relationships with its customers based on its capacity to manage risks delegated by them.

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

The Risk Department has a cross-discipline servicing role, extending from the risk network to the related operations and encompassing the various functional department, aimed at strengthening the ability of the entire Group to:

- Identify and foresee: ensure the progressive implementation of constant oversight of the Group's major risks so that no risk is overlooked or underestimated, and also to foresee changes in the nature or intensity of those risks;
- Organize: ensure that the main identified risks are addressed by the organization at the most appropriate level within the Group. Numerous operational risks are managed at subsidiary level, while others, which require specific expertise or are of a primarily transversal or strategic nature, are handled at division and/or Veolia Environnement level;
- Process: ensure that the structure and resources employed effectively mitigate as far as possible identified risks;
- Increase awareness and inform: the implementation of a coordinated risk management scheme is supported by employee training in risk management; it also represents an important factor in corporate financial and non-financial appraisals.

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

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

The Group Risk Department works with all functional departments and particularly the Internal Audit Department. The work of the Risk Department, particularly with respect to operating risks, can help the Internal Audit Department define its annual work program. Conversely, audits can sometimes more precisely identify risks. In auditing the Company's key processes, the Internal Audit Department provides assurance that the risk management plans have been implemented and are effective. Audits are regularly performed of the Group's risk management system by the Company's Internal Audit Department. The main objective of these audits is to ensure the Group has the right risk management tools and processes (risk identification, implementation of action plans, update of the risk map, deployment of the risk management function throughout the Group).

The Group Risk Department also works closely with the Systems and Business Processes Department, which is responsible for financial internal monitoring.

4.2.1.2 Risk Committee

The Group Risk Committee is the body responsible for validating and monitoring the effectiveness of action plans put in place to act on the major risks identified in risk mapping. It ensures the effectiveness of the risk management systems and supports them. It can also take a position on risks that it deems to be unacceptable within the context of the activities. It meets each year in addition to risk network meetings. The composition of this committee may be increased depending on the topics placed on the agenda. It is led by the Group Risk Manager and chaired by the Secretary General. The Group Risk Committee held one meeting in 2012, during which the Group risk mapping, representing the common methodology framework, was presented and examined.

The Risk Department presented the subject of risks on two occasions in 2012 to the Accounts and Audit Committee of the Board of Directors. The first presentation examined the general risk management system and the update to the Group risk mapping. The second presentation examined specific risks, considered the Group's insurance policy and reviewed its action plans. These presentations were performed in the context of the 8th directive, which requires the Board of Directors (through a specific committee) to seek assurance as to the efficiency of the company's risk management and internal control systems.

4.2.1.3 Security Department

The deterioration in international security and the development of information and communication techniques compound the risks relating to the security of persons, property, securities and IT systems. The appraisal, analysis and management of these risks was strengthened in 2012 to enable their management as far upstream as possible. A Security Department was set-up within the Group and its head reports directly to the Chairman and Chief Executive Officer. The primary roles of this department are to avert security threats potentially affecting the Group and its employees and to manage violations possibly impacting employees, tangible and intangible property, securities and business continuity in France and abroad. It provides advice and assistance to operating and functional departments on security-related issues within the framework of current laws and regulations and is also responsible for coordinating the alert and crisis management systems.

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

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

The system then moves into crisis management mode and, if the situation is critical enough, then operational cells can be quickly mobilized bringing together all the necessary functional skills and the divisions concerned. Predetermined objective criteria are used to assess the seriousness of the situation. This process is constantly refined on the basis of feedback and post-crisis evaluations on each of the situations that have been managed.

Finally, having drawn vital conclusions from the pandemic alert of 2008, Veolia Environnement decided to extend its business continuity plan at the head office essentially to take account of temporary unavailability of staff by drawing up a continuity plan to respond to the deterioration or unavailability of key material resources.

4.2.2 Details on risk management measures

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

4.2.2.1.1 Management of market risks

Interest rate and foreign exchange risk management

As a result of its operational and financial activities, the Group is exposed to risks, such as interest rate risk and foreign exchange risk. To avoid having to bear all of these risks, the Company implemented management guidelines relating to these uncertainties, in order to ensure better risk control. The Veolia Environnement Treasury Department is directly responsible for implementing and monitoring these measures. The Treasury Department is responsible for helping

divisions and their teams to identify and hedge exposure in different countries around the world. This department relies, in part, on a treasury management system, which allows for the continued monitoring of the principal liquidity indicators and all major financial instruments used at headquarters (interest rate/foreign exchange). The Middle and Back Office teams in the Financial Services Department control transactions and monitor limits, which ensures the security of transactions processed. Reports are produced daily, weekly and monthly, thus enabling Company's senior management to stay abreast of market trends and their effect on the Group's liquidity (current and forecast), the value of the Group's derivative portfolio and details of hedging transactions and their impact on the proportion of Group debt at fixed and floating rates.

The interest rate risk management policy is decided centrally. The Group uses interest rate risk management tools available on the market, including interest rate swaps and options (see Chapter 20, Section 20.1, Notes 27.1.1 and 28.1 below).

Foreign exchange risk is linked to the international business of the Group conducted outside the Eurozone, which generates cash flows in numerous currencies. As both income and expenses are usually in the currency of the country where the Group conducts business, the Group's exposure to exchange rate risk from service activities is relatively low. This risk is systematically hedged when it is certain (using currency futures) and on a case-by-case basis when uncertain (using options), generally when tenders are submitted. To manage foreign exchange risk associated with debt and financial receivables in the balance sheet, the Company has implemented a policy aimed at financing its subsidiaries in local currency, consisting of backing foreign currency-denominated financing by asset class (debts and receivable). For more information regarding foreign exchange risk, see Chapter 20, Section 20.1, Notes 27.1.2 and 28.2 below.

Counterparty risk management

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

For more information on the management of risks relating to changes in the creditworthiness of the Group's customers and its financial counterparties, see also Chapter 20, Section 20.1.1, Notes 27.4.1 and 27.4.2 below respectively.

Management of risks relating to fluctuations in the price of energy, commodities and recycled raw materials

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

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

For more information on the management of risks inherent in the price of energy and raw materials and, in particular, raw materials hedging instruments, please see Chapter 20, Section 20.1, Notes 28.3 (for hedging) and 27.1.3 (for risk management) to the consolidated financial statements below.

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

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

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

Also, Dalkia makes every effort to negotiate pricing schemes with its customers that enable it to recover its entire production costs, including the purchase at market prices of greenhouse gas emission allowances (see Chapter 20, Section 20.1, Notes 1.24, 27.1.3 and 28.3.2 to the consolidated financial statements below).

4.2.2.1.2 Management of risks relating to the retention of licenses, permits and authorizations and regulatory changes regarding health, the environment, hygiene and safety

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

In order to manage better its environmental risks, the Group, in coordination with its divisions, implemented an "Environmental Management System" based on ISO 14001, which aims to constantly improve its environmental performance throughout the world. Monitoring regulatory compliance forms part of the Group's EMS requirements, in particular for high-priority installations and sensitive activities (see definition in Section 6.3 below).

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

At European level, the REACH, CLP (Classification, Labeling, Packaging) and Biocides regulations are monitored and applied in accordance with the relevant timelines.

4.2.2.1.3 Management of risks relating to climatic uncertainty

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

4.2.2.1.4 Management of country risk

The Group set up a country risk assessment unit within the Risk Department in response to increased uncertainty surrounding the international economic situation and the geographical refocusing of the Company's activities.

The role of the country-risk unit is to assess country risk, encompassing all risks associated with a particular geographical region that could affect the conduct of the company's operations and expected results.

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

- *Assessment of country risk:* based on information gathered reflecting the Company's issues (country context indicators and assessments provided by external sources of reference or, in certain cases, gathered directly from managers of the Company), the unit produces topical comparative maps as well as a country assessment (rating and qualitative information); these analyses incorporate not only indicators relating to geopolitical, legal and economic conditions but also societal, social and environmental conditions;
- *Assessment of the Group's exposure to country risk*: using internal indicators (presence indicators and indicators taken from Group reporting packages), for comparison with country-risk indicators;
- *Informing management and raising awareness:* this is achieved through the distribution of the various analyses produced by the country risk unit (including a country risk bulletin) and the provision of information on a dedicated intranet community.

This analysis is supplemented by the constant monitoring and analysis of the international security context by the Group Security Department (see Section 4.2.2.2.6 below).

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

4.2.2.2.1 Management of risks relating to changes in the Group's activities

Management of risks relating to the strategic transformation plan and the Group savings plan

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

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

In recent years the Group has sold a number of non-strategic assets. The transformation plan announced at the end of 2011 concentrated on refocusing the Group's activities and increasing financial flexibility. Debt reduction is a key component of the plan.

To safeguard against the risks associated with these divestitures, and in particular the problem of reestablishing shared services, dedicated steering committees have been setup to identify the different issues, establish formal action plans and monitor implementation. Divestiture projects mobilize multi-disciplinary teams (finance, taxation, legal, HR, etc.) to ensure all aspects of the divestitures are assessed and analyzed.

In addition, they are reviewed and approved at Investment Committee level both in the divisions and at Veolia Environnement.

In a context of cost control, divestiture and debt reduction, Veolia Environnement ensures it is extremely selective in its strategic growth and investment choices. Whether internal growth or company acquisitions, development projects are subject to a comprehensive review during which all risks are studied and assessed. Financial profitability criteria and minimum return criteria, widely known and used throughout Veolia Environnement, are applied. The expected return is as a matter of course placed in the perspective of the risks assumed. As with divestitures, growth projects are validated at Investment Committee level both in the divisions and at Veolia Environnement. All aspects (strategic, technical, operational, financial, legal and human) of projects are reviewed based on comprehensive standardized formats.

Management of liquidity risk

The Financing and Treasury Department is responsible for the operational management of liquidity and financing. Major financing and cash surpluses are centralized in a bid to optimize liquidity and cash.

The Group secures financing on international bond markets, international private placement markets and through commercial paper and bank loans (see also Section 4.2.2.1.1 above and Chapter 20, Section 20.1, Notes 27.3 below).

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

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

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

Finally, in September 2006, the Company's Board of Directors created a Committee for Research, Innovation and Sustainable Development to assess and direct the Company's strategy in relevant areas (see Chapter 16, Section 16.2.3 below).

4.2.2.2.3 Management of risks arising from human resource management

Management of the risk relating to employee health and safety

Due to the very nature of its activities and aware that good employee health and safety performance is synonymous with increased performance for the company, Veolia Environnement has positioned Prevention, Health and Safety as a permanent concern within its activities. The approach to these issues is mainly shaped by the desire to guarantee the physical and mental integrity of employees. As a driver of transformation, the commitment to Prevention, Health and Safety and related efforts are constant and significant.

Veolia Environnement's professional risk prevention approach is based on the involvement of all managerial levels as well as a continuous improvement system allowing the Company to keep its commitments, achieve its objectives and implement the ideas appearing in the general policy declaration regarding health and safety in the workplace[(1)]. It is also expected that suppliers will take the required steps to guarantee the health, safety and wellness of their employees.

The implementation of Veolia Environnement's Prevention, Health and Safety management system, enables the effective management of health and safety issues at all of the Group's entities. This system is founded on 6 pillars that are presented in detail in Chapter 17, Section 17.1.3.2 below.

In 2012, as part of the strategic transformation plan, the transversal coordination of the Group's Prevention, Health and Safety policy was strengthened, through the Veolia Environnement steering committee which prepares, leads and assesses the performance of operating and forward-looking projects in these areas. Further details are presented in Chapter 17, Section 17.1.3.2 below.

Furthermore, the increased involvement of European industrial relations partners in the Group's Prevention, Health and Safety policy led to the signature of a letter of commitment by management and employee representatives. This commitment ensures the application of consistent approaches in all European countries where Veolia Environnement is present. The issues underpinning this joint commitment are primarily the systematic analysis of accidents, the strengthening of preventive measures with regard to health in the workplace and the development of a social dialogue on health and safety issues.

Skills management

Given the transformation of the Group, the aging of the working population and the rapid development of technologies and working methods, Veolia Environnement has enhanced its forecasting capabilities with regard to skills management.

The signature in France, on February 3, 2011, of the agreement on Forward management of jobs and skills (GPEC in French) rounds off the 2004 agreement on "the development of skills and vocational training". In this new agreement Veolia Environnement focused its attention on foreseeing changes in its businesses in line with the transformation of the Group, supporting and encouraging career development and offering the right training solutions.

The implementation of a functional network mapping based on a reference of less than 100 jobs and the implementation of a general employment management tool in 2012 (in France), to enable a more detailed monitoring of Group entries and departures, are preliminary measures indispensable to the internal management of skills. Finally, this skills management is made operational through the work of the Campus and the various Training centers which propose a diversified offering and constantly tailor training sessions to the needs of the Group's businesses. For further details on the training policy see Chapter 17, Section 17.1.2.2 below.

The Group's considerable manager management efforts (identification, training of senior managers, roll-out of the management behavior charter, involvement in transformation projects) and commitments given with respect to gender mix and internationalization are such as to strengthen the loyalty and professionalism of Group managers (see also Chapter 17, Section 17.1.1 below).

Management of risks relating to deterioration of the industrial relations climate

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

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(1) Memorandum of May 7, 2010: Antoine Frérot's commitment to health and safety.

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

The Group has enshrined such commitments in group-wide agreements signed with all of the trade unions representing staff: the December 2008 agreement on health, safety and accident prevention, signature of a letter of commitment by management and the European Group Committee on Prevention, Health and Safety and the GPEC agreement of March 2011. These agreements both individually and collectively have been extended by over 2,000 local agreements signed at division and site levels. On a European level, in October 2010 Veolia Environnement also renegotiated, modernized and reinforced the resources and functioning of the European works council and industrial relations in Europe. The European works council worked with Management to initiate exchanges relating to Sustainable Development and CSR in 2011, which continued in 2012.

In February 2010, with a view to improving industrial relations, the Group signed an agreement on the quality and the development of industrial relations with all the trade unions representing staff. Action and training plans are defined with players involved in industrial relations dialog and were implemented in 2011 and 2012.

In this period of transformation, the development and structuring of the industrial relations framework is all the more essential as it enables the strengthening of social cohesion and ensures that the Group's social commitments and social responsibility are maintained in a difficult economic environment. Social support for change marks the Group's desire to guarantee the employability of employees and promote internal mobility. (For more details see Chapter 17, Section 17.1.3.1 below).

4.2.2.2.4 Management of operational risks

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

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

An analysis of the various industrial accident scenarios must be performed regularly at operating sites (waste treatment centers, landfill sites, incineration facilities, heat generation plants, drinking water production facilities, wastewater treatment plants, bus depots, etc.), enabling adapted prevention plans to be established and a business continuity plan to be developed.

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

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

All of these actions are implemented by the Group's operating units in coordination with the Technical and Legal Departments, the Operational and Environmental Performance Department in charge of the EMS (Environmental Management System) and the Insurance Department. In addition to measures taken locally in favor of the health and safety of consumers, the Group monitors three areas of environmental performance: air emissions and pollution by incinerators (particularly compliance with dioxin emissions levels of less than $0.1 ng/m^3$), the percentage of the population supplied with water of variable quality and the roll-out of the legionellosis risk prevention policy. The activities also benefit from the support of the Research and Innovation Department, alongside the Legal Departments and Veolia Environnement's office in Brussels which monitors changes in regulation.

In its Environmental Services, Water, and Energy Services activities, when the company provides services at a "Seveso" facility or its foreign equivalent, it actively participates in the implementation of health and safety measures at these sites.

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

Based on its desire to apply safety protection rules and in anticipation of regulatory changes under consideration, the Company has decided to apply all or part of the Seveso regime at certain sites.

Management of emerging health and environmental risks

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

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

4.2.2.2.5 Management of legal, contractual and commercial risks

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

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

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

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

As a company with shares listed on the Paris and New York Stock Exchanges, Veolia Environnement is required to comply with rules concerning:

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

4.2.2.2.6 Management of risks relating to the security of persons, tangible and intangible property, securities and information systems

Due to the nature of its businesses and the scope and diversity of its sites, Veolia Environnement pays close attention to all security issues that could threaten or adversely affect its employees, organizations or activities.

International security: travel authorization procedure and protection plans

In order to foresee and safeguard against international security risks, the Security Department constantly monitors and analyses the international context and based on this information, prepares a risk mapping each month which is distributed throughout the Group.

This approach is accompanied by a travel authorization procedure covering risk areas. Through this procedure, the Security Department seeks to process travel requests individually and personalize any recommendations to employees, according to their profile, precise destination and local current affairs. In 2012, more than 1,600 assignments received individual attention.

In the event of an unusual downturn in the situation, protection plans are formally documented for the most sensitive countries. This system is being systematically implemented for countries classified as "high-risk" or where Group expatriates are present. A security officer is appointed in each of these countries where he is the preferred contact of local diplomatic authorities.

Prevention and protection rules to be adopted in these regions and training in security issues are organized as e-learning and training sessions in order to prepare and inform employees travelling in high-risk countries. Finally, the Security Department assists the Veolia Environnement Foundation train volunteer employees for emergency missions.

Information system security

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

This ISSP encompasses:

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

This policy is periodically reviewed to ensure its consistency with trade practices and potential risks. A major review was launched in 2012 and will be completed in 2013.

4.2.3 Insurance

4.2.3.1 Objectives

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

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

4.2.3.2 Implementation of the insurance policy

Insurance policy

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

Implementation

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

The main actions undertaken in 2012 primarily concerned:

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

4.2.3.3 Main Group insurance policies

Third-party liability

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

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

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

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

Property damage and business interruption

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

The Group damage insurance policy was renewed on January 1, 2012.

The level of premiums, deductibles and sub-limits for exceptional socio-political or natural events reflects the terms proposed, or sometimes required, by insurers in the markets in which the risk is underwritten. Group insurance coverage carries a limit per event of €350 million per claim. Some of this coverage includes additional sub-limits per claim or per year.

On January 1, 2012, the Group also took out a new Construction–Comprehensive Assembly and Test insurance policy covering all worksite operations, throughout the world, and all subsidiaries.

4.2.3.4 Self-insurance and retained risks

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

The Group self-insurance system is entirely based on its reinsurance subsidiary, Veolia Environnement Services-Ré, which retains a self-insured risk of €1.5 million per claim for the coverage of third-party liability risk and €2.5 million per claim for the coverage of property damage risks and resulting financial losses in the Water and Transportation divisions and €5 million per claim for the coverage of property damage risks and resulting financial losses in the Energy Services and Environmental Services divisions, thereby limiting the accumulation risk.

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

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

4.3 Audit and internal control

4.3.1 Definition and objectives of internal control

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

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

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

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

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

Organization

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

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

- Defining and implementing a transactions and operations control framework in application of the risk management policy based on the procedures manual widely distributed and broken down;
- Steering the roll-out of an integrated management system to replace the various accounting systems currently used by the subsidiaries;
- Ensuring employees possess the skills required by the organization.

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

All aspects of internal control, and especially financial and operational aspects, are essential to Veolia Environnement. The Group's ongoing objective is to maintain the right balance between the decentralization that is necessary for its service activities, the highest level of operational and financial control, and the dissemination of expertise and best practices. Accordingly, the integrated management system being rolled out is founded on Group management rules and internal control rules. Finally, a permanent training program for Group financial officers has been set up in conjunction with the internal training departments.

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

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

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

The Internal Audit Department operates based on two main mechanisms:

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

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

Procedures

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

The financial statements come from the financial reporting system.

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

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

Regulatory context

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

Pursuant to the provisions of Article L.225-37 of the French Commercial Code (*Code de commerce*), as amended by the Laws of July 3, 2008 and January 27, 2011, Veolia Environnement must report to shareholders in a report prepared by the Chairman of the Board of Directors and approved by the Board, on the make-up of the Board of Directors and the application of the principle of male/female parity, as well as the preparation and organization of its activities and the internal control and risk management procedures implemented by the Company. The report must provide detailed information relating to the procedures for the preparation and processing of accounting and financial information as well as the principles and rules adopted by the Board of Directors to determine the remuneration and benefits-in-kind granted to corporate officers and any limits placed by the Board of Directors on Executive Officer powers. Since the Law of July 3, 2008, whenever a company voluntarily refers to a corporate governance code drafted by an outside association that represents corporations, the report must also indicate the provisions of such code which were not adopted and the reasons for such rejection. Finally, it must detail any specific procedures governing the participation of shareholders in general meetings.

The report of the Chairman of the Board of Directors prepared in accordance with the provisions of Article L. 225-37 of the French Commercial Code will be presented to the Annual Shareholders' Meeting of May 14, 2013, together with the statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code and is appended to this registration document.

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

As a French company listed in the United States, Veolia Environnement must comply with both the provisions of the French Commercial Code (Article L. 225-37) and those of the Sarbanes-Oxley Act.

In this context, Veolia Environnement launched a process in 2005, which enabled the Company to certify the efficiency of internal controls at Group level as of December 31, 2006. This assessment process has been repeated each year since then and is based primarily on the roll-out, for a scope representing approximately 70% of Group indicators, of an electronic application composed of self-assessment questionnaires and tests, which allow for the traceability of controls performed to be documented. This self-assessment is supplemented by controls performed by internal and external auditors.

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

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

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

4.3.3 Control duties of functional departments

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

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

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

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

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

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

Under the "Convergence" program, a support function pooling project was launched covering several departments of the Finance function and particularly, accounting, taxation, treasury and internal control. These changes will be implemented from 2013 at all levels of the organization, at head offices and in several countries.

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

Pursuant to US law and for the 2011 annual report (Form 20-F) filed in 2012 with the US Securities and Exchange Commission (SEC), the Company's general management prepared an internal control assessment report concluding with reasonable assurance as to the reliability of the financial reporting and the preparation of financial statements according to IFRS. This assessment also resulted in a positive opinion from the statutory auditors. Each fiscal year, the Company implements action plans dealing with specific identified weaknesses.

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

In addition, at the end of 2011, general management and the Finance Department decided to launch an action plan aimed at strengthening the effectiveness of operational control. A "process and control" function was made mandatory within the operating units. A code of conduct for financial professionals was defined: this code particularly provides for all financial managers and Systems and Business Processes managers to report to both functional and hierarchical management and formally recalls the responsibility and autonomy of financial managers in the effective performance of their operation control function.

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

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

4.3.5 Reporting on fraud

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

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

4.3.6 Disclosure Committee

The Disclosure Committee was created by the Chairman of the Executive Board and the Company's Chief Finance Officer on December 11, 2002. The meetings of the committee are chaired by the Chief Executive Officer.

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

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

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

The Disclosure Committee met twice in 2012. At its meeting of April 11, it reviewed, among other things, the procedures for preparing and approving Form 20-F before it was filed with the SEC on April 13, 2012, as well as the certificates required to be provided by the Chief Executive Officer and the Chief Finance Officer in accordance with U.S. stock exchange regulations. At its meeting of December 20, 2012, the Disclosure Committee mainly reviewed recent regulatory developments that could have an impact on the communication and publication of information intended for the market, in particular through the registration document and Form 20-F, and initiated the process of gathering information and drafting the annual reports for the 2012 fiscal year.

4.3.7 Internal information and communication

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

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

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

4.4 Ethics and vigilance

Present in 48 countries[(1)] around the world, Veolia Environnement is particularly attentive to compliance with values and principles relating to human and social rights set forth in international laws and treaties.

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

(1) Excluding Veolia Transdev, Morocco and countries where capital employed and operating financial assets exceed €5 million.

4.4.1 "Ethics, Commitment and Responsibility" program

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

Since 2009, the country delegates have been the ethics committee's correspondents on the program (see Section 4.4.2 below). Since 2010, general management has entrusted the implementation and control of the Group's ethics policy to the Group Secretary General.

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

Veolia Environnement continued these actions by developing and rolling out in 2008-2009 a training program on "compliance with antitrust laws", in France and abroad, targeting more than 3,600 Group managers. This program consists of seminars, training handouts and e-learning. It was renewed in several countries by some divisions in 2010, 2011 and 2012. In addition, Veolia Environnement published a "Guide to Compliance with Antitrust Law" in several languages (French, English, German, Spanish, Italian, Chinese and Japanese) and distributed it within the Group in December 2008.

In late 2009, Veolia Environnement designed a training program on "Prevention of criminal law risk and awareness of the risk of corruption". This program has been rolled out within the Group to more than 2,500 individuals (including 850 managers in France) and continues to be rolled out internationally since 2011. In 2010, Veolia Environnement also published a "Guide to managing business criminal law risk" in several languages (French, English, German, Spanish, and Italian), which has been distributed within the Group to more than 5,000 people to date.

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

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

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

In 2012, nearly 500 managers worldwide received training in strengthening fraud prevention and control.

4.4.2 Ethics committee

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

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

In this way the Ethics Committee continued in 2012 the major review of the Group's employee standards commenced in 2008, with since 2009, visits to sites where the Company operates (Germany, Egypt, United Arab Emirates, Norway, Japan, South America and Bulgaria).

The Ethics Committee is also the last resort for alerts that cannot be expressed to operating management about breaches of rules of conduct, and particularly those detailed in the Group's "Ethics, Commitment and Responsibility" program. This is the whistleblowing system. The committee is vested with all the necessary authority to carry out this mission; it can thus hear from any employee of the Group, the statutory auditors and any third party. It can also call on the Veolia Environnement Internal Audit Department or the services of outside experts.

Starting in 2009, the committee has reinforced an internal communication program intended to increase awareness of this whistleblowing system. In order to increase its visibility within the Group, and particularly with non-managers, a comic strip was produced in 2010 describing its mission in a fun way, available in four languages. This comic strip is available on the Company's website.

In 2012, the Committee reported on its work during the previous year, as it does annually, to the Accounts and Audit Committee and the Executive Committee.

5

Information relating to the issuer RFA

5.1 History and development of the Company

5.1.1 History of the Company

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

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

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

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

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

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

From 2002 to 2004, Vivendi Universal, progressively decreased its stake in the Company through successive disposals and dilution and, by December 2004, held only 5.3% of the Company's shares. Since July 6, 2006, Vivendi no longer holds any shares in Veolia Environnement (see Chapter 18, Section 18.2 below).

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

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

In November 2005, Veolia Environnement rolled out a new brand policy aimed at increasing consistency between the Divisions of the Group, the visibility of the Company and strengthening the identity and common culture of Veolia Environnement around its service values. The Water, Environmental Services and Transportation Divisions are now united under a single brand, "Veolia", which is linked to the name of their activity. The Energy Services Division primarily operates under the brand "Dalkia" (see Chapter 6, Section 6.2.5 below).

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

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

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

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

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

On December 6, 2011 in Paris, during the Investors' Day, the Group presented its strategic plan and midterm outlook founded on the refocus of its activities and business portfolio and encompassing €5 billion in asset disposals over the next two years, the concentration of activities on the three main business lines (Water, Environmental Services and Energy Services) and the sale of regulated Water activities in the United Kingdom and solid waste activities in the United States. These activities were divested on June 28, 2012 and November 20, 2012, respectively.

On March 30, 2012, Veolia Environnement and Caisse des dépôts et consignations signed an agreement for negotiation that envisions the transfer of Veolia Transdev's 66% shareholding in SNCM to Veolia Environnement. In addition, on October 22, 2012, they entered into an agreement under which they undertook to negotiate the terms of a share capital increase by capitalization of existing shareholders loans following which Caisse des dépôts et consignations would hold 60% of Veolia Transdev share capital and assume exclusive control and Veolia Environnement would retain a 40% stake. Veolia Environnement's stake would then be reduced to 20% in the two years following the completion of this transaction, under conditions negotiated in good faith.

5.1.2 General information regarding the Company

Corporate Name and Registered Office

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

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

Legal Form and Applicable Law

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

Date of Incorporation and Term

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

Trade and Companies Registry

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

5.2 Investments

Total Group industrial investments, financial investments (enterprise value), new operating financial assets and transactions with non-controlling interests (partial purchases where there is no change in control) amounted to €3,282 million in 2012, compared with €3,134 million in 2011 and €3,256 million in 2010 (represented for replacement costs).

In response to the economic climate, the Group adopted a selective investment policy in 2012, without jeopardizing industrial investments that are contractually required or necessary to maintain industrial equipment.

A detailed description of investments made in 2012, as well as their financing, is set forth in Chapter 9, Section 9.1.2 (Other changes in Group structure) and Section 9.3.2 (Net Investment Flows) and Chapter 20, Section 20.1, Note 5 (Concession Intangible Assets), Note 7 (Property, Plant and Equipment), Note 10 (Non-Current and Current Operating Financial Assets) and Note 40 (Reporting by operating segment) to the consolidated financial statements.

Veolia Environnement's investment strategy seeks to defend the Group's strong positions in geographic areas with solvable environmental demands and to develop the Group's positions in high-growth markets, particularly with industrial clients. Besides these qualitative attributes, the quantitative profitability of the Group's investment choices (primarily profitability run rates, return on investment and capital intensity) is taken into consideration.

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

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

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

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

- In 2012: acquisition of a 49% stake in Azaliya for an enterprise value of €247 million, in the Water division;
- In 2011: acquisition of SPEC and its subsidiary, Finpol, for an enterprise value of €227 million (Group share) in the Energy Services division;
- In 2010: acquisition of certain United Utilities Group businesses for an enterprise value of €193 million in the Water division and of New World Resources Energy Group for an enterprise value of €97 million (Group share) in the Energy Services division.

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

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

6

Business overview RFA

6.1 Main business activities

6.1.1 General description of Veolia Environnement

Veolia Environnement is a global reference in the environmental services sector[(1)], offering a comprehensive range of services and with the expertise necessary to define a service offering tailored to individual customer needs, whether the supply of water, the treatment and recovery of municipal or industrial effluent, waste collection, processing and recycling, the supply of heating and cooling services or the optimization of industrial processes.

Veolia Environnement's operations are conducted through three divisions, each specializing in a single business sector: Veolia Eau (Water), Veolia Energie (Dalkia, Energy Services) and Veolia Propreté (Environmental Services). Through these divisions, Veolia Environnement currently provides drinking water to 101 million people and treats wastewater for 71 million people in the world, processes nearly 54.4 million tons of waste, satisfies the energy requirements of hundreds of thousands of buildings for its industrial, public authority and private individual customers and transports more than 3.2 billion passengers each year. Veolia Environnement also develops service offering combining several Group businesses, either through several individual contracts or by combining services within a multi-service contract.

The following table breaks down Veolia Environnement 2012 consolidated revenue by geographical market and division, after elimination of inter-company transactions.

As Veolia Environnement has commenced withdrawing from the Transportation sector, the results of Veolia Transdev are presented in discontinued operations in the consolidated financial statements. Accordingly, Veolia Transdev revenue is not included in the following table.

2012 Revenues

(in € million)	Water	Environmental Services	Energy Services	Other	Total consolidated
Europe	**8,295.6**	**6,955.9**	**6,924.7**	**337.0**	**22,513.2**
• of which France	4,515.7	3,455.1	3,716.8	294.7	11,982.3
• of which Germany	1,373.0	1,076.6	8.5	0.0	2,458.1
• of which the United Kingdom	464.9	1,708.5	207.1	3.3	2,383.8
• of which other European countries	1,942.0	715.7	2,992.3	39.0	5,689.0
United States	**816.8**	**708.3**	**276.6**	**0.0**	**1,801.7**
Rest of the world	**2,965.8**	**1,418.7**	**463.3**	**275.8**	**5,123.6**
• of which the Middle East	313.3	109.5	100.8	0.0	523.6
• of which Oceania	199.4	852.8	57.2	0.0	1,109.4
• of which Asia	1,667.9	254.1	115.3	0.6	2,037.9
• of which Rest of the world	785.2	202.3	190.0	275.2	1,452.7
TOTAL	**12,078.2**	**9,082.9**	**7,664.6**	**612.8**	**29,438.5**

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

6.1.2 Strategy

6.1.2.1 Veolia Environnement's strategy

Veolia Environnement is the number one global player in the environmental services sector. The Group has expertise in the Water, Environmental Services and Energy Services sectors which it places at the service of public authority, industrial and service-sector customers.

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

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

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

Faced with a changing global environment presenting new challenges, Veolia Environnement continues its transformation.

Faced with the growing global population (to approximately 9 billion in 2050), a doubling of urban populations in emerging counties and the complexity of managing environmental issues of major customers, cities and industrial companies, Veolia Environnement is continuing to transform its organization to better respond to environmental challenges. 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, growing demand for environmental services (pollution increasingly difficult to treat, management of increasingly rare resources, new regulations, etc.) in both rapidly growing but also developed countries presents major development opportunities that must be framed within a selective development policy. In this context, Veolia Environnement positions itself as an Environmental Industrial Company, the reference in sustainable development, cultivating its difference through innovation, industrialization and quality. Veolia Environnement is supported by solid fundamentals, leading positions in several markets, an extensive portfolio of long-term contracts and growth platforms in several emerging countries.

In 2012, Veolia Environnement continued its transformation policy launched in 2011, targeting several strategic objectives confirmed by the Board of Directors meeting of October 22, 2012:

- become the benchmark company in major markets where solid demand underpins robust revenue, by providing added value that sets the company apart from competitors;
- balance its business activities between municipal and industrial customers, so that the Company generates at least 50% of revenue with industry compared with 35% today;
- generate more than 50% of revenue in growth markets, which currently account for only one-third of business;
- develop new economic models.

This transformation policy comprises several components:

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

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

Stepping-up business refocusing and debt reduction measures

To attain this objective, at the end of 2012 (and taking account of changes to accounting rules requiring the equity accounting of joint ventures) Veolia Environnement plans an ambitious disinvestment program adjusted to €6 billion for the period 2012/2013 (including debt reduction resulting from the equity accounting of Berlin Water) with a dual objective: refocusing on core geographical regions and reducing net financial debt to between €8 billion and €9 billion by the end of 2013.

The first objective will lead to the Group's withdrawal from several countries. By the end of 2013, Veolia Environnement aims to restrict its permanent operations (with employees and capital employed of over €5 million) to around forty countries.

The second objective has already led to:

- in June 2012, the divestiture of regulated Water activities in the United Kingdom for an enterprise value of GBP 1,236 million (100%) to Rift Acquisitions Ltd, an investment vehicle created by Infracapital Partners, the infrastructure fund managed by M&G (Prudential's European investment structure), and Morgan Stanley Infrastructure Partners;
- in November 2012, the divestiture of solid waste activities in the United States for an enterprise value of USD 1,909 million (100%) to the ADS Waste Holdings group;
- in October 2012, the conclusion of an agreement for negotiation with Caisse des dépôts et consignations, stage one in the progressive withdrawal from the Transportation business. This agreement provides for a share capital increase by capitalization of a portion of existing shareholder loans, following which Caisse des dépôts et consignations will hold 60% of the share capital of Veolia Transdev and acquire exclusive control and Veolia Environnement will retain a 40% stake.

Simplifying and tightening the organizational structure

The Group plans to continue and accelerate the far-reaching transformation process underpinned by the implementation of the "Convergence" plan and dedicated resources and involving:

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

Cost reduction program

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

The "Convergence" plan aims not only to generate savings in the short-term by reducing administrative, functional and operating costs, but also in the long-term, through the transformation of the organizational structure.

The Group's objective under the "Convergence" plan is to realize cost savings with a positive impact on operating income, net of implementation costs. The plan was adjusted upwards to €170 million in 2013, compared with €120 million initially scheduled and to €470 million in 2015 compared with €420 million previously (after divestitures, including over 20% for joint ventures).

Seize profitable growth opportunities using existing development platforms

A further downturn in the external environment and the worsening of difficulties encountered in France led the Group to set four strategic objectives for the next five years:

- concentrate on major markets with complex environmental issues.

  Investment choices will focus on markets combining value and volume. Veolia Environnement will make its expertise available to customers for the treatment of the most difficult pollutions. Thus, the development of the biomass sector as well as the dismantling and clean-up of nuclear installations, amongst other, will allow the Group to produce specialized technological and commercial solutions;

- increase the percentage of revenue realized with industrial customers above 50%, from 35% currently.

  Industrial markets are driven by underlying trends such as the increased rarity of resources, stricter environmental standards and the use of increasingly complex processes, all in international markets for global clients. The Group therefore positions itself in markets subject to strict environmental restrictions (petroleum and gas industries) as well as high tech sectors (industries producing recyclable effluents/ waste);

- move towards the most dynamic regions where its distinguishing expertise will be better remunerated.

  Significant structural trends drive growth in Veolia Environnement's priority markets. Certain regions combine annual economic growth in excess of 3% and a favorable long-term outlook, both in terms of environmental regulation and technological advance. These markets are primarily Central and European Europe, China and certain Asian countries, the Middle East, Australia and certain Latin American countries. Certain European countries are driven by growth in well-defined markets, such as hazardous waste or energy efficiency. Overall, the Group aims to realize over 50% of revenue in growth markets;

- adapt its economic models, by reviewing and tailoring its traditional business offerings.

  Veolia Environnement wishes to develop its activities, outside traditional businesses, while capitalizing on its technological expertise and commercial experience. The Group is developing answers to the financial, health and environmental challenges of its customers, through the management of intelligent networks (dynamic network management, ex-post analysis of data, smart sensors, etc.), as well as the set-up of win-win partnerships with customers, through co-managed contracts in the Water and energy savings sectors. In the Environmental Services sector, the Group is banking on a move from waste elimination to waste transformation.

In the long-term, the Group reaffirms its clear and determined vision to become the Environment Industrial Company, *i.e.* the corporate reference in these markets. Through the standardization of its operational, commercial and functional processes supported by innovation and development in major markets and particularly industrial markets, the Group can attack this objective with confidence.

6.1.2.2 Veolia Environnement's strategy by division

Water

Veolia Environnement's Water division aims to continue expanding its services around the world, while striving to ensure the quality of the water it provides, conserve natural resources and protect the environment, as well as sharing value with service stakeholders and its commitment to local economic development.

Veolia Eau has a three-pillar strategy:

- pillar one comprises municipal activities where capital intensity is high (e.g. in China, Germany, Central Europe and France). High capital intensive municipal activities involve a public client and management of a public water service with substantial investment, including acquisitions (i.e. privatizations, investment in owned infrastructure) and the construction and modernization of infrastructure. The aim of the Water division is to increase the profitability of Chinese assets through sustained organic growth, reorganize and rationalize its activities in France - due to significant pressure on margins - and invest selectively in Eastern and Central Europe;

- pillar two comprises low capital intensive municipal activities, such as service contracts in the United Kingdom, the United States, Australia and Japan and Technology and Network activities for municipal customers. Low capital intensive municipal activities involve a water company (generally public and owned by the municipality, but sometimes private) and an agreement for high added-value services such as optimized asset management (new investments, network asset management, etc.), the treatment and recycling of sludge, the implementation of smart networks or the comprehensive management of services based on performance commitments and remunerated by sharing the resulting productivity gains (e.g. "Peer Performance Solution" agreement in New York). In the case of operating activities, the aim is to capitalize on Veolia Eau's expertise in all activity sectors and to propose high-tech and high added-value offerings;
- pillar three comprises industrial customer activities in the Operating and Technology and Networks sectors. These activities are performed at customer sites (including a certain number in emerging countries) and are provided to three types of customer:
  - industrial customers that use significant volumes of water and are exposed to substantial environmental restrictions (resource availability, sensitivity of the natural environment),
  - industrial customers facing water challenges key to its corporate social responsibility,
  - industrial customers discharging recoverable effluents, i.e. enabling the recovery of chemical products, materials or energy (such as biogas).

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

This strategy is implemented through the continued optimization of resource allocation and operating costs, both in the "Operating" and "Technology and Network" businesses.

Environmental Services

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

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

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

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

The following growth sectors have been identified and prioritized:

- non-hazardous waste recovery in Europe;
- the treatment and recycling of industrial hazardous waste;
- the dismantling of sensitive installation, and in particular nuclear installations;
- PFI (Private Finance Initiative) and PPP (Public-Private Partnership) integrated waste management contracts in Europe.

Energy Services

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

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

In this context, where energy must remain a factor of shared progress, energy transition has commenced, with the rise of new, more decentralized, energy resources generating less greenhouse gases and the strengthening of energy efficiency and environmental policies. These developments confer a greater role on regional authorities, supplementing nation- and region-wide policies.

Dalkia's aim is to become the regional benchmark for energy efficiency.

It is therefore focusing on three activities which, together, will help regional authorities reduce their energy consumption and their environmental footprint: Heating and cooling systems, Industrial Utilities and Energy Services for Buildings.

Accordingly, Dalkia operates at two levels:

- with final users, helping industrial companies and buildings located in the region consume less energy and, in particular, thermal energy, which accounts for the vast majority of energy consumption;
- at regional level, implementing collective solutions and heating and cooling systems that are more efficient and greener than individual solutions and that enable the recovery of local renewable energies.

Dalkia brings concrete, complementary solutions offering significant value creation for customers to this considerable market. Its wide range of services encompasses contracts guaranteeing the energy and environmental long-term performance of installations it operates.

Dalkia also intends to refocus its activities on the Group's priority development regions: France, Europe and particularly Central and Eastern Europe, North America, China and the Gulf States.

Transportation

Veolia Transdev is a major transportation service provider, worldwide. In an extremely difficult economic context, particularly in Europe, Veolia Transdev group's substantial debt forced it to consolidate its financial structure and seek new leeway for its development.

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 loss-making contracts;
- refocusing its activity portfolio on the regions/means of transport the most attractive and relevant to the Group given its growth model;
- prioritizing the development of high added-value activities.

The major challenges in this sector are tied to an ever-rising demand for transportation, with growing requirements in terms of fluidity and flexibility, at a time when local authority finances are increasingly tight. Public transportation operators must also take account of environmental concerns and propose increasingly-performing solutions to improve the quality of passenger travel, reduce car congestion and pollution and link regions.

6.1.3 Description of Veolia Environnement's main businesses

6.1.3.1 Water

Veolia Environnement, through Veolia Eau-Compagnie Générale des Eaux, is the world's leading provider of water services (supply of drinking and process water, wastewater treatment) to public authorities and industrial companies(1). In addition, Veolia Eau, through its subsidiaries Veolia Water Solutions & Technologies and SADE, 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 101 million people and supplies 71 million people with wastewater services. Thanks to its 350 technologies, it can offer local authorities and industrial companies solutions combining productivity, resource savings and a reduced environmental footprint.

As of December 31, 2012, Veolia Eau had 89,094, employees around the world(2). The Water division has a strong presence in France for historical reasons, but also in Europe (United Kingdom, Germany and Belgium), the Czech Republic, Hungary, Bulgaria, Slovakia and Romania to name only those countries hosting our main activities. 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, such as its contract with the city of Milwaukee and performance contracts (for example with New York City, Winnipeg, Pittsburg, etc.) and thanks to numerous contracts with industrial customers in a range of sectors (mining, petroleum, gas, etc.). Finally, Veolia Eau is present in the Middle East and Africa and primarily in Niger and Gabon. Thanks to its network of research centers in France and abroad coordinated by Veolia Environnement, Veolia Eau has mastered numerous major technologies, tools and expertise within the water sector. Veolia Eau is therefore able to offer highly-skilled services in the areas of quality water production (particularly control of sanitation factors for the production of drinking water), optimization of plants and networks, the recovery of raw materials or products contained in effluents, the reuse of treated effluents and preservation of the natural environment.

Combined with its strong local presence and considerable experience in providing services to municipal and industrial customers, Veolia Eau's technical expertise is a significant advantage in the extremely competitive water services market.

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, 2012**	**Year ended December 31, 2011 re-presented ***	**Change 2012/2011**
Revenue	12,078.2	11,921.3	1.3 %
Operating income	617.7	790.4	-21.9 %

* *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of activities in Morocco in the course of divestiture and of regulated activities in the United Kingdom (divested in June 2012) are presented in a separate line, Net income from discontinued operations.*

(1) Source: Pinsent Masons Water Yearbook 2012-2013.

(2) Employees managed as of December 31, 2012.

Overview of the Water business

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

Activities on behalf of Public Authorities and Industrial Customers

The main focus of Veolia Environnement's water business is on water and wastewater management services for public authorities and industrial customers. Veolia Eau provides integrated services that cover the entire water cycle, taking account of resource-related challenges. Its activities include the management and operation of large-scale water production and treatment plants and, where appropriate, the recovery and/or recycling of wastewater. Veolia Eau also offers local authorities customer relations management services, encompassing billing services and call centers, etc. Veolia Eau and its subsidiaries have provided water services to public authorities for more than 150 years under long-term contracts tailored to the local environment and requirements.

Veolia Eau's tried-and-tested expertise in the treatment and recovery of industrial water allows it to offer industrial customers performance-based operating contracts satisfying the expectations of customers wishing to optimize production costs while reducing their environmental footprint.

Technological Solutions for the Treatment of Water and networks

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

Through its subsidiary, SADE, Veolia Eau designs, builds, renews and recovers urban and industrial drinking water and wastewater networks and related infrastructures, in France and around the world.

Key factors

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

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

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

City	2011 Revenue *(in € million)*	Contract expiry date
Marseille	107	2013
Lyon *	102	2015
Toulouse - Water treatment	49	2020
Toulouse – Drinking water	41	2020
Nice *	34	2015
Montpellier	21	2014
Toulon	20	2019

* *Contract concerned by the "'Olivet Commune" Order*

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

Description of activities in 2012

The slight increase in Water division revenue between 2011 and 2012 (+1.3%) is due to both favorable indexing impacts in France and price rises in Central and Eastern Europe and growth in Technology and Network industrial activities.

In France, the Veolia Eau operations business provides approximately 24 million residents with drinking water and 17 million with wastewater services. Public service delegated management contracts renewed in 2012 represent expected total cumulative revenue of €1.28 billion in a highly competitive environment. Successes during the period include 52 new public service delegation contract wins, including 25 with local authorities changing from a local authority management model to public service delegation. The main contracts renewals are detailed in the table below.

Veolia Eau also lost a number of contracts. The main contract losses followed a return to local authority management, first among which being the Saint-Pierre des Corps contract. Elsewhere, in addition to losing the drinking water contract with the city of Saintes, Veolia Eau also lost two wastewater treatment contracts with the Reunion Island Northern Community.

Overall, lost annual revenue was offset by new public service delegation contract wins (services previously rendered by local authorities or the competition) and service contracts wins.

In Europe, activity in 2012 was affected by several exceptional events impacting the consolidation scope, including, in the United Kingdom, the sale of regulated activities in June and, in Germany, the equity accounting of the Group's stake in Berlin water activities from the end of October following the buyout by the Berlin *Land* of the shares held by RWE. Revenue grew 0.8% at constant consolidation scope and exchange rates, reflecting good performances in Central and Eastern Europe (favorable price impact in the Czech Republic and Romania, which also benefited from wastewater scope extensions) and despite a drop in volumes sold. Activity in Europe was also penalized by the German Federal Cartel Office order to reduce drinking water tariffs in Berlin, against which Berlin Water has filed an appeal (see Chapter 20, Section 20.4 below).

Revenue increased 0.9% in the Asia-Pacific region (-4.3% at constant consolidation scope and exchange rates). Growth in China reflects increased volume with local authorities and the continued application of the price increase process (particularly in Shenzhen) and was achieved despite the fall in revenue from construction activities and the flattening of volumes sold to industrial customers. The rest of Asia was marked by a drop in revenue in Japan (as the impact of the March 2011 earthquake on construction activities tailed off) and a flattening in Australia mainly tied to the end of the Adelaide contract in June 2011 and the placing of the Sydney desalination plant on standby.

Activity fell 1% in the United States (-8.6% at constant consolidation scope and exchange rates) following the end of the Indianapolis contract in 2011. 2012 nonetheless saw contract wins with the cities of New York and Pittsburgh and enjoyed good industrial activity performance (+4% at constant consolidation exchange and exchange rates).

The Technology and Network business increased significantly (4.9% at constant consolidation scope and exchange rates) benefiting from growth with industrial customers, in Design and Build and Solutions activities and particularly in the chemicals and upstream oil industries, as well as the international expansion of Sade.

Major Contracts in 2012

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					
Antibes	April	Renewal	10 years	90 million	Public service delegation contract for drinking water
SEM Agglopole Provence	July	New*	12 years	101 million	Public service delegation contract for drinking water
SIBA (Arcachon basin)	October	Renewal	8 years	66 million	Public service delegation contract for wastewater treatment
Lens-Liévin conurbation	March	Renewal	12 years	114 million	Public service delegation contract for drinking water
Asia					
Hebei Iron & Steel – China	July	New	7 years	43 million	Industrial contract - Water management and optimization of energy consumption
New Delhi – Nilothi, India	March	New	13 years	40 million	Contract to design, build and operate a wastewater treatment plant
Nagpur, India	March **	New	25 years	387 million	Network upgrade; drinking water operating contract
Hynix M12 – Cheongju, South Korea	January	New*	6 years	45 million	Contract to build, finance and operate ultra-pure water production facilities
Hiroshima, Japan	April	Renewal	4 years	26 million	Operation and maintenance contract for a wastewater treatment plant
North America					
New York City, United States	April	New	6 years***	28 million	Performance-based contract with project management assistance for the management of New York City water services
South America					
Tuc/Petrobras Rio de Janeiro – Brazil	April	New	21 months		Treatment and recovery of industrial effluents; treatment of municipal wastewater to supply an industrial complex
Europe					
ZVA Mittleres Elstertal (ZVME), Germany - OTWA	June	Renewal	2 years	18 million	Technical and financial management of wastewater treatment
Iberpotash-Spain	March	New	2 years		Contract to design and build an evaporation and crystallization plant for the recovery and purification of salts and potash from salt by-products generated during the production of fertilizer

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

** *Date of effect: March 2012; Date of signature: June 2011.*

*** *4 year contract, with a 2-year extension option at the City's discretion.*

Main acquisitions and divestitures in 2012

The main acquisition and divestitures during the year include:

- the divesture of the Group's 88% stake in Domaine des Maretz, in France;
- the divestiture of 100% of regulated activities to Rift Acquisitions Limited, in the United Kingdom, following which the Group acquired a 10% stake in the investment fund Affinity Water A (formerly Rift Acquisition Ltd);
- the buyout of the 49% stake held by Mubadala in Azaliya and a 19% stake in VSEM, from AAIF (10%) and FIPAR (9%) respectively, in Morocco;
- the buyout of the 6.9% stake in Veolia Voda held by the EBRD and the divestiture of Delfluent Services BV, in Europe.

The main change in consolidation method and rate concerned Berlin Water: following the buyout by the Berlin *Land* of the shares held by RWE in RVB (holding company with a 49.9% stake in Berlin Water), Berlin Water is now equity accounted.

Following the creation, acquisition or consolidation of 31 companies in 2012 and the liquidation, divestiture or transfer of 39 companies, the Water division (excluding Proactiva) comprised 734 companies as of December 31, 2012, compared with 742 in 2011.

6.1.3.2 Environmental Services

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

As of December 31, 2012, Veolia Propreté had 64,291 employees worldwide[(2)].

Veolia Propreté, excluding Proactiva, is a partner of over 570,000 industrial and service-sector customers[(3)] and serves nearly 48 million residents on behalf of local authorities.

As of December 31, 2012, Veolia Propreté managed approximately 705 waste processing units (excluding landfill sites in the post-closure phase and soil decontamination plants).

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

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

Environmental Services

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011 re-presented *	Change 2012/2011
Revenue	9,082.9	9,010.8	0.8 %
Operating income	343.1	268.3	27.9%

* *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statement of solid waste activities in the United States (divested in November 2012) is presented in a separate line, Net income from discontinued operations.*

(1) Sources: internal studies and Eurostat.

(2) Employees managed as of December 31, 2012, including joint companies and excluding Proactiva.

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

Overview of Environmental Services

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

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

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

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

Key factors

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

- a presence at all points of the waste value chain, from pre-collection through to processing and recovery, in an appropriate range of geographical areas at different stages of maturity, enabling the identification and control of innovative, tailored solutions for proposal to customers and setting the Group apart from the competition in the market;
- the management of risks relating to the protection of the environment and the safety of individuals and installations (see Chapter 4, Section 4.2.2.2 above);
- the quality of employee management in sectors which are often labor-intensive (limiting absenteeism and industrial action, developing skills and training);
- the ability to innovate using new technologies (processing, rolling stock) and processes (sorting-recycling), founded on an effective technology, regulatory and competition watch system;
- operating efficiency (purchases, sales, logistics, maintenance management) enabling the optimization of unit costs and the utilization rate of equipment, while ensuring the high level of quality required for products and services delivered;
- investment management in certain capital-intensive activities (selectivity, risk analysis, installation size);
- the quality of contractual management for long-term contracts (major clauses, price review formulae, guarantees and deposits, etc.) (see Chapter 4, Section 4.1.2.5 above);
- the management of economic and financial risks: ability to adjust to volume fluctuations, reduced exposure to volatility in raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk (see Chapter 4, Section 4.2.2.1.1 above).

Environmental Services and Logistics for Public Authorities and Industrial Companies

Maintenance of Public Spaces and Urban Cleaning

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

Cleaning and Maintenance of Industrial Sites

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

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

Liquid Waste management

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

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

Soil Decontamination

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

Collection

In 2012, nearly 48 million people around the world benefited from Veolia Propreté's waste collection services. Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green areas and carries away "green" waste. It also collects hazardous waste on behalf of its service sector and industrial customers, including hospital waste, laboratory waste and oil residue (ships, gas stations, etc.) and diffused hazardous waste.

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

Transfer and Regrouping of Materials

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

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

Sorting and Recycling of Materials

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

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

Veolia Propreté recovers solid waste received at its 265 sorting and recycling centers. These specialized centers separate the different components of complex waste, such as electric and electronic products and fluorescent lamps. Veolia Propreté works upstream in partnership with industrial customers and with the Group's research center to develop recycling activities. Recycled material is sold or distributed to intermediaries or directly to industrial customers.

Waste Recovery and Treatment through Composting, Incineration and Landfilling

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

Composting and Recovery of Organic Material from Fermentable Waste

Veolia Propreté and Veolia Eau work together to recover sludge from wastewater treatment plants. At its 120 composting units, Veolia Propreté processes urban and industrial sludge, part of which is then reintroduced into the agricultural cycle through land spreading, with a related tracking service.

Incineration and Waste-to-Energy Recovery

Veolia Propreté operates 63 incinerators (MSWI), including 60 equipped with waste-to-energy recovery systems, which process non-hazardous solid waste (mainly urban waste).

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

Landfilling and Waste-to-Energy Recovery

In 2012, Veolia Propreté had 90 non-hazardous waste landfill sites (excluding landfill sites for inert waste, in the post-operation phase and dedicated to waste-to-energy recovery). Veolia Propreté has developed expertise in processing waste through methods that reduce emissions of liquid and gas pollutants. In addition, 69 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 2012, Veolia Propreté had 23 incineration units for hazardous industrial waste, 61 processing units using physical-chemical and stabilization methods, 19 class 1 landfill sites and 37 specialized recycling centers.

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

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

Description of activities in 2012

Environmental Services division revenue is stable year-on-year (+0.8% and -1.9% at constant consolidation scope and exchange rates) despite:

- the difficult macro-economic environment since the second quarter of 2012, particularly in Europe;
- an unfavorable recycled raw material price differential (particularly in France, Germany and the United Kingdom), especially in the third quarter of 2012;
- the impact of the geographical restructuring plan, with the closure and restructuring of certain activities in Africa, the Middle East and Italy.

Revenue increased 2.1% in France (+1.4% at constant consolidation scope), with the growth in certain activities (particularly incineration and hazardous waste) combined with price and volume increases, offsetting the fall in recycled raw material prices (paper/cardboard and metal).

Outside France, revenue remained stable (on a current basis and -3.9% at constant consolidation scope and exchange rates).

Revenue slumped 11.8% in Germany (-13.2% at constant consolidation scope) under the combined effect of lower prices and material volumes and adverse economic developments in the industrial and commercial sector.

Revenue increased 4.6% in the United Kingdom (-2.1% at constant consolidation scope and exchange rates), with a fall in construction activity under integrated contracts and a structural fall in landfill volumes in a difficult macro-economic environment.

In North America (+9.1% on a current basis and +1.1% at constant consolidation scope and exchange rates), the increase in hazardous waste treatment activities was offset by a fall in industrial services activities.

In the Asia-Pacific region, revenue growth of 17.5% (+8.0% at constant consolidation scope and exchange rates) benefited from the positive impact of the landfill tax and good industrial services and landfill activity levels in Australia, especially in the fourth quarter.

Major Contracts in 2012

The following table shows the major contracts signed in 2012 with either public authorities or industrial or service sector companies[(1)]:

Public authority or company and location thereof	Month of signature of contract	New contract or renewal	Contract term	Estimated cumulative revenue *(in euros)*	Services provided
France					
Thau-Frontignan-Sète Basin Conurbation	November	Renewal	8	39 million	Contract to design, build and commission operation optimization infrastructures for the waste-to-energy facility
Val de Bièvre	January*	Renewal	6	34 million	Management of household waste and equivalent
Mont Valérien Conurbation	January*	Renewal	5	33 million	Cleaning of roads and green spaces
CA Est Ensemble	March	Renewal	5	Consortium total: 30 million	Collection and evacuation of household waste and equivalent and collection and evacuation of large waste items and green waste
SMICTOM Coulommiers Region	November	Renewal	7	26 million	Collection of household waste
Mer et Terres d'Opale Commune	June	Renewal	5	19 million	Collection of household waste and equivalent and sorting of recyclable household waste
Syndicat mixte Région Auray Belz Quiberon	August	Renewal	5	17 million	Door-to-door collection of residual household waste and light packaging
Syndicat SYSEM	January	New	6	16 million	Operation of the mechanical-biological pre-treatment facility for residual household waste
Le Havre Conurbation (CODAH)	July	Renewal	4	10 million	Door-to-door collection of household waste and equivalent
Longwy Conurbation	August	Renewal	5	10 million	Management and collection of household waste and equivalent
Nice Côte d'Azur Metropolis	April	New	7	9 million	Mechanized road cleaning
Europe (excl. France)					
City of Leeds (United Kingdom)	November	New	25	GBP 460 million	PFI contract for the processing and waste-to-energy recovery of residual household waste
Closed Loop Recycling	October	New	5	32 million	Supply of recycled plastic
Asia					
Hunan Province (China)	July	New	25	320 million	Contract to design, build and operate a hazardous waste processing plant
Australia					
Coles Supermarkets	October	New	3	47 million	Collection, elimination and processing of non-hazardous and organic waste

* *Signatures effective December 2011.*

(1) Revenues expected under the contracts won in 2012 have been converted into euros at the closing exchange rate as of December 31, 2012 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.

Main acquisitions and divestitures in 2012

The division's activities in Korea were transferred to the Water division on January 1.

Activities in three Baltic States (except for a landfill center) were divested on May 3 and September 27.

The Energonut incineration plant in Italy was divested on November 5.

The Group divested its solid waste activities in the United States on November 20.

The majority of non-hazardous waste activities in Switzerland were divested on November 26.

Following the creation, acquisition or consolidation of 26 companies in 2012 and the liquidation, divestiture or merger of 83 companies, the Environmental Services division (excluding Proactiva) comprised 574 companies as of December 31, 2012, compared with 631 in 2011.

6.1.3.3 Energy Services

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

As of December 31, 2012, Dalkia had 49,824 employees, primarily in Europe.

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

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

Energy Services

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011 *	Change 2012/2011
Revenue	7,664.6	7,138.2	+7.4 %
Operating income	287.3	(36.4)	n/a

* *In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statement of wind energy activities (presented in the Energy Services division in 2011) is presented in a separate line, Net income from discontinued operations.*

Overview of Energy Services

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

Dalkia's core business focuses on optimizing the use of all sources of energy at customer sites, industrial production sites, service-sector sites and in all types of buildings. Dalkia has progressively developed a range of activities based on energy and environmental efficiency: Heating and cooling systems, Industrial Utilities and Energy Services for Buildings.

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

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

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

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

Heating and Cooling Systems

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

Dalkia is a leading European operator of large urban heating and cooling networks. Dalkia currently manages 806 urban heating and cooling networks worldwide, particularly in France, the United Kingdom, Eastern and Central Europe and the Baltic States. It also operates networks in the United States where it has a strong market position. The networks operated by Dalkia provide heating, domestic hot water and air conditioning to a wide range of public and private facilities, including schools, health centers, office buildings and residences. In addition, the production plants often generate electricity sold to operators or on the market.

Industrial Utilities

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

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

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

Dalkia provides services at 4,637 industrial sites.

Energy Services for Buildings

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

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

Dalkia manages 131,600 energy installations worldwide.

Key factors

Dalkia's 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 risks borne by the Company and those borne by its customers. Contract management takes account of necessary regulatory developments, which are monitored by Dalkia, and the implementation of a Research and Development program, enabling further improvements to its performance and competitive advantage;
- procurement management and primarily fuel procurement, to optimize costs and secure supplies for the installations it manages;
- environmental protection, through the optimization of energy efficiency, control of atmospheric emissions and a renewable energies-based offering.
- changes in weather conditions year-on-year which can impact periods in which heating is used (see Section 4.1.1.3 above).

Description of activities in 2012

In 2012, the Energy Services division reported growth of 7.4% on 2011, primarily in France and Poland. The economic situation in Italy led to the implementation of exceptional measures by the government that negatively affected Dalkia's accounts (-€107.5 million). The rest of the world reported growth of 3%, reflecting the good resistance of Dalkia's margins in the face of an adverse economic context.

Despite low energy prices and, in certain countries, adverse regulatory changes, the optimization of fuel purchases had a positive impact on margins. Dalkia benefited from favorable weather conditions in Central Europe. Strong commercial dynamism in Poland, China and the Middle East contrasted heavily with the commercial difficulties encountered in France, due to competitive pressure, although the Works business (construction of thermal installations) remained buoyant. Overall, commercial activities made a positive contribution. The savings and efficiency plans launched in the subsidiaries and at head office had a positive impact on the accounts, as did the restructuring plans rolled out in Spain, Italy and Benelux.

2012 was the first full year of operation of Dalkia Warszawa in Poland, the Warsaw heating network manager. Results were highly satisfactory and marked by a significant extension of the network and the successful integration of teams.

2012 also saw the commissioning of major installations in China (cogeneration plant in Harbin), Hungary (straw biomass installation in Pécs) and Poland (wood biomass installations in Lodz and Poznan).

From a commercial standpoint, Dalkia's 14 largest entities enjoyed sustained activity in 2012, with revenue of over €290 million realized on new contacts, generated 48% by Energy Services for Buildings, 31% by Heating and cooling systems and 21% by Industrial Utilities. Existing portfolio activity was also good.

2012 was a difficult year in France due to the economic crisis, a highly competitive market and a greater proportion of contracts expiring than in recent years. New business and changes in the commercial portfolio generated an additional €63 million in revenue on an annualized basis, compared with €97 million last year, a downturn in performance of 35% on 2011.

New business volume in France remains significant at €145 million (i.e. 50% of total revenue won by Dalkia), but is down 14% on 2011 (€169 million). The renewal rate for expiring contracts improved in 2012 (75% compared with 70% in 2011), with an increase in the expired portfolio impacted (+22% on 2011). Contracts not renewed as a percentage of total Dalkia revenue in France remained relatively stable on 2011 at 2.3%. Finally, changes in contracts not expiring had a net negative impact in 2012. These contract losses often followed industrial site closures or the insourcing of services by our customers.

Outside France, new contracts signed in Central Europe, and particularly in Poland, the Czech Republic and Slovakia across all three strategic activities, represented approximately 30% of revenue won by Dalkia. The remaining growth was realized in Chine in Heating and cooling systems, in Benelux, Scandinavia and the Middle East in Energy Services for Buildings and in Ireland in Industrial Utilities.

2012 was an excellent year for the retention and extension of our existing portfolio:

- in Benelux, revenue from contacts renegotiated in 2012 totaled €44.7 million and represented 98% of business volume expiring during the year. Dalkia Benelux's alliance with Dalkia France (East Region) enabled the success of its bid for the management, maintenance and overhaul-replacement of the European parliament's real estate assets in Brussels, Luxembourg and Strasbourg. This includes the renewal of the existing Benelux contract, representing estimated cumulative revenue of nearly €90 million over 6 years. Similarly, the European Commission contract in Brussels was renewed, representing estimated cumulative revenue of nearly €200 million over 10 years.
- in Scandinavia, three major contracts were renegotiated in 2012, including the contracting for the Boras municipal heating network, representing estimated cumulative revenue of over €30 million.
- in China, the Harbin heating network continued to expand with the connection of new buildings with a surface area of 3.8 million m² and representing additional annual revenue of €12 million.

Major Contracts in 2012

The following table shows the major contracts signed in 2012 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					
Saint Germain en Laye (78)	June	New	20 years	89.6 million	Heating network Renovation of the cogeneration plant and installation of a 5.5 MW biomass-fired heating plant
Ajinomoto Eurolysine (amino-acid production site for animal feed) Amiens (80)	October	New	12 years	279.1 million	Industrial Utilities Steam production contract New 12 MW cogeneration plant to replace a 45 MW cogeneration plant Modernization of installations
Nogent-sur-Oise (60)	June	Renewal	25 years	71.6 million	Heating network Public service delegation contract
Orléans – Socos (45)	June	Renewal	12 years	62.4 million	Cogeneration
Angers University Hospital (49)	December	Renewal	24.3 years	105 million	Energy Services for Buildings Installation of a 6.7 MW biomass-fired heating plant and renovation of the cooling system Production and distribution of heating, production of cool air, air treatment, cooling towers/water treatment
Sanitas Housing Grouping Tours (37)	January	Renewal	15 years	55.6 million	Energy Services for Buildings Contract with Tours Habitat OPH
European Parliament Strasbourg (67)	March	New	6 years	36.4 million	Energy Services for Buildings Management, maintenance, overhaul-replacement of Parliament buildings in Strasbourg Assistance with the European Parliament environmental policy
Montpellier University Hospital (34)	December	New	12 years	32.4 million	Energy Services for Buildings Management of electricity backup systems (generators and high voltage) for all Montpellier University Hospital sites
Europe (excl. France)					
City of Lasi (Romania)	July	New	20 years	781.2 million	Urban heating network Public service delegation contract
VÚC Košice region (Slovakia)	August	New	18 years	80.2 million	Energy Services for Buildings First Energy Performance contract for the 74 high schools in the VÚC Košice region
City of Vlasim (Czech Republic)	September	New	15 years	30.4 million	Energy Services for Buildings Installation and operation of a 9.5 MW gas-fired heating plant and a1 MW wood-fired heating plant Renovation of the network Operation of 14 island heating plants (gas-fired)

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
OKD – ČSA Mine (Czech Republic)	June	New	10 years	23.9 million	Industrial Utilities Contract to design, build and operate a cooling plant
City of Tata (Hungary)	December	New	25 years	34.8 million	Urban heating network Heating network concession for the City of Tata
Treviso ASL (Local health company) (Italy)	February	Renewal	9 years	137.2 million	Energy Services for Buildings Management and maintenance of heating and air-conditioning installations and non-medical equipment
European Parliament (Belgium and Luxembourg)	March	Renewal	5+1 years	89.9 million	Energy Services for Buildings Management, maintenance, overhaul-replacement of Parliament buildings in Brussels and Luxembourg
European Commission (Belgium)	November	Renewal	5+5 years	195.8 million	Energy Services for Buildings Management, maintenance, overhaul-replacement of Commission buildings in Brussels Monitoring of energy consumption
City of Boras (Sweden)	July	Renewal	4 years	33.2 million	Urban heating network The Boras city network supplies 35,000 residents, 550 service sector buildings and 50 industrial sites.

* *Revenues expected under the contracts won in 2012 have been converted into euros at the closing exchange rate as of December 31, 2012 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.*

Main acquisitions and divestitures in 2012

The Energy Services division continued to refocus on its priority activities and regions in 2012.

In October 2012 in Estonia, Dalkia Eastern Europe sold Tallinna Küte, which operates the Tallinn heating network and Eraküte, which operates the heating networks of 8 mid-sized towns, as well as its residual 15% stake in Tallinna Elektrijaam, which owns a biomass-fired cogeneration plant (85% of this company was sold in 2011). Dalkia no longer operates in Estonia.

In Switzerland, Dalkia sold its installation and maintenance activities in Geneva in October 2012.

Dalkia also sold its 50% stake in Hanbul in South Korea as well as all its activities in India, through the sale of Dalkia India Private Limited and Dalkia Energy Services Limited.

The company is currently withdrawing from other activities and geographical regions in Latin America and is in the course of divesting public highway energy services, through Citelum.

In France, Dalkia refinanced a CER project for the first-time in 2012, with the divesture of Limoges Bio Energie, the owner of a cogeneration plant.

In total, over the course of 2012, the Energy Services division consolidated or purchased 24 companies, and sold, liquidated or merged 41 companies. As a result, it held 552 consolidated companies, including 301 foreign companies, as of December 31, 2012, compared with a total of 569 consolidated companies as of December 31, 2011.

6.1.3.4 Transportation

Transportation division activities continued as in previous years up until March 3, 2011, when Veolia Environnement and Caisse des Dépôts combined their respective transportation subsidiaries creating the global benchmark in sustainable mobility. The resulting entity, Veolia Transdev, is held 50/50 by Veolia Environnement and Caisse des dépôts et consignations. Operational activities were merged in August and September 2011 and the new organizational structure was introduced in December 2011. On December 6, 2011, Veolia Environnement announced its decision to withdraw progressively from the Transportation business. Progress with this withdrawal process led Veolia Environnement to classify the Transportation business as a discontinued operation as defined by IFRS 5 (See Note 23 to the consolidated financial statements – Chapter 20.1 below). The agreement for negotiation signed on March 30, 2012 concerning the transfer to Veolia Environnement of Veolia Transdev's 66% stake in SNCM, resulted in the reclassification of these activities in Veolia Environnement continuing operations, as this sub-group was therefore excluded from the Transportation business divestment process. On October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations signed an new agreement for negotiation under which Caisse des dépôts et consignations and Veolia Environnement would subscribe to a €800 million share capital increase by capitalization of existing shareholder loans. Following this transaction, the Caisse des dépôts et consignations would hold 60% of the share capital of Veolia Transdev and would take exclusive control of that company. Veolia Environnement would retain a 40% shareholding. The agreement also provides for asset disposals by Veolia Transdev in order to repay the Veolia Environnement shareholder loan. Concomitantly to the signature of this agreement for negotiation, Veolia Environnement and Caisse des Dépôts et Consignations agreed to negotiate in good faith a decrease in Veolia Environnement's stake in Veolia Transdev to 20%, through the purchase by Caisse des Dépôts et Consignations of Veolia Transdev shares held by Veolia Environnement within a period of two years from the completion of the above transaction.

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

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

Veolia Transdev estimates that, on a 2011 base, the worldwide transportation market represents revenue of €470 billion, of which only 30%, or approximately €140 billion, is currently open to competition. Global growth in the market open to competition is approximately 5% per annum. The main drivers are the liberalization of markets in Europe and the multiplication of PPP (public-private partnership) projects, particularly in North America and Asia.

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

As of December 31, 2012 Veolia Transdev had 98,637 employees, primarily in Europe, North America and Asia. Veolia Transdev also has a strong presence internationally, where it generates more than 60% of its revenue. In 2012, Veolia Transdev continued to expand in North America, Asia and Europe.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of Veolia Transdev (2012). Veolia Transdev is presented in Net income from discontinued operations in the Group consolidated financial statements since December 31, 2011.

Transportation

(in € million)	**Year ended December 31, 2012**	**Year ended December 31, 2011[1]**	**Change 2011/2012**
Revenue[2]	**7,566.7**	**7,863.8**	**-3.8%**
Operating income[2]	**(266.3)**	**(522.8)**	n/a

(1) 2011 figures have been reconstituted on a 12-month basis: they include 10-months activity subsequent to the combination of Veolia Transport and Transdev, plus 2-months activity for the historical scopes of Veolia Transport and Transdev.

(2) Revenue and operating income exclude amounts in respect of discontinued operations (pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations").

Overview of the Transportation Business

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

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

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

Veolia Transdev's activities fall into four main categories:

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

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

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

Mass Road Transportation

Veolia Transdev operates a number of bus networks, suburban trains and urban rail networks 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 and bus networks in Rouen, Saint-Etienne, Nancy, Montpellier, Rheims, Besancon and Mulhouse.

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

Veolia Transdev manages bus networks directly for over 80 urban areas in France and through semi-public undertakings for 12 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 departments (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 networks as well as the network for the Hague and its suburbs. Veolia Transdev also operates the integrated (intermodal) public transport network in Limburg province (bus, transportation-on-demand, suburban rail transportation).

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

In North America, Veolia Transdev provides bus transportation services in 33 States and two Canadian provinces, and particularly in Las Vegas, Nassau, 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 four cities in the Anhui Chinese province and in Macao, as well as the Hong Kong tramway. In India, Veolia Transdev continued 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

At regional level, Veolia Transdev operates road networks and, as with urban transportation services, provides design and planning services, operates and maintains the networks and stations and ensures their security, and sells tickets and provides customer services.

In France, Veolia Transdev has a strong presence in the intercity and school transportation markets. Veolia Transdev is present in all regions.

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

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

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

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

In Australia, Veolia Transdev provides employee transportation services for two production sites in the natural resources sector.

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 Marschbahn, S-Bahn Bremen, Dieselnetz, Augsburg, Mittelrhein Bahn, etc.). Veolia Transdev also operates open access long distance lines (InterConnex: Leipzig – Berlin – Rostock).

In Sweden, the rail link between Stockholm and Malmo 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 local public authorities (PACA, Rhône, Mulhouse, etc.).

Across the Atlantic, Veolia Transdev operates suburban rails networks in Miami and to the North of San Diego.

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

Commercial transportation (B to C)

Transportation-on-demand

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

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

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

Digital Transportation Management

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

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

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

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

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

Description of activities in 2012

In 2012 the Transportation business (at 100%) reported revenue of €7,566.7 million. In France, in the urban transportation sector, Veolia Transdev renewed its public service delegation contracts with St Etienne, Valence, Dunkerque, Châlons-sur-Saône, Vitrolles and Limoges.

In the inter-city transportation sector, Veolia Transdev also renewed a certain number of major public transportation contacts, including with the Alpes Maritimes (3 batches), Gironde, Charente, Eure and Loire, Somme and Rhone regions.

In 2012, Veolia Transdev renewed the operating contracts for urban and semi-urban bus services in the City of Los Angeles and the Baltimore para-transit and network maintenance contract. In Canada, the operating contract for inter-city bus services in Laurentides (province of Quebec) was also renewed. In the Netherlands, Connexxion's contact for the operation of regional bus services around Utrecht and Ijsselmond was renewed for one year.

Veolia Transdev strengthened its presence in the passenger rail transportation market in Germany and particularly Southern Germany where Bayerische Oberlandbahn successfully renewed the operating contract for Munich Lenggries/bayrischzell and Tegernsee rail services for 11 years. In the bus sector, Palatina renewed a 10-year contract in Neustadt, and in the Northern region, Veolia Transdev won an 8-year contract with the city of Bad Segeberg.

In Australia, Veolia Transdev won two new contracts in the industry employee transportation sector: Caval Ridge (Queensland) and Ichthys (Darwin, through a consortium with a local operator) and the operating contract for Sydney ferries. During the same period, five contracts were also renewed (Perth and Sydney) and the rail network operating contract for the city of Auckland was extended four years.

In Sweden, bus operating contracts for the cities of Malmo and Gothenburg were also renewed.

Major Contracts in 2012

The following table shows the major contracts signed or awarded in 2012 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					
CG 80	March	Renewal	7 years	115 million	Operation of the Somme passenger transportation network
Valence	April	Renewal	6 years	150 million	Operation of the urban passenger transportation network of the city of Valence
CG 06	May	Renewal	8 years	208 million	Operation of the Alpes Maritime passenger transportation network
CG 33	May	Renewal	7 years	203 million	Operation of the Gironde passenger transportation network
St Etienne	June	Renewal	9 years	495 million	Operation of the urban transportation network of the city of St Etienne
CG 28	December	Renewal	8 years	152 million	Operation of the Eure-and-Loir passenger transportation network
CG 69	December	2nd tender procedure	9 years	288 million	Operation of the Rhone passenger transportation network (4 batches)
Dunkerque	December	Renewal	6 years	213 million	SEM/local authority management - Operation of the urban passenger transportation network of the city of Dunkerque
Vitrolles	December	Renewal	8 years	144 million	Operation of the Vitrolles urban passenger transportation
Europe (excl. France)					
Germany					
Bayerische Oberlandbahn	October	Renewal	11 years	330 million	Operation of rail services between Munich-Lenggries-Bayrischzell-Tegernsee
North America					
United States					
Los Angeles	October	Partial renewal and new contract	5 years (with a possible 2-year extension at the customer's initiative)	115 million	Operation of urban and semi-urban bus services for the city of Los Angeles (LADOT)
Pacific region					
Australia					
Sydney	May	Renewal	7 years	525 million	Ferry passenger transportation for the city of Sydney
Freemantle	June	Renewal	10 years	340 million	Operation of Freemantle bus services
Darwin (Ichtys)	November	New	4.5 years	144 million	Personnel transportation contract for the Ichthys LNG project in Darwin managed by Total and Inpex (JKC customer)
Sydney	November	Renewal	5 (+3-year option)	100 million	Operation of Region 12 bus services (around Sydney)
Sydney	December	Renewal	7 years	385 million	Operation of Region 10,11 and13 bus services (around Sydney)
New Zealand					
Auckland	February	Extension	4 years	172 million	Operation of the Auckland rail network

Main acquisitions and divestitures in 2012

Veolia Transdev comprised 734 consolidated companies as of December 31, 2012, compared with 763 as of December 31, 2011. In addition, during the year, 21 companies were consolidated for the first time, 32 were merged and 18 companies were liquidated or sold.

The Veolia Transport and Transdev combination involved significant measures to rationalize structures up to December 2012.

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

Industrial outsourcing and integrated offerings

The position forged over several years by Veolia Environnement in the industrial services market reflects the synergies that exist between the three divisions, which, together, can respond to changes in this market.

In recent years, the industrial outsourcing market has seen significant changes in the expectations of industrial companies. These are reflected by the multiplication of outsourcing requests for technical businesses and multi-services, often accompanied by a demand for environmental optimization services. This market has a large service scope and offerings must be international, or at the very least continent-wide, as customers are adopting multi-site/multi-country approaches.

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

Veolia Environnement thereby offers a "multi-business" alternative to its customers, which involves the provision of services by several of its divisions under a single contract. This option enables Veolia Environnement to better satisfy the expectations of customers who wish to outsource a range of services across several industrial sites a to a single service provider.

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

The quality of the customer relationship developed since 2003 was recognized in 2011 when Veolia Environnement received an award for technical savings during the PSA Suppliers Trophies awards. In 2011, Veolia Environnement was awarded a 5-year multi-technical and multi-services contract covering the historical headquarters of the PSA Peugeot Citroen group and the Vélizy, La Garenne and Carrières-sous-Poissy Technical Centers and the Poissy Service Center. In 2012, PSA Peugeot Citroën Group's confidence in Veolia Environnement was demonstrated by negotiations between the two groups for the renewal of the contract covering the Trnava plant in Slovakia for a 5-year period (see below).

By placing its business synergies, the expertise of its divisions, its international spread and its solid industrial references at the service of industrial customers, the Veolia Environnement Group has established itself as a reference in industrial markets for multi-business integrated offerings.

Competition

The main competitors in this market are of varied origin. Certain are historical facilities management companies, such as the American group, Johnson Control International (JCI), whilst others are from the occupant services sector, such as Sodexo, Mitie, etc. These companies pursue and communicate on a strong facilities management development strategy and have launched acquisition plans to strengthen their position in technical services.

Environmental services companies have also moved towards the integrated services market. In 2011, the Vinci group created Vinci Facilities, offering a comprehensive range of buildings services, occupant services and facilities management services under a single trade name. In 2012, GDF Suez group launched the Cofely FM trade name.

Veolia Environnement Organizational Structure for the Provision of Multi-business services

In order to develop this multi-service activity, the Group set up a special purpose entity to coordinate these activities, by associating the expertise of the divisions and developing synergies between businesses.

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

Multi-business Contracts and Activity

The Group's activities in the multi-business market primarily consist of approximately fifteen major contracts, which together generate average annual revenue of approximately €520 million and which are expected to generate cumulative revenue over their remaining term of around €2.5 billion. The average term of these contracts is approximately 9 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).

The complementary nature of Veolia Environnement activities at the industrial sites is another key characteristic. The business synergies and environmental know-how underlying the activities provided to industrial customers by Veolia Environnement Industries under these contracts are fundamental. Veolia Environnement's references give it a unique position in the industrial outsourcing market and include:

- solvent recycling combined with the sale of energy at the Novartis Balois sites;
- the design, construction and operation of the first automobile plant with zero carbon emissions and zero water discharges, which mobilized the expertise and know-how of the divisions to meet the environmental restrictions of the new Renault plant in Tangiers;
- the ability to assist a leading pharmaceuticals customer throughout Europe applying the same standards, as demonstrated by the Bristol Myers Squibb (BMS) contract, etc.

Défense Environnement Services (DES) – a joint venture between Veolia Environnement Industries and DCNS, created in March 2009, in which Veolia holds a 51% stake – manages support and other services for the Defense sector (utilities management, water cycle management, maintenance of industrial and service buildings, maintenance of small tooling in workshops and hoisting equipment, transportation of individuals, logistics, cleaning services and waste management). In 2012, DES signed a multi-technical services contract covering 15 sites in the Toulon region with the French Defense Naval Procurement Agency. This 4-year contract will generate total cumulative revenue over this period of €7.4 million (51%).

As part of the partnership between PSA Peugeot Citroën and Veolia Environnement, negotiations were held in 2012 for the extension of the multi-services contract covering the Trnava production plant in Slovakia. In January 2013, these negotiations led to the signature of an agreement in principal for the extension of the utilities, multi-technical and multi-services contract to December 31, 2017. Estimated cumulated revenue over this 5-year period is €42.6 million and the new challenges are of an economic and technical nature. Veolia Environnement and PSA Peugeot Citroën have developed a new contract management system based on a "*shared responsibility productivity plan*" comprising commitments to productivity and risk sharing for the performance of joint actions leading to the realization of the productivity and convergence plan requested by PSA. As part of this contract extension, a study has already been

launched into optimizing energy consumption and reducing the environmental footprint of the site. This project focuses on heat recovery from the Volatile Organic Compounds (VOC) incinerator located in the painting workshop.

In July 2012, Veolia Environnement Industries extended the contract signed in 2010 with the pharmaceuticals company, BMS, for the management of 10 sites across 6 countries (Germany, Belgium, Ireland, Italy, Spain, the United Kingdom) to include BMS's European headquarters in Rueil Malmaison. This site with a surface area of 21,829 m² is HQE certified and as such requires a particularly high standard of service and presents significant environmental challenges. This contract represents total cumulative revenue of €15.5 million over 5 years for multi-business services.

Similarly, the Renault multi-business management contract for its Paris region sites signed in 2011 for an indeterminate period is still in effect. This contract represents annual revenue of over €80 million and primarily concerns the multi-technical management of the Guyancourt Technocenter.

2012 also saw growth from new market share won from existing contracts. Accordingly, in the East of France, Veolia Environnement signed two 3-year contracts with the industrial company Dupont and General Electric Group representing cumulative revenue for the two contracts of approximately €2.2 million over three years.

The services managed by Veolia Environnement Industries at Dupont's two French sites in Cernay and Nambsheim, in the Haut-Rhin, cover a wide range of technical services (building and infrastructure maintenance, management of HVAC equipment and power distribution, etc.) and multi-services (logistics, cleaning, winter maintenance, etc.). This contract involves compliance with strict safety and environmental protection standards, for which the Dupont group is an absolute reference in the industrial sector. Veolia Environnement Industries' quality, safety and environmental management system is certified ISO 9001, OHSAS 18001 and ISO 14001, satisfying Dupont's requirements.

6.2 Market overview

6.2.1 The market for environmental management services

Environmental management services provided by the Group 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 industrial and service-sector companies, public authorities and private individuals.

The contractual terms governing their implementation vary depending on the nature of the project, the customer and local regulations. For the construction of installations and/or their operation, the Company carries out these activities through public-private and private-private partnerships. These partnerships seek to provide comprehensive solutions to fundamental environmental objectives: waste processing and recovery, energy savings, drinking water production and the treatment and reuse of water, reduction in emissions of pollutants. The PFI (Private Finance Initiative) contract for the processing and waste-to-energy recovery of waste in Leeds (United Kingdom) combining the recycling of waste and the recovery of energy is a good example, as is the biomass-fired cogeneration plant installed by Dalkia for the Smurfit Kappa plant in France, which produces electricity and steam for use by the plant. This type of partnership is also possible in emerging countries, as demonstrated by the contract managed by Veolia Eau in Nagpur (India), potentially with external financial assistance (European funds, EBRD, etc.)

Sensitivity to environmental challenges is now widespread, with this aspect of increasing importance for both public and private decision-makers.

A range of approaches is necessary in response to these expectations, as they differ according to the customer and the specific context.

Accordingly, increasingly strict environmental performance requirements are being set for the management of public services and utilities reflecting the growing awareness of these issues of citizens and public contractors. Public sector customers (particularly cities, groupings, and increasingly major conurbations) are therefore implementing measures aimed at improving the environmental performance of their regions. The Group actively participates in certain of the increasing number of studies and reviews focusing on this subject. Very often contracts include environmental objectives and certain are even entirely aimed at achieving energy savings. Nonetheless, public sector management contracts remain largely awarded on an individual service basis, in response to competition requirements as well as those of administrative and budgetary bodies. Furthermore, the economic climate encourages public customers to seek budget savings, with as a result strong pressure on prices and margins.

Private customers increasingly wish to incorporate concrete environmental protection measures within the scope of their activities. They also seek to adopt a unified management policy for all environmental management services not relating to their core business. They often wish a single service provider possessing all useful expertise and able to assume the integrated management of outsourced environmental services. In particular, the Group accompanies industrial companies abroad in the implementation of their projects, helping them to design and build their own plants or adapt existing sites, by including innovative technology enabling the environmental impact of activities to be reduced while improving competitivity: resource savings, recovery of by-products and reduced environmental footprint. Service offers must reflect the changing and sometimes very specific requirements of these customers and tailored to closely match their expectations. They expect the organizational structure to generate productivity gains, to be shared by both parties.

As set out in the "Low Carbon and Environmental Goods and Services (LCEGS)" report published in May 2012 by the UK Department for Business Innovation and Skills, the market in which the Group operates represents annual equipment sales and services of €1,500 billion globally. According to this report, the annual growth outlook for all market sectors exceeds 2.9%. Demand for outsourced and increasingly integrated environmental management services should expand and grow for the following reasons:

- a global environmental services market enjoying sustained growth (3.4% per annum to 2015 according to the above report);
- customer need for increased competitivity or savings;
- as innovative technical solutions favorable to the environment are developed, the Group's expertise is sought to identify, design, control, build and operate them;
- faced with increasingly strict environmental standards and requirements, public and private players do not always have the necessary technical or operational resources that specialist professionals can mobilize to deal with environmental problems effectively and at minimum cost; they also seek the legal security offered by an operator that accepts responsibility for the management of these activities. Expertise in environmental regulations is a determining factor in the choice of operators and an advantage that sets Veolia Environnement apart from the competition;
- the need for the coordinated management of services entrusted by companies to service providers for a range of sites spread across one or several continents;
- in addition, public demand, which now widely reflects a concern for sustainable development, must keep commitments made at international level and set exemplary standards. In a world that combines accelerated urbanization with demographic growth, major investment in environmental projects and services, as well as sustainable management, are needed in order to provide growing urban populations with adapted environmental services and replace existing environmental infrastructures.

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

These financial restrictions could also encourage public authorities and companies to seek the most cost efficient solutions and lead them to consider outsourcing a portion of their activities under complex, comprehensive long-term contracts. They often seek to simplify the contractual process by entrusting the performance of highly varied services to a single partner, who is able to commit to performance levels and, where appropriate, finance all or part of the investments necessary. This presents numerous opportunities for companies that are able to propose a wide range of integrated environmental management services.

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

6.2.2 Customers

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

Public authorities

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

Veolia Environnement has the know-how to adapt to customer expectations and needs. It increasingly participates in upstream studies, helping public decision-makers to define policies for their cities or regions and adopt solutions based on their short- and long-term environmental impacts and their carbon footprint. The Group therefore created the Greater Paris Metropolis Mission to better understand and accompany transformations in this region, a historical home of its activities where some 15,000 employees intervene each day. Greater Paris brings together many public and private decision-makers sharing the goal of making the metropolis an attractive region favoring investment, and particularly international investment, economic development and job creation, combined with improving the quality of life of inhabitants. Veolia Environnement can propose a wide range of contract types, from a simple study or expertise contract to a tailored partnership enabling customers to benefit from the latest technology, and including design and build contracts for installations and contracts focused on measureable performances or objectives, such as energy efficiency contracts.

In the current economic context, financial difficulties weigh heavily on public authorities and influence contract negotiations and required services levels. Veolia Environnement is also able to adapt to these changes in customer needs.

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

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

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

or not of a financial asset corresponding to a receivable from the public authority). We can also distinguish these PPPs based on the nature of the services entrusted, such as Build Operate Transfer (BOT) contracts with financing, or Design, Build, Operate (DBO) contracts, with design but excluding financing.

At EU level, the European Commission published directive reform proposals on modernizing the public procurement framework on December 20, 2011. This "public procurement package" proposes a revision to the 2004 public procurement directives and the adoption of an autonomous concessions directive. For the first time, service concessions would therefore be governed by secondary European legislation, strengthening legal security throughout the Union. The Group is closely monitoring these proposals throughout the negotiation process in the European parliament and within the Council of Members States. Negotiations are still ongoing between the European institutions ("three-way talks") and currently focus on two points in particular; (i) the autonomy of the future legal regime for service and works concessions with respect to the public procurement regime and (ii) the actual application scope of the three directives, which the Group wishes as wide as possible and which will depend on the scope ultimately given by the European legislator to exclusions from the obligation to place contracts out for tender (derogations for cooperation between public organizations).

In addition, Veolia Environnement contributes to expertise aimed at better combining PPP contracts and public financing and particularly European financing. In November 2012, the European Commission approved the request for European financing for the contract to build and operate the St Denis wastewater treatment plant in Reunion Island (French overseas territory). This is the first successful request for European financing in the period 2007-2013 in the water sector, combining structural funds and a Group concession agreement. This project was authorized to receive public financing of €46.6 million, including European assistance of €25.9 million.

Industrial and Service Sector Companies

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

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

Veolia Environnement considers the development of its industrial customer base as a major growth driver and aims to increase the share of revenue realized with industrial customers to 50% over the next five years. This will primarily be achieved through the Environmental Services division where over 60% of revenue is generated with industrial customers and through "engineering" activities in the Technologies and Network business in the Water division.

6.2.3 Competition

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

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

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

In the Energy Services sector, Veolia Environnement expects that competitors, currently operating in a single or national market, will seek to expand their activities to become integrated environmental management service providers, in the coming years. This change has been prompted by the desire of potential customers to outsource a larger scope of activities. 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 Voigth in Germany.

In the water sector, and particularly the industrial segment, Veolia is in competition with newly restructured companies, such as Degrémont Industry, Siemens or General Electric.

The mining sector, which remains highly fragmented and the desalination sector (primarily in Latin America and Australia), is also of interest to Spanish companies from the construction and public works sector (Acciona Agua, FCC-Aqualia, ACS, etc.).

Veolia Eau is faced with strong competition on the international market, with the development *inter alia* of Asian companies (the Japanese companies, Marubeni, Mitsui and Sumitomo, the Singapore companies Hyflux and SembCorp and the Korean companies, Samsung and LG/Inima), as well as at local level (Sabesp in Brazil, Shanghai Industrial in China, etc.).

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

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 services sector (Energy Services, Environmental Services, Water). 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 contracts or, in France, as part of a "partnership contract" authorized by the regulation of June 2004. The emergence of such new players is a natural outgrowth of the development of a comprehensive service market integrating the construction and financing of the infrastructures necessary to the performance of services, which then revert to the customer at the end of a contract.

Water

Veolia Eau confirmed its role as leader in the water and wastewater treatment sectors[(1)], where its main competitor across all markets is Suez Environnement.

In national, regional and international markets, 2012 was marked by growth in local competition (which paradoxically has started developing internationally) from private, public and mixed private-public operators.

In the ***municipal market***:

The main competitors in France are Lyonnaise des Eaux (Suez Environnement), Saur and, to a lesser extent, a number of smaller players (Sogedo, Aqualter, Nantaise des Eaux).

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

In the rest of Europe (severely affected by the crisis), aside from Suez Environnement whose long-term strategy now focuses on France and Spain, other players include the German companies Gelsenwasser and Remondis, which expanded its Water business in Germany by acquiring Eurawasser from Suez Environnement and certain RWE assets (including 50% of KED), as well as Aqualia, which has confirmed its interest in Central and Eastern Europe.

The continued growing interest of equity funds in the UK water market is also of note, as reflected by the acquisition of investment stakes by the Chinese sovereign fund China Investment Corporation (CIC) and by the BT Pension Scheme in Thames Water, and speculation around United Utilities.

In the United States, the municipal operating contract market remains dominated by the "Big Five*"* (Veolia Water, American Water, CH2M Hill OMI, United Water and Severn Trent Services), although regional companies are gaining ground. The purely American companies, such as American Water and Aqua America, consolidated their geographic positions through small targeted acquisitions.

In the North Africa and Middle East markets (regions still affected by considerable political instability), as well as in Latin America (Chile, Peru and Brazil), Veolia Eau is in competition with local (Sabesp in Brazil) and Spanish companies (Acciona, Aqualia, ACS, which focuses in particular, on the mining sector) and is also facing Japanese (Mitsui, Marubeni, Mitsubishi, Sumitomo, etc.) and even Korean (LG/Inima, K-Water, etc.) trading companies, 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 growing competition from local companies, (Beijing Capital), Shanghai Industrial, etc.), as well as Japanese and Singapore companies, such as Hyflux, SembCorp and Moya Dayen, which are also present in the Middle East and North Africa (MENA) region.

With the slowdown in the Chinese water market, Australia may well be the next major market. Australia is a strategic growth area for Spanish (Acciona, ACS and Cadagua, Sacyr) and Asian (Hyflux, Mitsubishi and Marubeni, whose most recent acquisition, Osmoflo, launched its international expansion) companies as well as for Suez (its "3rd pillar"), particularly through Degrémont (which is focusing on water desalination and the mining sector).

Finally, the Smart Water sector is booming, with General Electric joining forces with several companies including Suez Environnement (also present though Aqualogy).

The majority of these competitors can also be founding in ***industrial markets***:

Among technology providers, Siemens decided seven years after the acquisition of USFilter, to reorganize its activities in the water sector, by focusing its water activities on automation technologies and selling its Water division (Siemens Water Technologies, which never achieved the margins or synergies expected by the group).

Through Degrémont Industry, Degrémont remodeled its industrial activities. The merger of Ondeo Industrial Solutions and Degrémont now captures the entire industrial water treatment expertise of the Suez Environnement group under a single trade name.

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(1) Sources: Global Water Intelligence (GWI) of November 2012 and the Pinsent Masons Water Yearbook 2012-13.

In the same way as IDE (Israel) and Abengoa Water (created in 2011 by Befesa Agua from its water concession and technology activities), Degrémont Industry's priority markets are the oil and gas and mining sectors.

Veolia, Suez and potentially General Electric (GE) would appear to be the only companies able to operate in niche markets such as shale gas.

Eight years after the acquisition of Ionics and its entry into the water sector, General Electric confirms its role as a technology provider and its move away from the Engineering, Procurement and Construction (EPC) market, where the risk/reward ratio is not to its liking. The Group continues to be officially interested in small BOO (Build-Own-Operate) contracts with industrial customers, particularly in the desalination sector.

The mining sector (mainly located in Latin America and Australia) is highly fragmented and is also of interest to GE, where it is in competition with a number of technology (VWS and Siemens) and engineering (Hatch and Fluor Daniel) companies.

Finally, new Asian players (less affected by the financial crisis than their European and American counterparts) include the Korean companies, Doosan (now reticent to assume a developer role) and K-Water and the Japanese company, Itochu, which after recent operations in India (alongside Hyflux) and the United Kingdom (where it acquired at 20% stake in Bristol Water), wishes to expand its traditional role in the water sector.

Environmental Services

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

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

In North America, Clean Harbors is the main competitor in the hazardous waste and industrial services sectors.

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

Energy Services

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

Only the group formed by the GDF-Suez merger, primarily with Cofely, has the ability to offer a diversified and comprehensive range of services with a strong international presence that is comparable to Dalkia's own presence and services. Cofely represents a major competitor, mastering a range of expertise similar to that of Dalkia. Competition remained very intense in 2012, particularly in France, with an aggressive policy to win market share.

Among sector-specific players, Dalkia faces the active presence of large local competitors such as 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, Johnson Control), as are IT service companies (Capgemini, etc.) and providers of energy management IT solutions.

Finally, the Company is faced with increasing competition from the historical base of municipally- and publicly-run companies and a trend towards insourcing among certain customers.

Transportation

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

In 2012, historical competitors from the national railway sector (Deutsche Bahn, SNCF, RATP) continued their organic and external international growth.

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

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, RATP Développement and ACI and potentially European and Asian consortiums.

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. Also, in certain European countries such as France or the Netherlands, a trend towards a return to the public management of transportation networks can be seen.

6.2.4 Contracts

The contracts entered into by the Group take a wide variety of forms, depending on the applicable legal system as well as the nature (public or private) and size of customers. Nonetheless, despite these differences, the expectations of Veolia Environnement's customers tend towards a demand for transparency during the bid process and during contract performance, formation of a real partnership in search of ways to improve productivity and performance and a desire for clear performance targets.

Contractual relationships with public authorities for the provision of general-interest services to the public (generally called "public services"), for which the local authority is responsible, take a variety of forms depending on the level of involvement of the public authority: 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. Customers must therefore be sought directly among the local population and the Company owns directly the assets necessary to service performance.

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.

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

- the public authority chooses to manage and provide public services on its own (direct management), but has only limited means and therefore calls upon a private operator to provide certain limited services or work for which it pays a contractually-agreed price. It therefore enters into a variety of supply, construction work and service contracts;
- where new infrastructure is necessary for the provision of the services, the public authority may prefer a more comprehensive build/operate contract, which may include the financing of required infrastructure. These are known as public market contracts under EU law and also referred to as Build, Operate, Transfer (BOT) contracts, or in France, as partnership contracts;
- the public authority entrusts a company with responsibility for the full provision of a public service, with the company assuming all or part of the operational risks. Generally, the provision of the service is then financed by the fees and charges paid by the end user of the service. The contractor thus has financial and operating responsibility for providing the service, but must do so in accordance with the terms set by the public authority encompassing needs to be satisfied, expected performance and prices charged to end users. This is the logic of "delegated management" contracts or "concession arrangements" under EU law, 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 generally tend to favor one of the above-mentioned contract types for each activity exercised by the Company. Current practices in various countries are, however converging. Public authorities alternatively adopt one or other contract type depending on the situation. Contract terms vary according to the nature of the mission and are generally medium- or long-term. Long-term contracts often include a periodic review of financial terms and conditions.

Industrial and service sector customers can also use a variety of contracts types, including at the very least a service remunerated by a price, but potentially also the design, financing, construction and full operation of an installation. Contracts are always tailored to precisely meet the needs of each customer. Customers often seek to outsource a range of services, potentially complex, that are not part of their core business. The performance obligations of the Company are therefore heightened. Similarly, these customers may seek new innovative solutions to complex or highly technical requirements, such as decontaminating manufacturing by-products, reducing greenhouse gas emissions, reusing industrial water, etc.

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

6.2.5 Intellectual property – Company Dependence

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

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

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

6.2.6 Seasonality

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

6.2.7 Raw materials

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

Fuel prices (mainly gas and coal) can be subject to significant fluctuations. Energy prices have fluctuated widely in the past few years. In 2012, the price of a barrel of Brent crude remained highly volatile in the first six months before stabilizing around US$ 110 the barrel. On average, the price of a barrel of Brent crude was US$112.1 in 2012, up slightly by US$0.7 on the average price in 2011. Due to the fall in the euro/US dollar exchange rate, the average euro-price of a barrel of Brent crude increased significantly in 2012 by €7.20 on the average price in 2011 (increase of 9%). 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 2012 French gas prices increased approximately €2.80/MWh compared with 2011 (increase of 7%).

The general consensus among energy product analysts is, however, that energy prices will continue increasing in the long-term, due to the increasing scarcity of known oil reserves, a marked increase in extraction costs and the need to adopt new energy sources in response to growing environmental requirements. However, the timeline of this underlying trend is difficult to forecast, due to the limited visibility of market participants regarding economic growth. Therefore, the possibility of a drop in commodity prices cannot be excluded. In any event, as in recent years, energy prices should remain volatile in 2013.

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

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

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

In the Transportation and Environmental Services divisions, the increase in fuel prices in 2011 compared with 2010 had a negative impact on fuel expenses of approximately €19 million in 2012, including the cost of swap hedging arrangements.

In the Energy Services division, given the long-term nature of contractual terms and conditions and the terms of supply agreements, changes in energy prices may have different impacts depending on the areas in which Dalkia intervenes. At Energy Services division level, the overall impact on revenue was +€205 million.

Electricity production volumes sold on the wholesale market are sensitive to fluctuations in market prices, particularly in Central Europe and the United Kingdom. However, due to forward contacts hedging these activities, price fluctuations during the year will impact the Group's account in part with a time delay.

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 2012, annual averages for two representative price benchmarks ("Revipap 1.05" for recycled paper and "E40" for scrap metal) reported drops of 19% for recycled paper and 3% for scrap metal, compared with 2011 averages. The results of the Environmental Services division were therefore impacted in 2012 by the decrease in the price of recycled materials on 2011. This decrease in the annual average hides substantial price volatility in 2012 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 quarter and a recovery at the end of the year. Accordingly, at the end of 2012 recycled paper and scrap metal prices were 9% and 1% below their 2012 averages, respectively.

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

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

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

For further information, please refer to Chapter 20, Section 20.1, Notes 27.1.3 and 35 to the consolidated financial statements.

6.3 Environmental and employee regulation, policies and compliance

6.3.1 Environmental regulation

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

Transversal regulations

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

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

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

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

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

The relevant legal entities are in compliance with the schedule set by the Reach Directive for chemicals requiring registration within the Group. After the systematic pre-registration of all substances potentially concerned and compliance with the first registration deadline, the next deadlines are being monitored along with changes to the regulation and updates to its appendices. Other chemical substances produced by the Group can be covered by other regulations, such as biocides which are regulated by the Directive of February 16, 1998, replaced with effect from September 1, 2013 by the biocides regulation of May 22, 2012, which strengthens the control of biocide products and standardizes authorization procedures.

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

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

In addition, the increase in greenhouse gases in the atmosphere has led certain countries, as well as the international community, to implement regulatory measures in order to limit this trend. At international level, the Kyoto Protocol came into force in February 2005 and gave the European Union the objective of reducing greenhouse gas emissions in the European Union by 8% over the period 2008-2012, compared with 1990 emission levels. European 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 should have been known at the end of 2012 for an initial grant date of February 28, 2013. As this timetable was not respected, preliminary calculations remain the best available estimate of allocations. The first allowance surrender date for the third period is April 30, 2014.

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

The July 4, 2012 directive on controlling the dangers associated with major accidents involving dangerous substances, known as Seveso III, repealed the Seveso II directive with effect from June 1, 2015 and established new prevention rules primarily integrating the changes introduced by the CLP directive.

Directive 2012/27/EU of October 25, 2012 on energy efficiency sets a common framework of measures aimed at improving energy efficiency in the European Union by at least 20% by 2020. In particular, it proposes energy audits for large companies and efficiency measures at energy supply level.

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

In application of this law, the decree of April 24, 2012 clarified the non-financial reporting obligations of both listed and non-listed companies, and in particular disclosures to be provided on social and environmental issues and corporate commitments to sustainable development.

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

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

The most recent development concerning Classified Installations, since the creation of the registration regime in 2009, is the new financial guarantees regime extending the installations concerned by the requirement to constitute financial guarantees for the protection of sites in the event of cessation of activity and, where applicable, the implementation of accidental pollution management measures (Decree of May 3, 2012 and application orders).

In addition, the Order of January 11, 2012, effective from July 1, 2013, will introduce major changes in environmental policy by standardizing administrative policy tools and harmonizing criminal sanctions.

The Environmental Conference on September 2012 and the domestic debate on energy transition will generate further legislative changes in 2013 (law on the protection of biodiversity, framework law on energy transition).

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

Water

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

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

At European level, the guiding strategy underlying regulation is the supply of drinking water that complies with regulations and the good chemical and ecological quality as well as the good quantitative state of groundwater and surface water by 2015 (the abstraction of available resources must not exceed resource renewal capacity) and a wastewater treatment system that protects the receiving environment.

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. In France, this directive was 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 objective of the good chemical state of water by 2015 is the result of several European texts and particularly 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. These texts provide for the elimination of priority dangerous substances in 2021 and other dangerous substances in 2028 from continental and coastal surface water.

To protect the receiving environment, the collection, treatment and discharge of urban, industrial and commercial wastewater is governed by Directive 91/271 of May 21, 1991, as amended, the objectives of which were confirmed and extended by the water framework Directive. 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 governing the production of drinking water, the treatment of wastewater and water pollution, as well as numerous administrative agencies involved in the enforcement of those laws and regulations. With regard to water policy, the Order 2012-34 of January 11, 2012 will simplify the control and application of pollution controls from July 2013. In addition, 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 into water. The law of December 30, 2006 on water and aquatic environments addresses EU requirements for high quality water and significantly modified French legislation on water as well as addressing EU water quality objectives for 2015. Accordingly, wastewater treatment plants of over 10,000 population equivalent (PE) and those of between 10,000 PE and 100,000 PE must implement dangerous substance search and reduction measures several times a year. In addition, Water development and management plans (SDAGE) take specific account of this water quality objective and the Order of January 25, 2010 sets out a water quality oversight program.

In addition to measures to preserve the quality and quantity of resources, the Planning Law no. 2009-967 of August 3, 2009 aimed at implementing the "*Grenelle de l'environnement*" decisions, known as the "Grenelle 1 Law", enabled the implementation of a blue infrastructure to preserve the ecological continuity of surface water masses. These objectives are taken into account in territorial planning, via "urbanism" and "water" planning documents. With regard to health aspects, measures must be taken to protect drinking water catchment areas of strategic supply importance and water emissions of certain toxic substances must be reduced by 2013. In the wastewater treatment sector, the aim was to bring all treatment plants up to standard by the end of 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 supervisory role of territorial bodies for non-collective wastewater treatment and requires municipalities to draw up a collective wastewater treatment policy before the end of 2013.

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

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 and NFU 44-051 standards strictly regulate the composting of material produced by the treatment of wastewater and compostable food and/or household waste.

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

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

Furthermore, through Directive 2003/87/EC of October 13, 2003, the European Union implemented an allowance system for greenhouse gas emissions, targeting carbon dioxide only. Waste incinerators are excluded from this system.

In France, pursuant to the provisions of Articles L. 511-1 *et seq*. of the Environmental Code (*Code de l'environnement*) relating to facilities classified for the protection of the environment, several decrees and ministerial and administrative orders establish rules applicable to landfill sites for hazardous and non-hazardous waste. These orders govern the design and construction of waste processing centers, among other things. Hazardous waste is subject to strict monitoring at all stages of the processing cycle. It is tracked using a waste monitoring slip (*bordereau de suivi des déchets* - BSD). Since July 1, 2012, producers/holders of non-hazardous waste, subject to exonerations, must keep a chronological register in the same way as for hazardous waste. 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 NOx 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. This 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 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. Decree no. 2012-602 of April 30, 2012 sets out the procedure for obtaining end-of-waste status (in accordance with European and domestic criteria): this procedure is authorized by the minister for the environment for waste categories and by the prefect for specific waste recovered in a given installation. For installations authorized from July 1, 2012, the financial guarantee applications scope was extended to encompass the majority of installations classified as waste transit, grouping, sorting or treatment installations. For existing installations as of July 1, 2012, financial guarantees must be progressively constituted from July 1, 2014, or July 1, 2019, depending on the relevant installations.

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

Energy Services

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

Directive 2001/80/EC of October 23, 2001 regulates the construction of large combustion plants and requires compliance with national emission ceilings for certain atmospheric pollutants, such as sulfur dioxide, nitrogen oxides, dust and volatile organic components.

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, European regulation no. 1005/2009 of September 16, 2009 requires the strict management of substances that destroy the ozone layer and, in particular, refrigerating fluids such as chlorofluorocarbon and hydro-chlorofluorocarbon that are used in cooling plants. *Inter alia*, it sets rules for the recovery and destruction of fluids and a timetable for the elimination of certain substances.

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

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.

Since 2012, European Directive 97/23/EC of May 29, 1997 (DESP) sets design and manufacture requirements for pressure equipment and imposes an inspection of the compliance of this equipment and housing units.

The enactment of these European directives is organized by each Member State to meet the deadlines set in the document.

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.

Accordingly, Articles R.512-55 to R.512-66 of the Environmental Code requires a periodic inspection by approved companies 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.

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

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 201/75/EU of November 24, 2010, the systematic application of “Best Available Techniques” (BAT). A draft decree currently proposes to replace all these texts and enact the IED Directive.

Decree no. 2007/737 of May 7, 2007, which is integrated into the Environmental Code, supplements Regulation (EC) no. 842/2006/EC of May 17, 2006 and regulates the conditions of the market release, use, recovery and destruction of substances used 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.

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

In relation to managing the risk of Legionnaires’ disease, the World Health Organization published guidelines in 2007 entitled ”Legionella and the prevention of Legionellosis”. This was followed in 2011 by guidelines covering Water Safety in buildings.

At European level, 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), 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. This order supplements a number of texts already covering the management of the risk of bacteriological development, such as legionellosis, in domestic hot water networks. Cooling towers (classified as cooling installations based on the circulation of water in an airstream) must comply with the general requirements applicable to installations classified for the protection of the environment as subject to reporting requirements under heading n°2921.

In Spain, decree (*real decreto*) 865/2003 of July 4, 2003 establishes criteria for the quality of water and the frequency of inspection procedures, as well as for when action must be taken once certain limits are exceeded. A range of descriptive procedures set the action and liability framework. A Spanish standard-setting association has issued guidelines on the subject (100030IN).

In the United Kingdom, an Approved Code of Practice (ACOP L8) issued by the Health and Safety Executive is applicable in full and largely inspired similar procedures applicable in Flanders (Belgium), the Netherlands, Ireland and at EWGLI.

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

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

In the United States, the Occupational Safety and Health Administration (OSHA) issues its own guidelines and action plans. The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) and the Cooling Technology Institute (CTI) have also issued recommendations. ASHRAE will publish Standard 188P (Prevention of Legionellosis Associated with Building Water Systems) in the near future.

Transportation

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

The objectives set by the European Union for reducing greenhouse gas emissions and fighting climate change have led to research programs to improve the environmental impact of heat engines and integrate hybrid and electrical technologies in the bus market. A series of European regulations, replaced by Regulation (EC) no. 595/2009 of June 18, 2009, have also been drafted setting EURO standards. These impose maximum atmospheric pollutant emission levels for heat engines. All new types of vehicle currently manufactured in the European Union comply with EURO VI standards since December 31, 2012 and these standards apply to all new vehicles from December 31, 2013.

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 maintenance and promote the rapid production of compliant vehicles. These texts were supplemented by Regulation (EU) n° 64/2012 of January 23, 2012 which specifies in greater detail the technical modalities for vehicle manufacturers to make technical information available for independent operators.

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

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

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

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

With respect to sustainable mobility, this law offers municipalities the opportunity to include self-service bike rental systems in their transportation offering. The law defines the car-sharing concept and creates a label, while the conditions of grant and use of the label were defined in Decree no. 2012-280 of February 28, 2012, as amended by Decree no. 2012-1196 of October 26, 2012. *Inter alia*, these texts set carbon dioxide emission ceilings for vehicles bearing the car-sharing label, applicable since November 1, 2012.

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

Finally, to favor the modal transfer of passengers, companies will be required to indicate on transport tickets the CO_2 emissions of transportation services. The date of effect of this measure was set at October 1, 2013. In application of the Grenelle 2 Law, decree no. 2011-1336 of October 24, 2011 set out a common calculation method applicable to all means of transport. This calculation method is based on values estimated directly by the operator, or fixed data defined in the Ministerial Order of April 10, 2012. In order to harmonize CO_2 emission calculation methodologies, the French Transportation Energy-Environment Observatory (OEET) drafted methodology guidelines to CO_2 reporting in the transportation sector, placed online in November 2012 by the Ministry for Ecology, Sustainable Development and Energy in conjunction with ADEME.

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

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

6.3.2 Environmental policy and information (Articles L 225-102-1 and R 225-105-1 of the French Commercial Code)

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

Environmental information encompasses all relevant activities over which the Group exercises operating control throughout the world. Within this scope, environmental information taken from the international environmental information system progressively rolled out since 2004 to over 2,300 entities, is fully consolidated.

This operational scope is wider than that imposed by article 225 of the Grenelle II law (articles L. 225-102-1 and R. 225-105-1 of the French Commercial Code), encompassing, for example, Proactiva (South America), Berlin Water (BWB) and Shenzen (China). The scope includes, for the first time this year, wastewater treatment installation design activities (Veolia Water Systems) and to a partial extent construction activities (e.g. SADE France) and excludes industrial water installation operating activities.

Furthermore, certain outsourced activities may be included and in particular waste management (e.g. biogas recovery) and transportation activities.

With the exception of the Environmental Management System (EMS), Veolia Transdev environmental data, including SNCM, is reported but not aggregated with Group data, reflecting the financial treatment of this activity in the course of divestiture (see Chapter 3, Selected Financial Information, above).

Account is taken of changes in group structure (acquisitions, company creations or contract wins, changes in investments, divestitures) after a full year of operation.

All the Group's foreign subsidiaries of the aforementioned activities are included in this information and the roll-out of the Environmental Management System described below and the objectives set for the Group as a whole are also broken down for the subsidiaries.

The information below should be read together with Veolia Environnement's 2012 Sustainable Development Report and 2012 Corporate Social Responsibility Performance Report for further information on the Group's sustainable development policy and actions.

As the application decree for article L 225-102-1 was only published during 2012, we were unable to collect certain information from the divisions within the required deadlines. This primarily concerned impacts on soil.

6.3.2.1 General environmental policy

The organization of the company to take account of environmental issues and, where appropriate, environmental assessment and certification measures and employee training and information on the protection of the environment; resources set aside for the prevention of environmental risks and pollution

The Group manages its environmental impacts using an EMS since 2002 and reports them since 2004. This system is largely based on ISO 14001 and is used by all Group divisions. It comprises four levels of responsibility: Group, division, business unit and site. At each relevant level, it enables environmental impacts and compliance with regulations and in-house company requirements to be assessed. Objectives are set and resources and actions plans implemented to attain them. The system also covers the prevention of accidental pollution and defines the resources to be implemented in the event an accident nonetheless arises and ensures such resources are operational.

At the end of the 2009-2011 plan, objectives were set for 2012-2014 based on an analysis of the materiality of Group environmental challenges (2012-2014 Environmental Plan, consistent with the Veolia Eau 2012-2014 and the Veolia Propreté and Dalkia 2012-2015 environmental plans).

Employee training and information in environmental challenges represents an integral part of the resources managed by the EMS, including the preparation of environmental training plans. The roll-out of these plans can be supplemented by specific division commitments to training (Veolia Propreté – train 90% of division employees in environmental challenges by 2015). The Campus Veolia Environnement network provides business units with access to an environmental training offering, prepared at the request of the Group business committees (see Chapter 17, Section 17.1.3 below). This is supplemented by training sessions organized locally based on identified needs.

Furthermore, in order to inform Group employees on the major challenges facing society in line with international and political current affairs, the Sustainable Development Department organizes Sustainable Development Surveillance meetings six times a year, with presentations by leading specialists in the areas covered.

The role of the Operational and Environmental Performance Department includes the roll-out and management of the Environmental Management System. It encourages consistent objectives and actions among the divisions, as well as the sharing of information and best practices. It heads an Environmental Steering Committee comprised of environmental officers from the divisions, responsible for communicating information and coordinating action plans in the divisions. In addition, a Sustainable Development Committee, led by the Sustainable Development Department and bringing together the VE departments and representatives of the divisions, studies the proposals and opinions of the various stakeholders and clarifies the implications for our businesses of the major sustainable development challenges.

A presentation on the environmental performance of the Group to Executive Committee members is planned based on 2012 results, in order to validate the strategic direction adopted for environmental performance and report on its roll-out.

Since 2007, a special team of internal environmental auditors, integrated into the Internal Audit Department in 2012 supervises the roll-out of the EMS within the business units.

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

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

No serious environmental incidents were reported to Group level pursuant to this procedure in 2012.

Compliance of Company businesses with applicable legislation and regulations

Veolia Environnement's Environmental Management system includes, among other things, an environmental audit program that allows it to monitor the regulatory compliance of sites, as well as their compliance with contractual obligations and Group standards (landfilling, legionnaire's disease). Veolia Environnement has defined a general framework to ensure the consistency of the audit systems developed by its divisions, each of which remains responsible for the definition and implementation of its own system. Roll-out is monitored during audits by the Internal Audit Department, with a specific focus on the Group's priority installations and sensitive activities.

Priority installations are drinking water production sites with a capacity of over 10,000 m^3/day and urban wastewater treatment plants with a capacity of over 50,000 eH, waste landfill sites (excluding inert waste) in operation, waste incinerators, physical-chemical waste processing plants for hazardous waste, hazardous waste recycling plants, Dalkia combustion installations with a thermal output greater than 20 MW and certain Veolia Transdev transportation centers (sites with a fixed fuel installation of over 80,000 liters or managing or receiving over 120 vehicles at least once a year or with a compression station of over 200kW).. These facilities have the greatest environmental impact within the Company. These activities were supplemented in 2009 by sensitive activities, with potentially, in the event of an accident, an environmental impact (e.g. cooling towers).

Environmental evaluation or certification

The roll-out of the Management System is concomitant to the internal environmental appraisal (ISO) and internal) of the Group's activities. In 2011, based on the divisions, Veolia Environnement undertook to implement an Environmental Management system covering 93% of revenue of relevant activities by the end of 2014. In 2012, the system covered 91% of revenue of relevant activities in the Water, Environmental Services and Energy Services sectors and 71% of revenue in the Transportation sector (i.e. 86.5% for the objective scope). The Group further strengthened its internal environmental management requirements in 2009.

This appraisal approach may be complemented locally by voluntary external certification, depending on the managerial stakes. Accordingly in 2012, some 55% of Veolia Environnement relevant revenue, including Veolia Transdev, was generated by ISO 14001 certified activities across over 20,000 sites.

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

Given the nature of its services, investment in the prevention of environmental risks and pollution accounts for the large majority of Veolia Environnement's expenditures and investments. Veolia Environnement industrial investment amounted to €2,361 million in 2012 (see Chapter 9, Section 9.3.2, below) and includes growth and compliance investments. The Group invested in employee training, certification programs and the implementation of the environmental management system. Its Research and Innovation budget was also renewed (see Chapter 20.1, note 19, below).

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

Provisions and guarantees for environmental risks

In the course of its activities, provisions and guarantees for environmental risks primarily consist of provisions for site closure and post-closure costs (encompassing provisions for site restoration, the dismantling of installations and environmental risks). They totaled €591.3 million in 2012.

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

Provisions for litigation used in 2012 totaled €82.9 million, encompassing all types of litigation (tax, employment and other litigation).

6.3.2.2 Climate change

Limiting greenhouse gas emissions

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

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

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

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

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

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

At international level, the Group seeks to generate emission credits, by participating in projects in partnership with other European or developing countries that help to reduce greenhouse gas emissions. Veolia Propreté has registered eleven projects since 2005 adopting Clean Development Mechanisms (CDM), one of the flexible mechanisms defined in the Kyoto protocol: three in Brazil, one in Egypt, three in Mexico, one in Argentina, one in the Bahamas and two in Colombia. The experience gathered during these projects is now used for new projects under development. The majority of these projects are now in the operational phase and have generated GHG Emission Reduction Certificates. One project is currently under development. Faced with the diversification of trading systems and platforms, Veolia Propreté also became active in other regions. Accordingly, where the regulatory context is not favorable, other mechanisms are used to incite and finance environmental investments such as the sale of credits or a voluntary market. For example, a Voluntary Carbon Standard (VCS) project has been launched in China and two Greenhouse Gas Friendly Program projects in Australia.

Veolia Energy has a Joint Implementation (JI) project currently in progress in Hungary.

Veolia Eau continues to study opportunities to obtain carbon credits for wastewater and sludge treatment projects, and in particular projects integrating biogas recovery. In 2012, Veolia Eau has a JI project in Bulgaria and several others are under review or in the course of development, primarily in Africa and Asia.

In addition to the regulatory framework, the Group has a robust environmental reporting system which encompasses the GHG emissions (scope 1 and 2) of all relevant businesses. For Veolia Eau activities, the Group monitors material scope 3 components relating to chemical products. The inclusion of these components will provide access to additional levers for reducing the Company's environmental footprint.

Methane production and emissions at landfill sites are measured using theoretical mathematical models. While the model used is recognized internationally, it can generate uncertainty, sometimes significant, as to the correct quantification of landfill site methane emissions. By improving its knowledge of waste and the physical, bacteriological and chemical phenomena involved, Veolia Propreté aims to improve the relevance of its reporting and reduce the uncertainty surrounding these diffuse emissions.

Veolia Propreté continues to implement and optimize biogas collection systems at its landfill sites where the Group controls investment and waste-to-energy recovery systems. The Company has set a methane capture objective for 2014 of 66% for all sites operated by Veolia Propreté[(1)]. This capture rate was estimated at 57% in 2012. With renewable energy at the heart of Veolia Énergie-Dalkia's strategy, biomass and geothermal energy is increasingly used. Combined with cogeneration and energy efficiency services, these new energies contribute effectively to the fight against climate change. This objective is steered by the monitoring of greenhouse gas emissions per MWh produced. In 2012 this ratio was 0.251 Teq CO_2 emitted/MWhth.

Three years ago, Veolia Eau launched an ambitious project entitled, "Water2Energy", to promote a reduction in GHG emissions by encouraging self-sufficiency and the sale of renewable heat and electricity generated on-site at all its installations worldwide. This policy is monitored as part of the energy efficiency of activities *(see Energy consumption – Energy efficiency and use of renewable energies)***.**

With total direct and indirect emissions of 45.2 million tons of CO_2 (carbon dioxide) equivalent[(1)] in 2012, the Group is working actively to reduce its impact on the climate, by setting emission reduction objectives in line with operational levers. These emissions comprise direct GHG emissions of 34.4 million tons of CO_2 equivalent (including 27.3 million from CO_2 emissions and 7 million from CH_4 emissions) and indirect GHG emissions of 10.4 million tons of CO_2 equivalent.[(2)]

In addition, Veolia Transdev GHG emissions totaled 3.3 million tons of CO_2 equivalent (direct emissions of 3.1 million tons and indirect emissions of 0.2 million tons). The Group contributed to reducing greenhouse gas emissions, both through the daily management of sites that it operates and through the use of renewable and alternative energies in the amount of 21.5 million tons of CO_2equivalent in 2012. This decrease in total emissions is attributable to energy recovery (2.7 millions tons of CO_2 equivalent) and material recovery (4.9 million tons of CO_2 equivalent) and to 13.9 million tons of CO_2 equivalent not emitted (overall reduction in GHG emissions compared with the baseline adopted for the Group).

(1) Excluding Proactiva.

(2) Indirect GHG emissions relating to purchases of heat are calculated historically using a Thermal energy emission factor corresponding to natural gas. The use of this emission factor will be revised in 2013 to better reflect the carbon diversity of national fuels.

Adaptation to the consequences of climate change

The Group manages adaptation to climate change both as a constraint at Company level and at the different sites operated and as a potential area of development by participating in the adaptation of its customers and in rolling out new activities.

Thus, by increasing the share of renewable or alternative energies in the energy mix and improving material recovery and the energy efficiency of installations operated, the Company offers services enabling customers to adapt to climate change by acting on the consumption of resources emitting greenhouse gases or by reducing emissions.

At Group level, adaptation to climate change is integrated into the risk mapping process covering all Company short- and medium-term risks. Climate change risks are identified considering resources, regulatory and market changes, purchases and economic risk.

Conclusions of assessments performed at country/activity level and for the group as a whole are presented to the Risk Committee, which implements the appropriate actions plans where necessary.

At business unit level, adaptation to climate change is integrated into the analysis of environmental risks and challenges performed locally, integrating relevant regulatory changes, resource availability the identification of additional requirements/volumes and necessary process changes. These analyses are covered by the action plan steered at entity level and form part of the company's environmental plan through the carbon and water footprints of entities and energy efficiency plans.

6.3.2.3 Pollution and management of household waste

Prevention, reduction and repair measures for air, water and ground emissions with a serious impact on the environment; waste prevention, recycling and elimination measures; noise pollution and other types of activity-specific pollution

Air emissions other than greenhouse gas emissions

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

Installations, and primarily incineration installations, operated by Veolia Environnement mainly emit sulfur and nitrogen oxides (SO_X and NO_X), carbon monoxide (CO), halogenated derivatives (HCI, HF), heavy metals (Hg, Cd, TI, Pb, etc.) and dust. SO_X emissions from waste incineration units (hazardous and non-hazardous waste) totaled 71.9 grams per ton of incinerated waste in 2012.

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

Dalkia 2012 emissions represented around 42,000 tons of NO_x and 51,000 tons of $SO_{x,}$ assessed for the first year using a consumption-based model.

Water pollution

Through the roll-out of the Environmental Management System and over and above regulatory restrictions, water emissions (including prevention, reduction and repair measures) are managed locally for all activities. In addition to local measures, roll-out objectives (80% of sites In 2014) for Company-wide action plans seeking to reduce the water consumption of Veolia Propreté installations and increase the reuse of treated wastewater (2014 Objectives presented in Section 6.3.2.4, paragraph 1) immediately reduce installation emissions.

In quality terms, the wastewater treatment efficiency (DB05) of biological treatment stations operated by the Group with a capacity greater than 50,000 population-equivalent, was 95% in 2012. 2012 collection volumes were approximately 6,670 million m^3, and a population equivalent of close to 71 million is connected.

Finally, flow monitoring systems covering a number of micro pollutants considered dangerous to the environment were implemented pursuant to the Water framework directive, particularly in France, to assess the impact of wastewater treatment plant emissions on the ecological state of bodies of water. Veolia Environnement's center of environmental analysis has developed regulatory analysis techniques and offers customers a comprehensive range of monitoring services (sampling and analysis). Veolia Eau has also developed biological tools measuring the impact of these emissions on target organisms. Where necessary, Veolia Eau proposes the implementation of additional treatment solutions reducing or eliminating emissions of dangerous substances into the natural environment.

Ground pollution

The Group ensures the correct storage and use of materials employed in its activities, in order to avoid infiltrations or accidental spillage leading to pollution, particularly with respect to the storage of fuel or other liquids at sites operated.

In addition to the application of good operating rules, this issue is covered by our risk management and insurance policy (see Chapter 4, Section 4.2.2.4 above).

Veolia Environnement is also active in the ground restoration and maintenance sector through the restoration of contaminated soils and agricultural recycling of waste and wastewater treatment sludge.

This, in 2003, Veolia Environnement integrated all activities relating to the treatment and recovery of sludge within a single entity, SEDE Environment. As a result, Veolia Environnement has a precise, global and integrated overview of sludge management options, allowing it to optimize its agricultural recycling in particular.

The Group proposes the implementation of monitoring systems covering emissions into the wastewater network (Actipol method developed by the Group), to enable action to be taken upstream to improve the quality of sludge produced. Veolia Eau has finalized certification guidelines defining requirements applicable to wastewater treatment systems for the production of quality sludge to be used in agriculture. Downstream, Veolia Environnement promotes the agricultural recycling of sludge through composting and engages an independent certifying body to audit its composting and agricultural recycling networks.

This recycling is conducted in conjunction with the agricultural recycling of the fermentable fraction of household waste. The Group produced 990 thousand tons of compost in 2012 and 48% of sludge produced was used as fertilizer in agricultural activities. The Group has initiated a quality enhancement program for organic material produced from organic waste and a program to assess its agricultural impact (the Quali- Agro program led by CRPE – Veolia Environnement's center for research for Environmental Services and Energy Services - in coordination with INRA).

The Group is also active in the rehabilitation of polluted soils. Using several processes, including thermal desorption, Veolia Propreté processes almost all the pollutants present in the soil at industrial sites.

Noise and olfactory pollution

Noise pollution is taken into account in the local roll-out of activities, as is olfactory pollution and other pollution specific to each activity. The identification of Significant Aspects and Impacts during the roll-out of the EMS can help local management identify challenges specific to these types of pollution and take the appropriate measures. Thus, local discussions were held on the operating hours of regulated installations and of collection activities. Veolia Environnement has also developed new processing and storage techniques for odors, particularly in wastewater treatment plants and waste landfill sites. Veolia Environnement also uses new and more silent technologies in some of its installations, including special wall coatings, sound traps and exhaust gas exit silencers for cogeneration installations and transport vehicles.

Waste

Through its Environmental Services division, Veolia Environnement is fully committed to developing sectors for the material and agricultural recycling of waste, as well as the waste-to-energy sector. In 2012, the Company processed 54.4 million tons of waste, with 10.1 million tons directly incinerated and nearly 22 million tons placed in landfill sites. In this sector, 14 million tons of landfill waste contributed directly, as a result of site equipment, to waste-to-energy recovery. In addition, the Group is naturally attentive to the generation of waste by its own installations and those it operates. Accordingly, the Group set a material recovery target for all Veolia Propreté activities of 26% in 2014. This rate was 19.6% in 2012.

Veolia Propreté uses the most innovative technologies in its waste recycling activities, to widen the range of recyclable sources and increase the recovery rate, which is heavily dependent on the quality of sorting. The Group has therefore multiplied its efforts to improve its recycled raw material identification, separation and preparation processes. It has created new waste processes for household and industrial waste, potentially attaining a recovery rate of up to 70% in its high-performance sorting centers.

In 2012, the Group treatment procedures generated 3,095 thousand tons of waste, primarily tied to waste treatment volumes. It seeks to reduce production and looks for possible recycling outlets and, where none exist, it treats any waste produced.

Bottom ash is the non-combustible residue produced by incineration. Its recovery is subject to strict regulation. Depending on its composition and potentially after a period of maturation, it can be recycled as road construction material (France, United Kingdom).

Wastewater treatment produces sludge, which is a concentrate of the organic and mineral material previously contained in the water. Veolia Environnement has an analysis tool covering health and environmental impacts, enabling the most appropriate recycling outlet or treatment approach to be chosen locally for the sludge. When sludge quality and the availability of recipient soil allow, agricultural recovery offers a possible outlet, as does methane production, incineration and storage with waste-to-energy recovery and wet air oxidation. In 2012, 1,136 thousand tons of sludge was evacuated and 28.8 thousand tons of compost produced, thereby reducing the quantity of raw materials consumed by recipient soil.

The majority of waste produced by Dalkia (soot and bottom ash) is due to the combustion of wood and coal at its installations. Improvements to combustion techniques seek to limit production. Waste is treated or recycled in accordance with local regulations.

6.3.2.4 Sustainable use of resources

Water consumption and supply taking account of local restrictions; raw material consumption and measures taken to improve utilization efficiency; energy consumption and measures taken to improve energy efficiency and recourse to renewable energies; soil use

Consumption of water resources and supply taking account of local restrictions

Veolia Environnement preserves water resources by working to prevent wasteful usage in its own installations and in those of its customers. In this respect, water consumption is variable and must be reported for all Veolia Environnement activities. As the Company has committed to reducing leaks by 5% by 2014 compared with 2011, action plans focus primarily on controlling leaks in the cold water distribution network (raw or treated) and managing water abstraction. Water loss was approximately 2,144 million cubic meters in 2012. Veolia Environnement's industrial water consumption (water consumption for the requirements of its activities) is estimated at 289.4 million cubic meters in 2012 for Veolia Eau plant needs and several tens of million of cubic meters for the other divisions for the cooling or cleaning of installations. Steps are being taken to improve the uniform reporting and consolidation of the latter figure within the Group.

Climate change in certain regions of the world heightens stress on water resources. Global water stress maps are available on the intranet to enable managers to prioritize their water footprint challenges based on the local context and regional stress on water resources.

To help preserve water resources, Veolia Eau is committed to a 10% increase in the volume of water reused from collected and processed wastewater by 2014 compared with 2011, and offers a wide range of solutions from optimizing existing resources (resource monitoring, long-term management of abstraction, reasoned use of resources) and protecting resources (identification of chronic sources of damage to resources, prevention of accidental pollution, establishment and supervision of protected areas), to developing alternative resources (re-use of water, recharging groundwater, sea water desalination). These developments are conducted in close association with local authorities, regulatory bodies and the scientific community. In addition, Veolia Eau develops and proposes tools enabling customers and consumers to control their consumption (individual meters, awareness-raising measures, price incentives).

The Company is committed to implementing actions plans to reduce the water consumption of Veolia Propreté activities at 60% of sites by 2014 and 80% in 2015. These actions primarily include the prioritization of water consumed according to source (rainwater, surface water or ground water), for example by using the retention basins present at numerous installations for washing vehicles and ground areas. Actions also focus on the internal recycling of process water at incinerators, physical-chemical treatment centers and landfill sites (leachate). Recycled rainwater is also used to wash waste transport vehicles and installations.

Raw material consumption and efficiency

Given the Company's activities, the primary raw materials consumed are tied to the chemical products used. The Company has integrated the optimization of raw material consumption and utilization efficiency at several levels of the organization. On an economic front, a cost reduction objective integrating raw material procurement gains was adopted and broken down across all activities, requiring a reduction in the consumption of certain raw materials. In addition, given the relative weight of processing reagents in the raw materials consumed by Veolia Environnement, their utilization was adjusted to reduce consumption. This is performed in conjunction with the Company's greenhouse gas reduction objectives. Accordingly, Veolia Eau will include the section relating to the consumption of reagents - indirect greenhouse gas emissions tied to the corporate value chain (scope 3) of the GHG Protocol - in the greenhouse gas emission reports of its installations in order to optimize their use and reduce related greenhouse gas emissions, without reducing water treatment efficiency.

Firmly committed to the recovery chain, and particularly the recovery of materials, waste entrusted to it for treatment and by-products of its activities, Veolia Environnement contributes to reducing third party consumption of raw materials by making recycled raw materials available to them. Veolia Environnement set a material recovery objective of 26% for Veolia Propreté activities in 2014, to help push forward work already commenced, improve utilization efficiency for waste entrusted to it and increase the volume of recycled raw materials generated (paper, plastic, etc.), thereby reducing the resource footprint of third parties.

Energy consumption – Energy efficiency and the use of renewable energies

Veolia Environnement contributes to reducing primary energy consumption, by reducing its own consumption, improving the energy efficiency of the installations it manages and producing energy from renewable sources.

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

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

Veolia Environnement therefore set specific objectives for its different activities, to enable more detailed management of this challenge. Biomass fuel consumed by Dalkia activities must represent at least 8.5% of total fuel by 2014. In the longer term, the target share of renewable energies in the energy mix for activities in the European Union is 20% in 2020. Actual percentages in 2012 were 7.8% and 11%, respectively.

In a bid to reduce its energy consumption, Veolia Eau performs energy audits and has implemented an optimization program which seeks to encourage innovation, accelerate the perfection and adoption of clean water treatment technologies and offer customers sustainable solutions. An increasing number of wastewater treatment plants are excellent examples of energy efficiency, such as the Braunschweig plant (275,000 population equivalent) which produces more energy than it needs to operate. In addition, the replacement policy for electro-mechanical equipment constantly seeks to optimize energy consumption. The expected energy efficiency gain for wastewater treatment activities is at least 5% in 2014 compared with 2011. Energy efficiency was 2 Wh/g DBO5.

In a bid to reduce energy consumption, Environmental Services activities are committed to implementing new energy efficiency plans in 60% of sites by the end of 2014. Concomitantly, the development of waste-to-energy recovery at waste processing plants such as landfill sites and incinerators, enables the use of external energy sources for operations to be reduced and energy to be supplied to third parties. Accordingly, Veolia Environnement undertook to increase its production of renewable energy from waste by 7.5%, while helping customers reduce their primary energy needs

through recycling and the preparation of solid recovered fuels. Renewable energy produced from waste represented 4.1 million MWh in 2012.

Overall, 168.1 million MWh of thermal and electrical energy was consumed in 2012 to deliver our services in the Water, Environmental Services and Energy Services sectors and 12.5 million MWh was consumed by Transportation division activities.

14% of Veolia Environnement energy (thermal and electrical) was produced from renewable sources.

Use of soils

Ecological management

The Group's landfill sites and water treatment and production sites cover the largest areas. However, these land areas are not fully sealed and the design of these sites and the operating methods implemented by the Group seek to minimize the footprint of its activities by maximizing the percentage of soil favorable to the maintenance and development of biodiversity.

As part of its biodiversity approach (see below), the Group continues its work on the ecological management of land. Conditions governing the use of soils are included in site operating rules and are consistent with the Group's ecosystem management commitment (pillar 1 of the biodiversity policy).

Redevelopment of landfilling cells

The operation of a landfill site requires landfilling cells to be dug and prepared. Where the Group is responsible for this task, it complies with all obligations regarding surface sealing and the recovery of excavated materials. Once used, the cells are covered as quickly as possible paying close attention to soil functionalities with regard to ecosystems. These measures encourage the development of local ecosystems. The cells are monitored for environmental impacts before being returned to general use.

When the entire site is redeveloped, monitoring is continued to ensure the species planted repopulate the area (post-operation phase). These stages are integrated into the site biodiversity action plans.

Protective perimeter around water catchment areas

Protective perimeters are established around catchment areas for water intended for human consumption to preserve the resource. Within these perimeters, certain human activities that could directly or indirectly affect the quality of water are forbidden or tightly controlled.

When the Group operates wellfields, it implements voluntary biodiversity-friendly actions (differentiated management of public parks, inventory of animal and plant life, etc.) such as those taken at the Crépieux-Charmy wellfield in Lyon.

These good practices are also favored in France at sites operated by the Company, in accordance with the good ecological management guidelines for Group sites.

6.3.2.5 Protection of biodiversity

Measures taken to preserve and develop biodiversity

Preserving biological balance, natural environments and protected animal and plant species

Veolia Environment integrated the protection of biodiversity into the first undertaking of its Sustainable Development Charter and in 2010 defined a biodiversity policy founded on four principles:

- controlling impacts on ecosystems;
- preserving biodiversity;
- conserving remarkable biodiversity;
- foreseeing needs.

This policy is to be rolled-out across all Group businesses, to preserve ecosystems, restore and foster urban biodiversity, protect remarkable ecological areas near our sites and improve understanding of the dynamics of ecosystems, differentiated according to the nature of sites.

The Group identifies these ecosystem impacts, in addition to regulatory physical-chemical and biological factors, using internal expertise within the divisions and the Research and innovation department, which primarily focuses on analyzing biological tools. Moreover, the Group works with a number of universities, associations and institutions in order to further its knowledge through innovative research programs covering the interaction of its activities and the functioning of ecosystems.

To improve the structure of its policies, the Group uses a methodology enabling sites to carry out their own biodiversity appraisals and to implement action plans adapted to the local biological context. The 2012-2014 environmental plan includes the monitoring of action plans implemented, with in particular for Veolia Propreté activities, an action plan implementation objective of 75% for sites facing considerable biodiversity challenges.

In several countries, the Group's main activities are subject to environmental protection regulations (Facilities Classified for Environmental Protection (ICPE) in France or their equivalent). Therefore, all business development is conducted in tandem with the preparation of environmental impact studies comprising a highly detailed section on animal and plant life. The management of these impacts is, accordingly, a constant concern for the operating staff of Veolia Environnement's different businesses (waste processing, decontamination stations, combustion facilities, rolling stock depots, etc.).

Beyond the strict regulatory framework, the biodiversity policy is implemented at each of the Group's sites as part of the roll-out of the Environmental Management System (EMS). In parallel, specific measures have been performed and monitored for a number of years: the sustainable management of green (Veolia Eau: Braunschweig, Germany) and maritime areas, the roll-out of diagnostic guidelines and a local partnership with the Malaysia Terengganu University at the Dungun site (Malaysia) and the preservation of ecosystems in the development of sites and their surrounding areas - Graulhet and Saint-Cyr-des-Gats hazardous waste landfill sites in France, which received the Noé Conservation label and the Marchwood incinerator and the Coalmoor and Smalley Hill landfill sites in the United Kingdom which received Biodiversity Benchmark certification from the Wildlife Trust in the United Kingdom.

In order to improve the awareness of all internal players and provide them with recognized tools, the Group introduced an Atlas of sustainable development responsibilities and opportunities, integrating in particular areas of biodiversity interest identified by Conservation International and the different categories of protected areas classified using the International Union for Conservation of Nature (IUCN) international classification, supplemented by an ecological management manual for sites operated in France and translated for operators outside France.

In 2008, the Company entered into a partnership with the French Committee of the IUCN, strengthening Group actions in favor of biodiversity. In 2012, for example, ecological management forms were produced and collective work on corporate biodiversity reporting undertaken in this context. IUCN France comprises 55 members (government ministries, public institutions and NGOs) and a network of approximately 250 experts. At international level, IUCN has been a United Nations observer since 1999.

In France, Veolia Environnement signed up to the French National Biodiversity Strategy (NBS) launched on May 19, 2011, demonstrating its commitment to NBS's vision, ambition, objectives and governance principles. The Group will present its voluntary commitment dossier in 2013 materializing its commitment.

The Group has also participated in international studies, primarily through the work of the WBCSD (Ecoystem Services Review (ESR), Corporate Ecosystem Valuation), with a case study focusing on the Berlin site. This study was supplemented in 2012 by a biodiversity compatibility case study. The integration into its activities of the principles of the Convention on Biological Diversity (CBD) is highlighted in "Responding to the Biodiversity Challenge – Business contribution to the CBD", and was the focus of a presentation in 2010 during the tenth Conference of Parties (COP 10) convention in Nagoya. A follow-up presentation was made in 2012 to the COP 11 convention in Hyderabad. Finally, enhancing the value of ecosystem services is the subject of case studies within the Group. Improving our understanding of ecological balance and sharing this knowledge by increasing awareness and communicating on biodiversity, are supplemented by the activities of the Veolia Environnement Foundation. For example, each year since 2010, the Foundation has financed the preparation of a Red list of threatened species in France by the French Committee of the IUCN and the National Museum of Natural History (see below).

6.3.3 Corporate sustainable development commitments

6.3.3.1 Regional, economic and social impact of the Company's activities

On employment and regional development

Veolia Environnement contributes to the economic and social development of the regions where it operates, not only through the performance of delegated public services, but also through significant investment in the repair, maintenance and development of infrastructures.

The majority of income from Group activities is "redistributed" to the various stakeholders, such as company employees, suppliers and external service providers, local and national tax authorities, banks and bondholders(1).

Furthermore, through its management approach and its Human Resource and Purchasing policies, the Group is a major contributor to employment and employability in the regions where its operates, as well as to qualifications, equal opportunity and welfare protection for its employees and those of partner companies and organizations (suppliers, partner associations, etc.). Of the Group's current workforce of **318,376 employees**, **217,522** employees have followed at least one **training course**. The Group also welcomed **4,654 interns** and **4,925 trainees under work-study contracts** in 2012.

Veolia Environnement's activities represent a significant number of jobs and it has a duty of solidarity with the regions and populations that provide its income.

These jobs not only account for the majority of green jobs but they are also, by their very nature, impossible to relocate and to a significant extent are open to low-skilled individuals. In this way, **Dalkia** created over **1,000 local jobs** in France and more than **3,000 worldwide** thanks to the biomass sector in 2012. The Group's training policy (see Section 17.1 below) bears witness to Veolia Environnement's commitment to facilitating the return to work of job seekers and training them in its businesses, through its regional Campus network, working closely with local partners.

Group companies also develop initiatives aimed at favoring employability through:

- prioritizing external recruitment under work-study contracts and, in particular, bringing young people into the workplace (vocational training contracts and apprenticeships);
- partnerships between Veolia campus and Epide "second-chance" schools, a national network of local branches, introducing our businesses to young people most alienated from the workplace and defining an apprenticeship training program for those who desire;
- recruiting employees with special needs or disabilities - Veolia Propreté signed the Charter for the professional integration of disabled persons and an agreement with AGEFIPH (a French government agency promoting the employment of disabled people);
- support for social integration programs: welcoming individuals into Veolia contractual activities or activities performed in partnership with integration structures (recycling/re-use, sorting of office paper of small companies, etc.). Veolia Propreté has signed partnership agreements with the ENVIE and ELISE associations.

Professional integration is also supported by the Veolia Environnement Foundation, which has made job counseling and strengthening social cohesion one of its three priority areas. It supports, in particular, initiatives and structures that encourage the return to work of people outside mainstream society: building sites, associations and companies that foster the return to work through economic activity, training projects, social assistance, solidarity entrepreneurial activities and microloans, etc. The beneficiaries of these projects are primarily young people in great difficulty, individuals receiving minimum benefits and long-term unemployed and individuals receiving social assistance. Over **300 projects have received support** to date. A study of Professional Integration patronage by the Foundation (2004-2009) showed that supported structures help **7,000 individuals each year.**

In particular, the Veolia Foundation is a partner of ADIE, ARES group, the La Petite Reine association, the Sport dans la Ville association and Secours catholique.

Furthermore, eager to promote equal opportunity, Veolia Environnement gave its support this year to the Foundation for Equal Opportunity through a contribution to fund Excellence Boarding Schools.

(1) The percentage of revenue distributed will be available in the 2012 CSR Performance Digest.

The Group also contributes to the development of social dialogue in the general interest and to improving local working conditions in particular in emerging countries, where it encourages the creation of discussion bodies with employees and proposes improvements such as healthcare coverage.

Veolia Environnement also participates in regional development through various partnerships in the different regions where it operates[(1)].

Finally, the Group plays a role in the Greater Paris Metropolis through its Metropolis Mission created in 2010 (see Section 6.2. above).

On neighboring and local populations

Through its contracts, Veolia Environnement's main contribution to society lies in the development and maintenance of sustainable access by inhabitants, and in particular the poorest among them, to the services entrusted to it, and accordingly the wellbeing of the population.

Through contracts with local authorities, the Water division provides drinking water to **101 million** people, and wastewater services to **71 million** people, the Environmental Services division provides **waste collection services to 54 million** people and the Energy Services division supplies **heating** to **11 million** people worldwide (including 5 million in France).

In 2012, Proactiva provided **19 million** of these individuals with access to drinking water and wastewater services and managed waste services for **22 million individuals**.

In the course of its activities in developing and emerging countries, the Group connected **over 4.5 million people to drinking water networks**, **over 2 million people** to wastewater services and **nearly 2.5 million people to electricity networks**, particularly through social connection programs in Morocco and Latin America, thereby contributing to the attainment of the Millennium Development Goals.

In developed countries, the Group is eager to maintain access to services by the poorest in society. To this end, Veolia Eau launched a series of solidarity solutions entitled "Water for all". **27 initiatives** have been launched to date, concerning over **200 municipalities** and nearly **5 million people** in France.

This program combines three types of assistance: (1) emergency solutions to maintain access to water service by offering different forms of financial assistance appropriate to the individual situation: a payment schedule, debt write-off or water vouchers, (2) assistance solutions to help manage budgets and water consumption over the long term and (3) prevention solutions to alert people to unusual over-consumption.

In 2012, the Water division granted **156,681 payment schedules** and **20,140 water vouchers** were used to pay bills. The Water division also participates in the FSL (Housing Solidarity Fund) system: **22,401 FSL requests** were accepted in 2011[(2)].

Outside France, the Water division implements several measures providing the poorest members of society with access to basic services: social connection programs, social pricing, flexible payment agreements, social support funds. Use of these different tools varies depending on the local context.

The Veolia Foundation also participates in extending access to essential services through its international solidarity activities (humanitarian emergencies and development assistance). In 2012, the Foundation mobilized the expertise of **Group employee, who spent 870 days** in the field.

(1) See Section 6.3.3.2. - 2. Partnership and Corporate patronage actions.

(2) The number of FSL requests accepted in 2012 will be available in April 2013.

6.3.3.2 Relations with individuals and organizations interested in the Company's activities

Dialogue with Company stakeholders

Group companies are in constant dialogue with all stakeholders. The management of essential services necessitates the support of consumers and the various stakeholders for the level of service and price demanded. Dialogue with all stakeholders is therefore a prerequisite to the efficiency and legitimacy of operations.

The Group created an Independent Visiting Committee (IVC) in 2006 at head office level, comprising ten people tasked with providing their opinion on the sustainable development direction taken and adding to Veolia Environnement's strategic vision in this area. Once a year, Group Executive Management presents its strategy, research and initiatives to the IVC. The Committee was unable to meet in 2012 and will be replaced in 2013 with a new committee currently in formation.

In addition, Veolia Environnement regularly exchanges ideas with institutional stakeholders (associations, international organizations, universities, labor unions, etc.) through various think tanks (working groups, conferences, international events) and has formed partnerships with several of them (see below).

At local level, the public-private partnership model for the provision of public services favors constant dialogue with local authorities and administrations. Accordingly, the appropriate discussion bodies are clearly defined at the heart of Group contract governance and the frequency and format of interaction is contractually documented.

The split of responsibilities between the organizing body and the service operator, particularly concerning ownership of infrastructure and price setting, often requires clarification with non-contractual players.

The Group divisions therefore develop local initiatives to foster dialogue on their activities with their clients, local communities, and inhabitants of the region: neighborhood meetings, meetings with elected representatives, local associations, site visits and open days to inform the general public, etc.

This dialogue with local stakeholders therefore involves:

- the implementation of a local management structure to respond to the information and service requests of all inhabitants, which respects their diversity and covers the entire area;
- regularly informing local stakeholders concerned and/or interested by access to services and changes therein;
- client satisfaction surveys: these seek to assess service progress and the benefits enjoyed by users and also to better understand the reasons for dissatisfaction and expectations;
- consideration of the informal sector, such as in Colombia, through the roll-out of a "CET President" social inclusion program for rag-pickers in Cali. Following the launch of an action plan aimed at formalizing the activity, **100 rag-pickers created a recycling cooperative**. The project was designed and implemented between 2002 and 2008 by Proactiva. The company assumed the entire financing of the project (including training and the creation of cooperatives) and mobilized other local players to provide health, food and education commitments. Following a consolidation phase in 2008-2012, the cooperatives now operate independently and the company is preparing the out-sourcing of certain services

Partnership and Corporate patronage actions

Veolia forms various partnerships either as part of:

- its activities with associations, in order to maximize the positive effects of its activities at local level;
- corporate patronage operations led by the Veolia Foundation.

In France, Veolia Environnement is a founding member of the National Union of PIMMS (UNPIMMS), the association owning the "PIMMS" brand and that federates and leads a network of local associations, in partnership with the French State, local authorities and local players where they operate.

The Company is also a partner of social entrepreneur players such as the Voisin Malin association, which carries out awareness-raising and mediation programs targeting inhabitants (information on entitlement to assistance and administrative support, help with reducing consumption, paying bills, etc.). Voisin Malin recruits and trains people living in difficult neighborhoods to discuss and explain the operation of public services to other inhabitants of these neighborhoods.

Veolia Environnement continued its partnership policy in 2012, retaining its focus on two directions: collaboration with institutional, national and international entities to enhance the Group's expertise and know-how in its difference businesses and measures to support the socio-economic development of the regions where the Group operates.

Veolia Environnement received the Sustainia award through its involvement in the R20 group, which brings together several major regions of the world sharing a common objective of fighting climate change: two projects (a zero-carbon emissions automobile production plant in Morocco and an IT data processing center energy recovery project in France) were recognized and presented during the Rio +20 international conference.

In addition, Veolia Environnement was confirmed as an active member of the World Urban Campaign led by the United Nations UN-Habitat program: during the World Urban Forum in September 2012 in Naples on "the urban future", the Group presented its high-performing and sustainable solutions for urban services, and was able to join a group of international experts charged with preparing the Habitat III Conference (2016) focusing particularly on the place of these services in strategic urban planning.

As a founding member of *Partenariat Français pour la Ville et les Territoires* (PFVT, French Partnership for the City and Regions) which brings together all urban planning players in France, Veolia Environnement also contributes its expertise to this platform for the export of urban knowhow and contributes to its studies and publications.

Finally, in the area of regional solidarity in France and independent of the work of its company foundation and local patronage actions performed directly by teams in the field, Veolia Environnement entered into **102 partnership agreements** in 2012, **79%** of which supported sport, **14%** socio-cultural activities and **7%** events such as seminars or conferences organized by associations.

Veolia Environnement also plays a major role in discussions on the future Greater Paris Metropolis, taking the initiative to create its own think tank to support the public debate through publications, participating in the organization of conferences and reflecting on the services of tomorrow.

Institut Veolia Environnement has an active dialogue with civil society and cooperates in particular with the academic world on various subjects.

Since 2011, the role of Institut Veolia Environnement (IVE), a non-profit association created by the Group and governed by the Law of 1901, is to foresee emerging environmental issues. It seeks to contribute to long-term reflection on universal challenges and provide an independent platform for dialogue. Backed by a mutli-disciplinary network of academic experts and development practitioners such as NGOs, it captures and develops reliable scientific knowledge and tried-and-tested expertise in the field, communicating it to all public and private players involved in sustainable development discussions.

Further information on IVE may be found on its website, www.institut.veolia.org.

Finally the Veolia Environnement Foundation has formed numerous partnerships in the areas of international cooperation, the transition to work and social cohesion and the environment, as described above.

Further information on the Foundation may be found on its website, www.fondation.veolia.com

6.3.3.3 Outsourcing and suppliers[(1)]

The purchasing policy and environmental and social challenges

Veolia Environnement's social and environmental commitments are integrated into the Purchasing process and supplier relationship management as part of the sustainable Purchasing policy. This policy contributes to improving the economic performance of the Group, foreseeing risks and engaging responsible measures with suppliers that are innovative and create value.

Buyers are made aware of the environmental and social challenges accompanying the Group's activities, to ensure their integration into the management of purchase categories. Accordingly, CSR commitments are included at the core of Veolia Environnement's Purchasing standards, awareness-raising measures are regularly performed and dedicated training sessions implemented. A comprehensive program supplementing existing sustainable Purchasing training sessions, and comprising a day's training and an e-learning validation session was developed in conjunction with Campus Veolia Environnement and rolled-out in 2012. At the end of 2012, **27% of referenced buyers** (excluding Veolia Transdev), who represent the majority of Group buyers, had followed a **training module in sustainable development challenges** during the last three years.

Furthermore, regular awareness-raising measures communicate on the monitoring of this sustainable Purchasing policy and strengthen the commitment of buyers to include these CSR challenges in their day-to-day practices. In 2012, **43 awareness-raising actions** were performed within the Group, through communications and internal activities, as well as externally with suppliers.

Depending on the purchase category, buyers can take account of certifications, identify eco-design opportunities and analyze life-cycle costs. They can also promote responsible behavior by contract users, for example by encouraging the optimization of consumption or by granting bonuses for the dematerialization of orders or reductions in the number of deliveries, etc.

Finally, Veolia Environnement has given commitments in this area to various key stakeholders and bodies: by contributing to the drafting of the Responsible purchasing standard published by AFNOR, by supporting various sector-based initiatives and by participating in committees of inter-company experts.

Integration of social and environmental responsibilities in relations with suppliers and sub-contractors

Buyers communicate the Group's CSR convictions and commitments to suppliers and monitor the management of related risks throughout the process, from selection to monitoring the supplier relationship. Appraisal and audit procedures assess performance and enable necessary improvement measures to be launched with suppliers.

Buyers communicate Veolia Environnement sustainable development commitments to suppliers, primarily using various tailored media available at each stage of the Purchasing process:

- the Veolia Environnement Suppliers Charter presents, *inter alia*, the Group's sustainable development commitments and supplier expectations;
- the Sustainable development questionnaire enables an assessment of the consistency of suppliers' commitments and practices with Group commitments;
- as part of the referencing process, sustainable development requirements are progressively integrated into supplier contracts via a specific clause. A standard clause, available to all buyers on the Group Purchasing Intranet, encompassing environmental, ethical and social issues and integrating Group health and safety and diversity commitments, can be adapted to reflect the specific challenges of each purchase category. At the end of 2012, **52%** of current contracts in the Group's contract database (excluding contracts managed by Veolia Transdev buyers) were reported by the buyers as including formal sustainable development requirements.

In addition, since 2010 the Purchasing function has developed a comprehensive CSR performance monitoring system for Group suppliers.

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(1) For further methodology details and additional information, please consult the reporting protocol available at http://www.veolia.com/en/group/suppliers/sustainable-purchasing/. Additional information will also be available in the CSR Performance Digest, published following the Annual Shareholders' Meeting of May 14, 2013.

Thus in 2012, a CSR risk mapping by purchase category was drafted in conjunction with the Risk Department. Based on standard CSR criteria (social, ethical and environmental) and purchasing challenges specific to the Group (expenditure amount, impact on energy consumption, business strategy), this mapping can be used operationally in the management of supplier relationships. Buyers can identify suppliers of the most exposed purchase categories and launch the necessary risk management measures, such as a CSR appraisal of active or potential suppliers. Performance is initially analyzed through a documentation audit performed by an independent service provider covering twenty-two criteria focusing on environmental, social, ethical and supplier relationship issues.

Since the launch of these appraisals in 2010, a panel of **four hundred** suppliers, both transversal and Group business-specific, representing 27% of referenced suppliers in the Group contract database (including contracts managed by Veolia Transdev buyers) has been assessed with respect to CSR performance.

Focused improvement measures through action plans and on-site audits are launched based on the results of these CSR appraisals, in accordance with the risk management process and as part of constant improvements. Since 2011, audits performed by external service providers are organized along the four lines of these appraisals. Each audit gives rise to a corrective action plan drafted in agreement with the supplier.

Alongside this system, certain entities have for several years carried out on-site audits of strategic suppliers using methodologies reflecting their specific challenges. All Veolia Environnement divisions have determined their own definition of strategic supplier, based on their activities and taking account, for example, of expenditures or risks (economic, environmental, social, etc.).

Extent of sub-contracting

Industrial, technical and service sub-contracting accounts for approximately one-quarter of Group external expenditure.

6.3.3.4 Fair practice

Measures taken to safeguard against corruption

Please refer to Chapter 4 of the registration document, Sections 4.3 “Audit and Internal Control” and 4.4 “Ethics and vigilance” above.

Consumer health and safety measures

Please refer to Chapter 4 of the registration document, Section 4.2.2.2.4 “Management of operational risks - Management of health and environmental third-party liability risks in respect of past and present activities”, above.

6.3.3.5 Human rights: actions taken in favor of human rights

For many years now, Veolia Environnement is committed to the respect for human rights not only in its activities but also in the regions where the company operates.

These action principles are rooted in international reference texts and in particular:

- the Global Compact

  Veolia Environnement joined the United Nations Global Compact on June 12, 2003 after an official decision by its governance bodies followed by a declaration of membership signed by its Senior Executive Vice-President. Since then, a permanent correspondent in New York has been monitoring our close relations and contacts with the Global Compact Board, which regularly meets with Veolia representatives. By undertaking to support and promote the Global Compact principles in its sphere of influence, this membership has become a major consideration in all aspects of the Group’s social responsibility policy;
- the Universal Declaration of Human Rights and Additional Protocols;
- the fundamental principles of the International Labor Organization[(1)];

(1) See Section 17.2, Respecting Fundamental Human Rights.

- the United Nations Convention against corruption;
- the Guidelines for Multinational Enterprises laid down by the Organization for Economic Co-Operation and Development (OECD).

In addition, projects carried out in numerous developing countries have shown that it is possible to reconcile service quality and accessibility and advocate respect for the human rights of the populations served.

After welcoming in 2010 the official recognition of access to water as a basic human right, Veolia Environnement, as a modest player given the scale of this challenge, continues to work with public authority partners to ensure this right is respected, though technically ambitious and socially innovative access programs.

Veolia Environnement also continues to respond to invitations from institutions involved in the application of this right and contributes its recognized technical excellence to help push forward this cause, combined with dialogue with all stakeholders to help produce shared solutions.

Alongside thousands of NGOs, local authorities and water players, the Group participated in the 6th World Water Forum in Marseille in 2012. On this occasion, commitments were presented on March 16, 2012 by the International Federation of Private Water Operators (AquaFed), of which Veolia Environnement is the Vice-Chairman. These commitments concern both good governance of water resources at local and international level and contribute to implementing a right to water and wastewater services.

Finally, employees are invited to take into consideration the impact of their actions and decisions.

Veolia Environnement's "Ethics, Commitment and Responsibility" program implemented in 2003 exists in nine languages and targets all employees. This corporate program seeks to guide the everyday behavior of Veolia Environnement employees. Since 2010, Veolia Environnement Executive Management has entrusted the implementation and control of the Group's ethics policy to the Group Secretary General.

Finally, these systems are completed by the Ethics Committee(1) which plays an observation and warning role.

(1) See Section 4.4.

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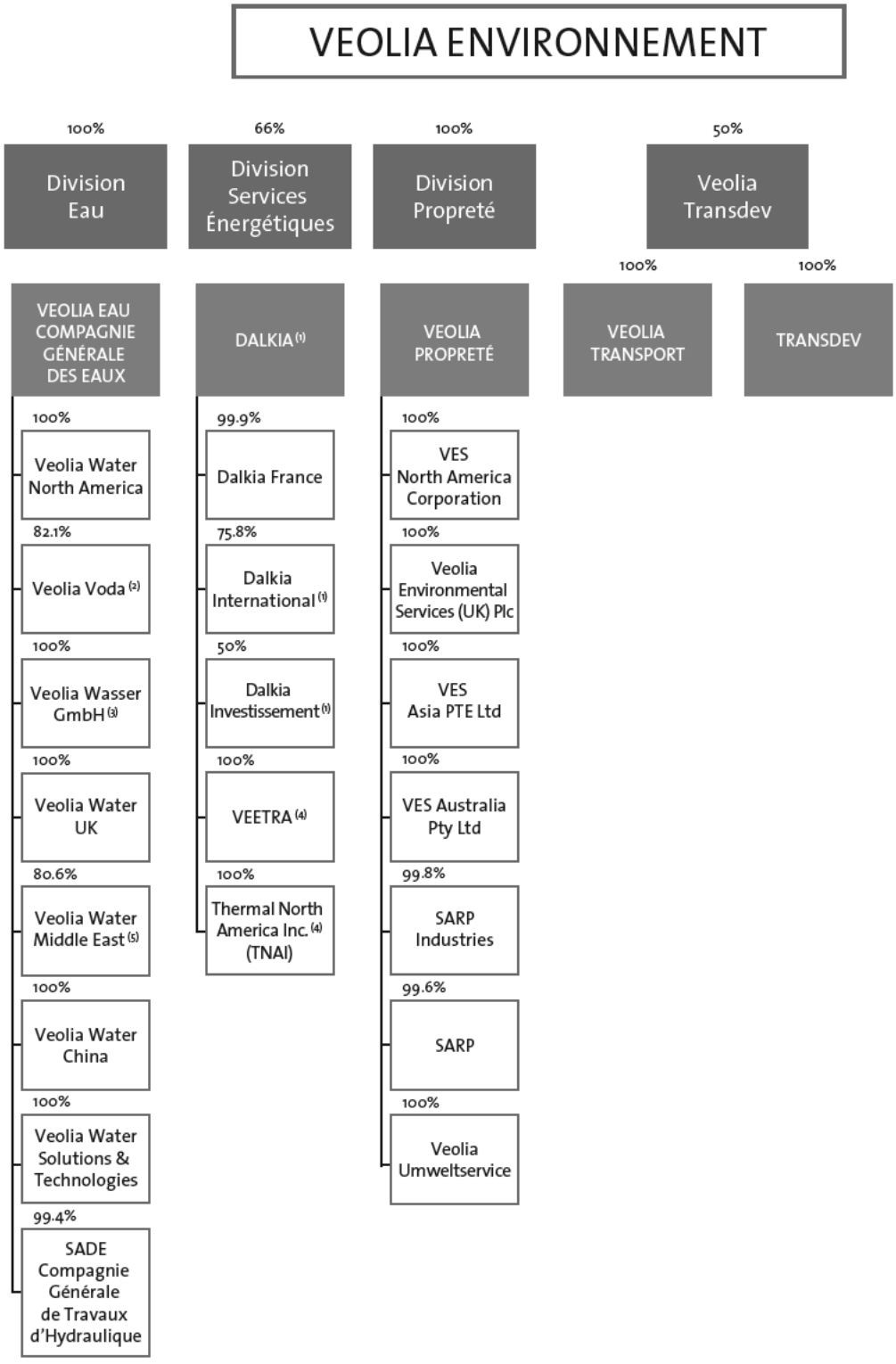
Organizational chart

The following simplified organizational chart sets forth the principal operating companies by Division held directly or indirectly by Veolia Environnement as of December 31, 2012. Unless otherwise indicated, the ownership percentages below reflect both the percentage of voting rights and of share capital held by Veolia Environnement or by the Divisions.

The list of the principal companies integrated into the consolidated financial statements in 2012 appears in Chapter 20, paragraph 20.1, note 42 to the consolidated financial statements (see below).



(1) The balance of the capital of these companies is held by EDF.

(2) On January 20, 2012, Veolia Eau – Compagnie Générale des Eaux acquired 78,315 shares from EBRD and therefore holds, at the time of writing of this registration document, 82.12% of this company's capital.

(3) This company comprises the Group's interest in Les Eaux de Berlin (Berlinwasser).

(4) Companies directly or indirectly wholly owned by Veolia Environnement.

(5) Wholly owned by VE-CGE after the purchase in August 2012 of Mubadala Developpment Company's stake.

Main financial flows between Veolia Environnement and its Divisions

The main financial flows between Veolia Environnement and its Divisions are described in the notes to the statutory financial statements set forth in Chapter 20, paragraph 20.2 below.

Veolia Environnement primarily finances its Divisions through loans and current accounts (net position of €6.4 billion as of December 31, 2012) and through equity; as a result it received €279.3 million in interest and €838.8 million in dividends in 2012. The Company has set up a system to centralise cash management in the main countries in which it operates and uses hedging, mainly at the Group level, in accordance with its risk management policy (see Chapter 20, paragraph 20.1, note 27 of the consolidated financial statements below).

For the main financial flows between Veolia Environnement and the Divisions concerning operations, Veolia Environnement charged the Divisions a total of €231.3 million, mainly corresponding to the provision of services and trademark royalties and temporary out-placement of personnel. In addition, in connection with contractual commitments relating to the management of expenses for the renovation of facilities made available by delegating authorities, the Company received from its Water and Energy subsidiaries €235.8 million in renewal indemnities and paid to the Water and Energy subsidiaries €247.2 million in 2012.

In connection with operating activities, Veolia Environnement granted financial and operational guarantees worth €2,260.6 million as of December 31, 2012.

As of December 31, 2012, EDF group directly holds 34% of Dalkia's capital and 24.2% of Dalkia International. Veolia Environnement has exclusive control over Dalkia and joint control with EDF over Dalkia International.

The table below details the consolidated amounts of certain line items from the balance sheet (non-current assets, financial debt, cash and cash equivalents), of net cash flows from operating activities and of the amount of dividends paid in 2012 and recovered by the Company, as of December 31, 2012, broken down between Veolia Environnement and its three Divisions.

Information as of December 31, 2012

(in € million)	**Veolia Eau**	**Veolia Propreté**	**Dalkia[1]**	**Other subsidiaries[4]**	**Veolia Environnement**	**Total Consolidated Amount**
Non-current assets	1,486.1	4,837.8	4,234.7	733.0	11,282.1	22,573.7
Non-group financial debt[2]	-1,679.2	-788.1	-813.7	-180.4	-13,080.8	-16,542.2
Cash and cash equivalents less bank overdrafts[3]	479.8	172.6	170.9	142.3	4,293.5	5,259.1
Net cash flow from operating activities	940.9	827.9	591.8	331.4	159.5	2,851.5
Dividends paid during the period and attributable to Veolia Environnement	576.4	125.0	52.6	84.8	-	-

(1) Including TNAI.

(2) Corresponds to long-term borrowings + short-term borrowings +/- readjustment of cash instruments.

(3) Corresponds to cash and cash equivalents less bank overdrafts and other cash position items.

(4) Including Proactiva, Artelia and SNCM.

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Property, plant and equipment

Veolia Environnement uses various assets and equipment for the conduct of its activities, over which it exercises extremely diverse rights.

The total gross value of Veolia Environnement non-current assets (excluding other intangible assets) as of December 31, 2012 was €26,297 million (net value of €14,209 million as of December 31, 2012, representing 32% of total consolidated assets), compared with €30,971 million as of December 31, 2011 (re-presented net value of €18,563 million).

Under concession arrangements, Veolia Environnement provides public interest services (distribution of drinking water and heat, public transportation networks, household waste collection, etc.) to communities, in return for the payment of services rendered. These collective services (also referred to as general interest services, general economic interest services and public services) are usually managed by Veolia Environnement pursuant to contracts entered into at the request of public entities that maintain the control of the assets used to perform such collective services. Concession arrangements are characterized by the transfer of operating rights for a fixed term, under the supervision of a public authority and are performed using special-purpose installations built by Veolia Environment or that are placed at its disposal either free of charge or for consideration. Installations normally consist of pipelines, water treatment and purification plants, pumps etc. in the Water Division, incineration plants in the Environmental Services Division, and urban heating networks and heating and co-generation plants in the Energy Services Division.

Veolia Environment is usually contractually bound to maintain and repair installation assets managed under public service contracts. When necessary, related repair and maintenance costs are provided for in contractual commitments in the event of delays in the performance of work. The nature and extent of the Group's rights and obligations under these different contracts vary by the type of public service rendered by the different Group businesses.

Under outsourcing contracts with industrial clients, BOT (Build, Operate, Transfer) contracts, or incineration or cogeneration contracts, the Group may grant customers the right to use a group of assets in return for rent included in the total contract remuneration. Pursuant to IFRIC 4, the Group thus becomes a lessor with respect to these customers. The corresponding assets are therefore recorded in the consolidated balance sheet as operating financial assets.

The Group is also the outright owner of industrial installations, in particular for activities undertaken outside comprehensive contracts in the Environmental Services Division (landfill sites and special waste processing plants), the Energy Services Division (co-generation plants) and the Transportation Division (buses, boats and trains). These assets are classified in the consolidated balance sheet as property, plant and equipment. Veolia Environnement property, plant and equipment are subject to certain charges, such as maintenance and repair costs and closure or post-closure costs.

There are relatively few real estate assets legally owned by the Group without any retrocession obligations. When possible, the Group does not own its office buildings.

Finally, assets purchased under finance leases fall into all three asset categories detailed above and represented a net amount of €443 million as of December 31, 2012.

The main insurance policies subscribed by the Company are described in Chapter 4, Section 4.2.3 of this registration document.

Environmental issues may also influence the Company's use of property, plant and equipment, as detailed in Chapter 6, Section 6.3 of this registration document.

9

Operating and Financial Review

9.1 Results of operations in 2012

9.1.1 General context

Veolia Environnement results for the year ended December 2012 are up despite deterioration in the economic environment since the second quarter of 2012, reflected primarily by a decline in industrial production indices in Europe. While contrasted, operating performance resisted well in the second half.

The Group accelerated the implementation of its strategy through a vast transformation program.

Asset portfolio optimization program:

A well advanced program that contributed €5.1 billion to the reduction in Group net financial debt as of December 31, 2012

The main transactions were:

- the completion on June 28, 2012 by the Group of the sale by Veolia Water UK, a wholly-owned subsidiary of Veolia Environnement, of its regulated water activities in the United Kingdom, to Rift Acquisitions Limited for an enterprise value of GBP 1.2 billion (€1.5 billion). The transaction reduced Group net financial debt by €1,517 million. Following its completion, Veolia Environnement retained all its non-regulated water business and acquired a 10% stake in the investment fund, Affinity Water A (formerly Rift Acquisition Ltd), for a period of at least 5 years. This 10% shareholding has been accounted for using the equity method since June 30, 2012. The transaction generated a capital gain of €233.3 million (net of transaction costs) recognized in discontinued operations.
- the completion on November 20, 2012 of the sale of the U.S solid waste business in the Environmental Services division to ADS Waste Holdings, for an enterprise value of USD 1.9 billion (approximately €1.5 billion at the signature date exchange rate). The transaction reduced Group net financial debt by €1,464 million. The transaction generated a capital gain of €208.4 million (net of tax and transaction costs) recognized in discontinued operations.

Following the buyout by the *Land* of Berlin of RWE's minority interest in BWB, the Berlin water contract operating company, changes to the governance structure led to a change in consolidation method and a reduction in Group net financial debt of approximately €1.4 billion.

The Group also performed a number of smaller divestitures under the asset portfolio optimization program, contributing €516 million to the reduction in Group net financial debt.

Withdrawal from the Transportation business

Together with its co-shareholder, the Caisse des dépôts et consignations, Veolia Environnement continues to prepare its withdrawal from Veolia Transdev, tailoring the industrial strategy, targeted balance sheet structure and refinancing strategy.

Accordingly, on March 30, 2012, Veolia Environnement and Caisse des dépôts et consignations signed an agreement for negotiation that envisions the transfer of Veolia Transdev's 66% shareholding in SNCM and its subsidiaries to Veolia Environnement, along with the rights and obligations attached to this shareholding. This agreement defines the main terms and conditions of the proposed transaction, including the repurchase by Veolia Environnement of the shares in SNCM for a consideration of €1.

On October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations signed a new agreement for negotiation aimed at strengthening the financial structure of Veolia Transdev and providing it with the necessary resources to pursue its strategic development.

Under the definitive agreement to be concluded, the Caisse des depots et consignations and Veolia Environnement would subscribe to a €800 million share capital increase by conversion of existing shareholder loans. Following this transaction, the Caisse des dépôts et consignations would hold 60% of the share capital of Veolia Transdev and would take exclusive control of that company. Veolia Environnement would retain a 40% shareholding.

The agreement also provides for asset disposals by Veolia Transdev in order to repay the Veolia Environnement shareholder loan.

Concomitantly to the signature of the agreement for negotiation on October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations agreed to negotiate in good faith a decrease in Veolia Environnement's stake in Veolia Transdev to 20%, through the purchase by Caisse des dépôts et consignations of Veolia Transdev shares held by Veolia Environnement within a period of two years from the completion of the above transaction.

Consequently, progress with the Group's withdrawal from the Transportation business is reflected as of December 31, 2012 by:

- the retention of Veolia Transdev activities (Group share) excluding SNCM in discontinued operations;
- adjustments to the value of Veolia Transdev's assets and liabilities, excluding SNCM, based on a reference value mentioned in the above agreement for negotiation of €400 million (100%); and
- the reclassification of the activities of the SNCM sub-group in continuing operations.

Restructuring of Italian activities

Water division

The voluntary liquidation of the subsidiary, SORICAL (Societa Risorse Idriche Calabresi S.P.A), was acknowledged by the Extraordinary Shareholders' Meeting of July 9, 2012. As a result, two independent liquidators were appointed and the Board of Directors of that entity resigned. The two liquidators are now fully and exclusively responsible for the management of the company. Accordingly, this company was removed from the Group's scope of consolidation as of December 31, 2012.

At the end of December 2012, the Group's financial statements reflect the consequences of the deconsolidation, without divestiture, of the assets and liabilities of Sorical and particularly the removal of net financial debt of €69.2 million.

Environmental Services division

On February 10, 2012, a voluntary liquidation plan, known as a "Concordato Preventivo", was filed in relation to Termo Energia Calabria ("TEC") (a subsidiary owned by Veolia Propreté through Veolia Servizi Ambientali Tecnitalia S.p.a ("VSAT") and specializing in waste incineration in Calabria) with the La Spezia Civil Court in Italy. On February 23, 2012, the plan was admitted by the Court.

As creditors of other VSAT group companies have also launched judicial procedures for debt recovery, a request for a group voluntary liquidation plan, i.e., a "*Concordato Preventivo di Grupo*" ("CPG"), was filed on April 18, 2012, with the La Spezia Civil Court in relation to the VSAT group, which includes TEC. From the date of admission, TEC is part of the CPG.

Following revocation of the CPG on April 18, 2012, a new CPG was filed on September 17, 2012 and admitted on December 5, 2012. If the majority of creditors vote in favor of the CPG, the court could approve the CPG in the Spring of 2013. If the vote of the creditors is not favorable or if the Court does not approve the CPG, two options may arise:

- another request for CPG will be filed; or
- VSAT and its subsidiaries will be liquidated.

These events did not have a material financial impact on the consolidated financial statements for the year ended December 31, 2012.

Energy Services division

The Group decided to step-up the restructuring of its activities in Italy launched in 2011, mainly following the enactment in the summer of 2012 of two new laws imposing:

- a reduction in the price of services sold under current public contracts, and
- the capping of current contract prices in line with CONSIP benchmark prices (State central purchasing agency).

After buying out minority interests in the Telecoms business in the first half of 2012 and the departure of around 60 employees in this entity alone, the restructuring of Siram was continued. At the time of the enactment of the new laws in the summer of 2012, Siram launched a vast restructuring plan, primarily encompassing a second wave of redundancies concerning over 500 employees. These measures were launched in November and December 2012.

The recovery in the receivables securitization market in the second half of the year enabled the securitization of over €170 million of receivables at the year end. By adapting the production tool and significantly restructuring Siram and focusing the sales teams' efforts on growth markets, business activity was stabilized. These efforts will continue in 2013.

Transformation of the organizational structure and cost-reduction measures through the Convergence Plan:

Mr. François Bertreau was appointed Chief Operating Officer of Veolia Environnement on November 19, 2012. He will be in charge of implementing the Group's new organizational structure, standardizing its processes and introducing cost-saving measures. A Business Development department was created and centralized management of shared services was introduced.

The Group's Efficiency and Convergence Plans generated €251 million in total net savings in 2012, of which €60 million is attributed to the Convergence Plan was recorded in operating income.

Changes in governance:

In the first half of 2012, four new directors joined the Veolia Environnement Board of Directors: Mrs. Nathalie Rachou, Mrs. Maryse Aulagnon, Mr. Jacques Aschenbroich and Groupama S.A., represented by Mr. George Ralli.

Mr. Philippe Kourilsky resigned as Chairman of the Research, Innovation and Sustainable Development Committee.

On October 22, 2012, the Board of Directors took due note of the resignation of Mr. Henri Proglio by letter dated October 10, 2012.

During its meeting on December 12, 2012, the Board of Directors co-opted Mrs. Marion Guillou as director to replace Mr. Henri Proglio, who resigned. The appointment of Mrs. Marion Guillou will be presented for ratification at the next general shareholders' meeting, scheduled for May 14, 2013.

In addition, the Board of Directors adjusted the composition of its "Accounts and Audit" and "Research, Innovation and Sustainable Development" Committees. Mr. Jacques Aschenbroich (replacing Mr. Pierre André de Chalendar) and Mrs. Nathalie Rachou joined the Accounts and Audit Committee, chaired by Mr. Daniel Bouton. Mrs. Marion Guillou and Mr. Thierry Dassault joined the Research, Innovation and Sustainable Development Committee, now chaired by Mr. Jacques Aschenbroich (replacing Mr. Philippe Kourilsky).

As part of the accelerated implementation of Veolia Environnement's strategic plan, the composition of the Executive Committee was tightened around Antoine Frérot and now comprises:

- François Bertreau, Senior Executive Vice-President and Chief Operating Officer, who took office at the endof 2012;
- Sylvain Boucher, Country Delegate for France;
- Jean-Michel Herrewyn, Senior Executive Vice-President in charge of the Water division;
- Franck Lacroix, Senior Executive Vice-President in charge of the Energy Services division;
- Jean-Marie Lambert, Senior Executive Vice-President in charge of Human Resources;
- Jérôme Le Conte, Senior Executive Vice-President in charge of the Environmental Services division;

- Helman Le Pas de Sécheval, Senior Executive Vice-President, Chief legal and administration Officer, who took office on September 1, 2012;
- Pierre-François Riolacci, Senior Executive Vice-President and Chief Finance Officer.

9.1.2 Other changes in Group structure

Acquisitions:

In January 2012, the Group purchased 6.9% of Veolia Voda, in the Czech Republic, from the EBRD for €79 million**.**

Azaliya

On June 4, 2012, following the meeting of the Azaliya Board of Directors, Mubadala and Veolia Eau signed a Share Purchase Agreement for the sale to Veolia Water of the Azaliya shares held by Mubadala at an enterprise value of €247 million.

The transaction was completed on August 2, 2012, bringing Veolia's interest in Azaliya to 100%. The completion of this transaction triggered the termination of all agreements between Mubadala and Veolia Eau and particularly the Azaliya shareholders' agreement. Following completion of the transaction, the Group launched the divesture process for water activities in Morocco and a letter of intent was signed with a potential buyer in the third-quarter of 2012. In view of progress achieved with the divestiture process as of December 31, 2012, Water division activities in Morocco were classified in discontinued operations.

9.1.3 Business activity

The Group continued its development in 2012 and achieved a number of commercial successes related to enhanced and refined offerings, including the following:

- The New York City Department of Environmental Protection (DEP) awarded a performance and consulting contract to Veolia Water to aid the optimization of public water and wastewater services for 4 years. This contract is expected to generate estimated cumulative revenue of USD36 million;
- The European Investment Bank awarded Dalkia the contract for technical and energy systems management of over 180,000m² of its office space in Luxembourg. The 4-year contract covers four buildings and includes an ambitious objective for carbon footprint reduction. This contract is expected to generate estimated cumulative revenue of €32 million;
- Veolia Water, via its subsidiary Veolia Water Japan, was awarded three contracts for the operation and maintenance of drinking water and wastewater treatment facilities serving the needs of 1.2 million people in Japan. Estimated cumulative revenue of these contracts is €49 million, for a maximum duration of 5 years;
- Veolia Water, via Orange City Water (a joint venture with Vishvaraj Environment Ltd, one of India's leading civil engineering and services companies) was awarded the drinking water service operation and maintenance contract by the city of Nagpur for 25 years. Estimated cumulative revenue of this contract is €387 million (Group share);
- Veolia Water was awarded a contract by the Indian public authority in charge of water and wastewater services in the capital New Delhi, to design, build and operate the new Nilothi Wastewater Treatment Plant. This 13-year contract covers an initial two-year construction phase, followed by an 11-year operation and maintenance phase. Total estimated cumulative revenue of this contract is €40 million;
- The European Parliament selected Dalkia to manage the technical and energy systems of its real-estate assets. This new contract represents estimated cumulative revenue of more than €120 million over the length of the contract (six years, on the basis of a 12-month contract that can be automatically renewed five times);
- The Centre National d'Art et de Culture Georges Pompidou (known more informally as the Pompidou Center) awarded Dalkia the renovation of its air conditioning system. The aim is to make a significant improvement in the Center's energy and environmental performance. These renovations, which began in June 2012, will improve the electric and thermal performance and the heating, cooling and humidity needs for the center's 100,000m² surface area and will be completed in 2015. The estimated cumulative revenue of this contract is roughly €25 million;
- Veolia Environmental Services in partnership with a Chinese company working in the same sector has obtained the concession for a hazardous waste treatment center in Changsha, the capital of Hunan province. The estimated cumulative revenue of this 25-year concession is €320 million (at 100%);

- The city of Iasi in Romania awarded Dalkia the operation of the city's district heating network for 20 years. This public service management contract involves the generation, transmission, distribution and supply of heating and is expected to generate estimated cumulative revenue of €781 million;
- Veolia Environmental Services, through its subsidiary Veolia Environmental Services (UK) Plc, was awarded a 25-year Private Finance Initiative (PFI) contract for residual municipal waste treatment and energy recovery for the City of Leeds. This contract follows the selection of Veolia Environmental Services as preferred bidder on January 23, 2012 is expected to generate estimated cumulative revenue of GBP 460 million.

9.1.4 Review of operations

The Group continued its growth in 2012, with an increase in consolidated revenue of 3.0% (+1.5% at constant consolidation scope and exchange rates) to €29,438.5 million for the year ended December 31, 2012, compared to re-presented revenue of €28,576.5 million for the year ended December 31, 2011.

Revenue was impacted in 2012 by:

- favorable price indexation environment in France, which offset the impact of contractual erosion in the Water division and revenue growth with industrial clients in the Technologies and Networks business;
- a challenging macro-economic environment in the Environmental Services division, primarily reflected by a decline in recycled raw material prices from the second quarter and a fall in industrial production indices in Europe and the United States, in a context of activity cessations particularly in Italy, North Africa and the Middle East;
- rising energy prices in the Energy Services division in France and adverse regulatory developments in Europe.

In this context, adjusted operating cash flow declined 4.6% (-6.2% at constant exchange rates) to €2,722.8 million for the year ended December 31, 2012, compared to re-presented €2,852.6 million for the year ended December 31, 2011. Excluding the impairment of receivables and accrued expenses in Italy in the Energy Services division, adjusted operating cash flow would have declined 1.7% to €2,804.3 million (-3.3% at constant exchange rates).

Adjusted operating income fell 23.4% (-24.5% at constant exchange rates) to €1,193.7 million for the year ended December 31, 2012, compared to re-presented €1,557.8 million for the year ended December 31, 2011, primarily due to:

- the decrease in adjusted operating cash flow tied to the decline in operating performance in the Water division, primarily due to contractual erosion in France and the impairment of receivables and accrued expenses in the amount of €81.5 million in Italy in the Energy Services Division;
- an increase in depreciation and amortization expense of €90.9 million compared to re-presented December 31, 2011 figures, primarily due to recent developments in the Energy Services and Water divisions;
- an increase in net charges to provisions tied to non-current asset impairments due to the challenging macro-economic environment in the United Kingdom and Germany in the Environmental Services division, contractual risks provisions for in the Water division and an additional impairment recognized on SNCM of €35.0 million.

Excluding the write-down of receivables and accrued expenses in Italy in the Energy Services division, adjusted operating income would have declined 18.1% (-19.2% at constant exchange rates).

Net financial debt totaled €11,283 million as of December 31, 2012, compared to €14,730 million as of December 31, 2011.

Free cash flow (after payment of the dividend), a non-GAAP indicator defined in section 7.2, was €3,673 million for the year ended December 31, 2012, compared with €438 million in 2011.

The free cash flow between December 31, 2011 and 2012 reflects:

- implementation of the asset portfolio optimization program which contributed to the reduction in Group net financial debt in the amount of €5,099 million;
- the €103 million contribution of working capital requirements to net cash from operating activities;
- the continuation of the Group's non-controlling interest buyout policy (including the acquisition of 49% of the share capital of Azaliya for an enterprise value of €247 million in the Water division and the buyout of non-controlling interests in the Czech Republic in the Water division for €79 million), in a context of tight control over industrial investment;
- the decline in adjusted operating cash flow.

For the year ended December 31, 2012, the Group generated positive cash flow after payment of financial expense and taxes, before net financial divestments (and before operating cash flow before changes in working capital minus industrial divestments of discontinued operations entities) of €89 million. This non-GAAP indicator is defined in section 7.2.

9.1.5 Other significant events

Financing transactions

Early redemption of US private placements

On January 9, 2012, Veolia Environnement sent a notice of early redemption to all holders of the US private placement performed in January 2003. Early redemption was effectively performed on February 9, 2012, for a euro-equivalent of €350.2 million.

Bond exchange

Between March 19 and March 27, 2012, Veolia Environnement refinanced by early redemption of a portion of the Company's bonds maturing in 2013, 2014, 2017 and 2018 for an amount of €750 million. At the same time, the Company issued a new bond line maturing in 2027 for the same amount. This operation enabled the Group to increase the maturity of its debt and smooth the redemption schedule, without significantly impacting net finance costs.

Bond issue in China

On June 26, 2012, as part of its EMTN program, Veolia Environnement issued a new bond line of CNY500 million (€63.3 million at the settlement date) maturing in June 2017, to finance the requirements of its subsidiaries in China.

Early reversal of a portion of the swap portfolio

In July and August, given the historically low mid-term interest rates, the Group launched the unwinding of a portion of its swap portfolio of euro-denominated floating-rate payer swaps. These swaps were classified as fair value swaps hedging Veolia Environnement bond issues. Balancing amounts paid by the banks totaled €420 million and concerned notional amounts of €3,075 million.

Partial buy-back of USD and euro-denominated bond lines

During the fourth quarter of 2012, Group transactions concerned the full buy back of the USD 50 million (€38.8 million at the transaction date) private placement under the EMTN program, paying a coupon of 4.685% and maturing in June 2015, the partial buy back in the amount of €341 million of the euro-denominated bond paying a coupon of 4.0% and maturing in February 2016, the partial buy back in the amount of €256 million of the euro-denominated bond paying a coupon of 4.375% and maturing in January 2017 and the partial buy back in the amount of USD 153 million (€116.1 million at the transaction date) of the U.S. dollar-denominated bond paying a coupon of 6.0% and maturing in June 2018.

The total cost of these transactions of €47 million was recorded in adjustments to net finance costs.

Group credit rating

On October 10, 2012, Standard and Poor's confirmed the Group's A-2/BBB+ credit rating but downgraded the outlook from stable to negative.

Operations

Berlin:

Governance

On October 25, 2012, the Berlin parliament adopted a resolution concerning the purchase of RVB shares by the *Land* of Berlin from RWE. The transfer of shares between RWE and the *Land* of Berlin was completed on October 30, 2012, leading to:

- the loss of joint control exercised by the Group over the RVB/BWB entity: the *Land* of Berlin now owns 75.05% of BWB (the Berlin water management company) and obtained new appointment rights within the governance bodies, conferring on it financial and operating control of these entities. Veolia Environnement nonetheless retains significant influence through its presence in these same bodies;
- the accounting by equity method of the Group's shareholding from October 31, 2012 and a decrease in adjusted operating cash flow of €31 million for the two months of November and December 2011; and
- a reduction in Group net financial debt of approximately €1.4 billion.

German Federal Cartel Office

On June 5, 2012, the German Federal Cartel Office (FCO) issued a final decision, ordering a decrease in BWB's average annual proceeds per cubic meter generated from the sale of drinking water to end customers of 17 to 18% as compared with 2011 (reference year), for the next four years. BWB initiated proceedings on the merits before the Court of Appeal of Düsseldorf on June 11, 2012. This decrease for 2012 will be implemented through the issuance of accrued credit notes to users at the time of invoicing.

As of December 31, 2012, the decrease in Berlin drinking water tariffs ordered by the German Federal Cartel Office contributed to the downturn in the revenue and performance of the Water division in Germany with a -€24.5 million impact on adjusted operating cash flow.

The Group is not currently in a position to assess the full consequences of these legal proceedings on its financial position or future results.

Other events

Dividend payment:

Following approval at the General Shareholders' Meeting of May 16, 2012, the Group offered shareholders a choice of payment of the dividend in cash or shares. The share payment option was taken-up for 7% of coupons payable, resulting in the creation of 2,433,899 shares representing approximately 0.468% of share capital and 0.482% of voting rights. Accordingly, the dividend payment in cash totaled €330 million and was paid on, or after June 18, 2012.

Connex Railroad

On October 17, 2012, several insurance companies that contributed to the compensation fund for victims of the September 2008 rail accident in Chatsworth (California) launched proceedings before the courts of Los Angeles County, California, against Connex Railroad LLC, Connex North America, Inc. and Veolia Transportation Inc, claiming repayment of USD 132.5 million. In the Company's opinion, this claim is unfounded and it will seek its dismissal.

EDF Lawsuit

On October 22, 2012, EDF filed a lawsuit against Veolia Environnement in the Commercial Court of Paris to obtain the right to own 50% of Dalkia group, a specialist in energy services. The Group highlights that EDF lost its right to increase its ownership in the capital of Dalkia in 2005. Veolia Environnement, which owns 66% of Dalkia's share capital, has always supported its subsidiary, in particular through the financing of its international growth. The Group therefore intends to strongly oppose EDF's demand, which it views as meritless.

Accordingly, the assessment of the level of control exercised by the Company over the Dalkia sub-group and its consolidation method are not affected by this lawsuit.

9.1.6 Major events since January 1, 2013

Subordinate perpetual hybrid debt issue in euros and pound sterling

At the beginning of January 2013, Veolia Environnement issued subordinated perpetual debt denominated in euros and pound sterling (€1 billion at 4.5% yield and GBP 400 million at 4.875% yield). This transaction enables the Group to strengthen its financial structure in conjunction with its transformation, while strengthening its credit ratios. This issuance will be treated as equity under the Group's consolidated IFRS accounts.

Eolfi Europe

Pursuant to the divestment of Eolfi activities in the United-States to Atlantic Ridgline Holdings, Asah, a holding company notably involved with renewable energy projects made an offer to Veolia Environnement setting out a proposal to obtain control of Eolfi's European activities. This offer was accepted by Veolia Environnement on October 30, 2012.

On January 21, 2013, a memorandum of understanding was signed which provides the terms of transfer of Eolfi European activities to Asah, for a total amount of € 23.5 million and repayment of its current account debt to Veolia Environnement.

New Headquarters-Icade

On October 31, 2012, a memorandum of understanding concerning the new Group headquarters project in Aubervilliers and the terms of cooperation between the parties was signed by Veolia Environnement and Icade SA, a subsidiary of Caisse des dépôts et consignations. This memorandum led to the signature on January 31, 2013 of two simultaneous agreements defining the terms of compensation of Icade should Veolia Environnement withdraw from this project and the terms of a nine-year firm lease for premises to be completed.

Agreement reached on financing of Dalkia's international operations

On February 8, 2013, a memorandum of understanding regarding the financing of Dalkia International was signed amongst Veolia Environnement, EDF and Dalkia International.

The memorandum of understanding provides (i) for the issuance of €600 million in super-subordinated bonds by Dalkia International, to which its shareholders will subscribe in proportion to their direct interest in the capital i.e. respectively €144 million for EDF and €456 million for Dalkia, financed by a long-term loan from Veolia Environnement, as well as (ii) for increased information rights for the shareholders of Dalkia International notably through the creation of an audit committee.

9.2 Accounting and financial information

9.2.1 Definitions and accounting context

Pursuant to Regulation no.1606/2002 of July 19, 2002, as amended by European Regulation no.297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2012 are presented in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB).

These standards and interpretations may be consulted at the following European Union website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

Comparative financial statements for the year ended December 31, 2011 are presented on the same basis.

The definitions of the IFRS and non-GAAP indicators presented in this document are unchanged from prior years and are presented in the appendix to the Operating and Financial Review.

Accounting context

The accounting policies adopted for the preparation of the financial statements for the year ended December 31, 2012 are unchanged from those used for the 2011 consolidated financial statements, with the exception of the application of new texts effective January 1, 2012 (with no significant impact on the financial statements).

Pursuant to IFRS 5 *"Non current assets held for sale and discontinued operations"* and to ensure comparability between periods income statements for the year ended December 31, 2011 have been re-presented to reflect the following:

- reclassification to "Net income (loss) from discontinued operations" of activities in the course of divestiture, i.e. Water activities in Morocco and wind energy activities (Eolfi),
- reclassification to "Net income (loss) from discontinued operations" of activities divested in 2012, i.e. solid waste activities in the United States in the Environmental Services division and regulated activities in the United Kingdom in the Water division.

The 2011 financial statements have also been re-presented to account for the reclassification to continuing operations from March 3, 2011 of the Société Nationale Maritime Corse Méditerranée (SNCM) group which had previously been included in discontinued operations as part of Veolia Transdev (see Withdrawal from the Transportation business" above).

Operating segments

The information presented for each operating segment is identical to that presented to the Group's Chief Operating Decision Maker (Chairman and Chief Executive Officer) for decision making purposes. This information is based on the internal organization of the Group's activities and corresponds to the different Group divisions.

The Chief Operating Decision Maker receives summary information by division. This information enables the performance of each division to be measured.

Budget objectives set for each division head, comprise objectives based on revenue, operating income, investment and other key ratios. These objectives are set globally for each division.

The variable compensation of Executive Committee members is based on the performance of the Group and of each division and, in particular, adjusted operating cash flow.

Financial information by operating segment is prepared in accordance with the same rules used to prepare the consolidated financial statements.

Following the announcement at the end of 2011 of the Group's withdrawal from the Transportation business and changes to the Group's Executive Committee, the internal organizational structure of the Group was modified, with corresponding changes in the operating segments presented.

In accordance with the provisions of IFRS 8 on the identification of operating segments and after taking account of regrouping criteria, the following segments are now presented:

- Water
- Environmental Services
- Energy Services
- Other Segments

"Other Segments" primarily groups together the activities of SNCM, ProActiva MedioAmbiente (joint venture with FCC), and the various Group holding companies.

Segment reporting for prior periods was re-presented for this change.

New standards and revised standards on consolidation, joint arrangements, associates and disclosures

The new consolidation standards (IFRS 10, IFRS 11 and IFRS 12) were published by the IASB in May 2011 and were adopted by the European Union on December 29, 2012.

As the Group is listed in the United States, it will apply these standards from January 1, 2013, with retrospective first-time application.

IFRS 10 replaces the provisions on consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities* and introduces a new single control model.

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly Controlled Entities – Non- Monetary Contributions by Venturers*. This new standard defines the accounting treatment of joint arrangements through which at least two parties exercise joint control. Pursuant to this new standard, there are only two types of joint arrangement: joint ventures and joint operations. Classification is based on the rights and obligations of the parties to the arrangement.

Pursuant to this new standard, joint arrangements classified as joint ventures must be accounted for using the equity method (proportionate consolidation is no longer authorized). Each joint operator in a joint operation must account for the assets and liabilities (income and expenses) relating to its interest in the joint operation.

IFRS 12 concerns the disclosure of interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. First-time application of this standard will lead to the provision of more detailed disclosures in the notes to the financial statements.

Analysis of the impact of the first-time application of these standards is currently being finalized.

However, based on work performed to date, the main impact of the first-time application of these standards concerns the implementation of IFRS 11 relative to partnerships and more particularly the equity method accounting of joint ventures held by the Group, currently consolidated by proportional integration.

The main entities concerned by the application of these new standards are Dalkia International (joint venture owned 75% by Dalkia and 25% by EDF, with an economic interest of 50%), Veolia Transdev (joint venture with Caisse des dépôts et consignations), Proactiva group (joint venture with FCC owned at 50%) will be accounted for equity method at 50%. Shenzen (joint venture owned at 45%, with 25% economic interest) will be accounted for equity method at 25% and Tianjin (joint venture owned at 49%) will be accounted for equity method at 49%.

Intercompany loans granted to joint ventures will no longer be eliminated following the application of these new standards and will be therefore included in net financial debt. Non eliminated intercompany loans are presented in the balance sheet in non-current and current financial assets in loans and receivables. As Veolia Environnement may be required to participate in the financing of partnerships, the Group will use a new financial metric in addition to net financial debt, adjusted net financial debt in which are included loans granted by the Group to joint ventures.

For information, Adjusted Net financial Debt as of December 31, 2011 is estimated to €9.2 billion.

The following tables present the contribution, as of December 31, 2012 of the entities affected by a change in accounting method for the first-time application of IFRS 10 and 11:

(€ million)	**Consolidated financial statements as of December 31, 2012**	**o/w entities affected by a change in accounting method**
Goodwill	4,795.0	900.6
Intangible assets	5,661.5	2,361.7
Property, plant and equipment	6,837.9	2,124.6
Non-current operating financial assets	2,650.7	420.7
Other non-current assets	2,628.6	381.0
Non-current assets	**22,573.7**	**6,188.6**
Operating receivables	10,305.9	2,010.8
Cash and cash equivalents	5,547.8	546.8
Assets classified as held for sale	3,974.3	2,698.7
Other current assets	2,210.4	534.1
Current assets	**22,038.4**	**5,790.4**
ASSETS	**44,612.1**	**11,979.0**
Equity	**9,125.7**	**4,018.7**
Non-current borrowings	13,083.7	929.1
Other non-current liabilities	3,720.3	798.3
Non-current liabilities	**16,804.0**	**1,727.4**
Operating payables	11,598.7	2,174.8
Current borrowings	3,629.2	428.7
Liabilities directly associated with assets classified as held for sale	2,551.0	1,655.5
Other current liabilities	903.5	1,973.9
Current liabilities	**18,682.4**	**6,232.9**
TOTAL EQUITY AND LIABILITIES	**44,612.1**	**11,979.0**

(in €million)	**Consolidated financial statements as of December 31, 2012**	**O/w entities affected by a change in accounting method**
Revenue	29,438.5	6,313.0
Adjusted operating cash flow	2,722.8	801.4
Operating Income	1,095.0	393.6
Net income (loss) from continuing operations	143.7	56.1
Net income (loss) for the year	**529.8**	**48.6**

Gross Investments	3,282.0	866.0

9.2.2 Revenue

9.2.2.1 Overview

Year ended December 31, 2012 *(€ million)*	Year ended December 31, 2011 re-presented* *(€ million)*	% Change 2012/2011	Internal growth	External growth	Foreign exchange impact
29,438.5	28,576.5	3.0%	1.5%	-0.3%	1.8%

* *A reconciliation of previously published and re-presented consolidated revenue for the year ended December 31, 2011 may be found in the Appendix.*

Revenue was impacted in 2012 by:

- favorable price indexation environment in France, which offset the impact of contractual erosion in the Water division and revenue growth with industrial clients in the Technologies and Networks business;
- a challenging macro-economic environment in the Environmental Services division with a decline in recycled raw material prices from the second quarter and a fall in industrial production indices in Europe and the United States, in a context of activity cessations particularly in Italy, North Africa and the Middle East;
- rising energy prices in the Energy Services division in France and adverse regulatory developments in Europe.

Veolia Environnement consolidated revenue was €29,438.5 million, an increase of 3.0% (+1.5% at constant consolidation scope and exchange rates) compared to re-presented revenue of €28,576.5 million for the year ended December 31, 2011.

Changes in consolidation scope decreased 2012 revenue by -€94.0 million, including -€173 million in the Water division (primarily the impact of the change to equity method accounting of the Group's stake in Berlin Water from October 31, 2012), -€23.2 million in the Environmental Services division (impact of the divestiture of Belgian activities in August 2011) and +82.8 million in the Energy Services division (primarily relating to the acquisition of the Warsaw district heating network in October 2011).

At constant consolidation scope and exchange rates, 2012 revenue increased 1.5% compared with re-presented 2011 revenue. This increase was mainly due to:

- the favorable effects of indexation in France and price increases and extensions in Central and Eastern Europe in operations and the growth of Technologies and Networks industrial activities, in the Water division;
- the increase in energy prices (impact of €205.3 million compared with December 31, 2011) combined with more favorable weather conditions than in 2011 in the Energy Services division.

These effects were partially offset by contractual erosion in the Water division in France and the fall in Environmental Services division revenue mainly tied to the decrease in the price of recycled raw materials which was particularly strong in the third quarter of 2012 (impact of around -€160 million compared with 2011), primarily in France and Germany.

Fourth quarter 2012 revenue increased 2.8%, compared to the fourth quarter of 2011. Organic growth (at constant consolidation scope and exchange rates) was 2.9% in the fourth quarter, due primarily to good performance in Australia in the Environmental Services division, particularly in the fourth quarter, and more favorable weather conditions in the Energy Services division, mainly in France.

Revenue generated outside France in 2012 totaled €17,456.2 million, representing 59.3% of total revenue, stable compared to the re-presented share of 59.5% in 2011.

The €516.3 million foreign exchange impact primarily reflects the appreciation against the euro of the US dollar in the amount of €137.4 million, the pound sterling in the amount of €148.3 million, the Chinese remnimbi yuan in the amount of €88.3 million, the Australian dollar in the amount of €83.4 million and the Japanese yen in the amount of €32.1 million, offset by the depreciation of the Polish zloty in the amount of -€12.0 million.

9.2.2.2 Revenue by segment

(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011, re-presented	% Change 2012/2011
Water	12,078.2	11,921.3	1.3%
Environmental Services	9,082.9	9,010.8	0.8%
Energy Services	7,664.6	7,138.2	7.4%
Other	612.8	506.2	21.1%
Total Revenue	29,438.5	28,576.5	3.0%
Revenue at 2011 exchange rates	**28,922.2**	**28,576.5**	**1.2%**

WATER

Year ended December 31, 2012 *(€ million)*	Year ended December 31, 2011 re-presented *(€ million)*	% Change 2012/2011	Internal growth	External growth	Foreign exchange impact
12,078.2	11,921.3	1.3%	1.0%	-1.5%	1.8%

The increase in Water division revenue at constant consolidation scope and exchange rates can be attributed both to the favorable effects of indexation in France, and price increases in Central and Eastern Europe and the increase in Technologies and Networks industrial activities.

The negative contribution of external revenue growth in the Water division in 2012 is mainly due to the change in consolidation method of the Group's stake in Berlin Water (from proportional consolidation to equity method from October 31, 2012).

- Revenue from Operations activities declined 1.5% (-0.2% at constant consolidation scope and exchange rates). In **France**, the slight increase of 0.6% in revenue (+1.3% at constant consolidation scope) is due to a favorable price effect tied to indexation trends and the increase in the construction business partially offset by the effects of contractual erosion and lower water volumes sold (approximately -1% year-on-year).

  Outside France, revenue dropped 2.8% (-1.1% at constant consolidation scope and exchange rates). In Europe, the 6.7% fall in revenue was mainly due to the change to equity method accounting of the Group's stake in Berlin Water from October 31, 2012. Growth of 0.8% at constant consolidation scope and exchange rates was based on the good performance recorded in Central and Eastern Europe (favorable price effect in the Czech Republic and Romania, which also benefited from the extension of its activity scope), despite lower volumes sold. Revenue in Europe was however penalized by the German Federal Cartel Office order to reduce Berlin drinking water tariffs by a total of €24.5 million. Revenue in the Asia-Pacific region rose 0.9% (-4.3% at constant consolidation scope and exchange rates). Revenue increased in China, due to growth in volumes with municipalities and the continuation of the tariff increase process (particularly in Shenzhen) and despite the decline in construction revenue and weaker sales volumes to industrial clients. Revenue in the rest of Asia was marked by a downturn in Japan, where the revenue increase observed after the March 2011 earthquake was not repeated and a decline in Australia following the end of the Adelaide contract in June 2011. In the United States, the 1% decline (-8.6% at constant consolidation scope and exchange rates) was mainly attributable to the end of the Indianapolis contract in August 2011.
- Technologies and Networks revenue grew 7.9% (+4.9% at constant consolidation scope and exchange rates), benefitting from growth in industrial client activities in the Design and Build and Solutions sectors, primarily in the chemicals industry and the upstream oil sector, as well as the international expansion of Sade.

ENVIRONMENTAL SERVICES

Year ended December 31, 2012 *(€ million)*	Year ended December 31, 2011 re-presented *(€ million)*	% Change 2012/2011	Internal growth	External growth	Foreign exchange impact
9,082.9	9,010.8	0.8%	-1.9%	-0.3%	3.0%

Environmental Services division revenue remained stable with 0.8% growth (-1.9% at constant consolidation scope and exchange rates) despite:

- a challenging macro-economic environment since the second quarter of 2012, particularly in Europe;
- a recycled raw material price differential of -€160 million (mainly in France, Germany and the United Kingdom), particularly marked in the third quarter of 2012;
- the impact of the geographical restructuring plan, with the closure and restructuring of activities in North Africa, the Middle East and Italy.

– In **France**, revenue increased 2.1% (+1.4% at constant consolidation scope). Growth in certain activities (particularly incineration and hazardous waste), combined with higher service prices and raw material volumes offset the impact of lower of recycled raw material prices (paper/cardboard and scrap metal);

– **Outside France**, revenue was stable at current consolidation scope and exchange rates and down 3.9% at constant consolidation scope and exchange rates. Revenue in Germany declined 11.8% (-13.2% at constant consolidation scope) under the combined effect of lower raw material prices and volumes and adverse economic trends in the industrial and commercial sector. Revenue in the United Kingdom increased 4.6% (-2.1% at constant consolidation scope and exchange rates), with lower PFI construction revenue and a structural decline in landfill waste volumes in a challenging macro-economic environment. North America revenue increased 9.1% (+1.1% at constant consolidation scope and exchange rates), where the increase in hazardous waste treatment activities was offset by lower industrial services activities. In the Asia-Pacific region, revenue growth of 17.5% (+8.0% at constant consolidation scope and exchange rates) benefited from the favorable impact of the landfill tax and good industrial services and landfill activity levels in Australia, particularly marked in the fourth quarter.

ENERGY SERVICES

Year ended December 31, 2012 *(€ million)*	Year ended December 31, 2011 re-presented *(€ million)*	% Change 2012/2011	Internal growth	External growth	Foreign exchange impact
7,664.6	7,138.2	7.4%	5.8%	1.2%	0.4%

Energy Services division revenue increased 7.4% (+5.8% at constant consolidation scope and exchange rates), mainly due to continued growth outside France, particularly in Poland and good activity levels in the Construction business in France. In addition, Energy Services benefited from the positive impact of energy prices (€205.3 million compared with 2011) combined with more favorable weather conditions than in 2011.

- In **France**, revenue rose 8.6% (+9.9% at constant consolidation scope), driven by the increase in the average fuel basket combined with more favorable weather conditions than in 2011 and an increase in Construction volumes in a highly competitive environment.
- **Outside France**, revenue increased 6.2% (+2.0% at constant consolidation scope and exchange rates). Central and Eastern European countries reported growth of 15.2%, including the full-year contribution of the Warsaw heating network (+6.4% at constant consolidation scope and exchange rates), attributable in particular to the increase in the price of heating year-on-year, which offset the fall in volumes (mainly the Czech Republic) and the end of subsidies on the sale of cogenerated energy in Hungary. In Southern Europe the Group continued to restructure its service activities in Italy and Spain. In the United States, revenue declined 4.9% (-12.2% at constant consolidation scope and exchange rates) as a result of unfavorable weather conditions, combined with exceptionally low energy prices. Finally in Asia, the Group accelerated the development of Chinese networks.

External revenue growth in the Energy Services division in 2012 was mainly due to the acquisition of the Warsaw district heating network in October 2011.

OTHER SEGMENTS

Year ended December 31, 2012 *(€ million)*	Year ended December 31, 2011 re-presented *(€ million)*	% Change 2012/2011	Internal growth	External growth	Foreign exchange impact
612.8	506.2	21.1%	15.3%	3.9%	1.9%

Revenue from "Other Segments" mainly comprises revenue generated by SNCM and ProActiva MedioAmbiente (joint venture with FCC).

Growth in this segment was 21.1% (+15.3% at constant consolidation scope and exchange rates) and was primarily driven by ProActiva's growth of 14.5% (+10.5% at constant consolidation scope and exchange rates) particularly in waste activities in Argentina, in Mexico and to a lesser degree in Brazil.

External revenue growth in this segment in 2012 is mainly attributable to SNCM group, in respect of which 12 months of revenue was included in 2012 compared with only 10 months of revenue in 2011.

9.2.2.3 Revenue by geographical area

Year ended December 31, 2012 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	4,515.7	1,373.0	464.9	1,140.4	801.6	816.8	199.4	1,667.9	313.3	785.2	**12,078.2**
Environmental Services	3,455.1	1,076.6	1,708.5	301.2	414.5	708.3	852.8	254.1	109.5	202.3	**9,082.9**
Energy Services	3,716.8	8.5	207.1	1,629.6	1,362.7	276.6	57.2	115.3	100.8	190.0	**7,664.6**
Other	294.7	0.0	3.3	0.0	39.0	0.0	0.0	0.6	0.0	275.2	**612.8**
Revenue	**11,982.3**	**2,458.1**	**2,383.8**	**3,071.2**	**2,617.8**	**1,801.7**	**1,109.4**	**2,037.9**	**523.6**	**1,452.7**	**29,438.5**

Year ended December 31, 2011 re-presented *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	4,548.0	1,519.3	482.8	1,066.1	766.1	743.0	238.6	1,573.3	281.0	703.1	**11,921.3**
Environmental Services	3,384.2	1,210.2	1,626.0	309.7	568.6	644.1	704.6	237.8	105.1	220.5	**9,010.8**
Energy Services	3,421.5	9.5	190.1	1,414.2	1,385.3	290.9	49.8	100.6	93.4	182.9	**7,138.2**
Other	227.0	0.0	4.1	0.0	24.0	0.0	0.0	0.0	0.0	251.1	**506.2**
Revenue	**11,580.7**	**2,739.0**	**2,303.0**	**2,790.0**	**2,744.0**	**1,678.0**	**993.0**	**1,911.7**	**479.5**	**1,357.6**	**28,576.5**

Change *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	-32.3	-146.3	-17.9	74.3	35.5	73.8	-39.2	94.6	32.3	82.1	**156.9**
Environmental Services	70.9	-133.6	82.5	-8.5	-154.1	64.2	148.2	16.3	4.4	-18.2	**72.1**
Energy Services	295.3	-1.0	17.0	215.4	-22.6	-14.3	7.4	14.7	7.4	7.1	**526.4**
Other	67.7	0.0	-0.8	0.0	15.0	0.0	0.0	0.6	0.0	24.1	**106.6**
Revenue	**401.6**	**-280.9**	**80.8**	**281.2**	**-126.2**	**123.7**	**116.4**	**126.2**	**44.1**	**95.1**	**862.0**
Change (%)	**3.5%**	**-10.3%**	**3.5%**	**10.1%**	**-4.6%**	**7.4%**	**11.7%**	**6.6%**	**9.2%**	**7.0%**	**3.0%**
Change at constant exchange rates (%)	**3.5%**	**-10.3%**	**-3.0%**	**12.1%**	**-5.1%**	**-0.8%**	**3.1%**	**-2.0%**	**5.8%**	**6.5%**	**1.2%**

The impact of the economic climate on revenue can vary between geographical areas and depends in particular on the mix of different Company businesses.

France

Revenue increased 3.5% in 2012. Water division activities in France benefited from a favorable price effect tied to indexation trends, partially offset by the effects of contractual erosion and the decline in volumes sold in 2011 (approximately 1% year-on-year).

The Environmental Services division revenue grew due to the good performance of hazardous waste treatment and incineration activities and despite lower recycled raw material prices (paper/cardboard and metals).

The Energy Services division benefited from the combined effect of energy price trends (increase in the fuel basket), higher Construction volumes and more favorable weather conditions than in 2011, despite a highly competitive environment.

Germany

Revenue fell 10.3% in 2012.

In the Water division, activity was penalized by the impact of the change to equity method accounting from October 31, 2012 of the Group's stake in RVB/BWB (the Berlin water contract operator) and the order issued by the German Federal Cartel Office to reduce Berlin drinking water tariffs.

Environmental Services division revenue in Germany was impacted by lower raw material prices and volumes, combined with unfavorable economic trends in the industrial and commercial sector.

United Kingdom

Revenue declined 3.0% in 2012 at constant exchange rates. Water division revenue was affected by a decrease in construction activity related to the scheduled end of certain non-regulated contracts.

In the Environmental Services division, revenue was affected by a slowdown in construction activity on integrated contracts and a structural decline in landfill volumes. In addition, revenue was negatively impacted by a decrease in the price of raw materials sold in a competitive environment, particularly affecting commercial waste collection. Conversely, municipal waste collection activities increased due to the favorable volume impact of the full year effect of new contracts.

Central and Eastern Europe

Revenue increased 12.1% in 2012 at constant exchange rates.

Growth in Central Europe revenue was driven by the Water and Energy Services divisions, which benefited from the favorable effects of price increases and scope extensions in the Water division (particularly in Romania) and the consolidation of the activities of SPEC (which operates the Warsaw urban heating network in Poland) in the Energy Services division. Revenue also benefited from favorable trends in energy prices in the Energy Services division, despite lower volumes in the Czech Republic in the Water and Energy Services divisions.

Other European countries

Revenue declined 5.1% at constant exchange rates in 2012. This was primarily due to the geographical restructuring of the Group and the complete cessation of activities in Italy following the filing of the *Concordato Preventivo di Grupo* voluntary agreement with creditors in April 2012 in the Environmental Services division and the restructuring of service activities in both Italy and Spain in the Energy Services division.

United States

The 0.8% decline in revenue in the United States at constant exchange rates in 2012 was due to:

- the loss of the Indianapolis contract in the Water division and unfavorable weather conditions combined with exceptionally low energy prices in the Energy Services division;
- partially offset by an increase in hazardous waste treatment activities in the Environmental Services division and growth with industrial clients in the Technologies and Networks business in the Water division.

Oceania

The 3.1% increase at constant exchange rates is attributable to the Environmental Services division in line with growth in industrial services activities and the increase in the landfill tax in Australia and was achieved despite the end of the Adelaide contract in the Water division.

Asia

The 2.0% decline at constant exchange rates in the Water division is attributable to the increase in activity observed after the earthquake in Japan in 2011 which was not repeated in 2012, partially offset by an increase in prices in China and growth in construction activity in Korea.

Rest of the world (including the Middle East)

The 6.3% growth at constant exchange rates was marked by the development of Technologies and Networks activities with industrial customers in emerging countries. This growth was limited by the termination of the contract in Egypt in the Environmental Services division.

9.2.3 Other income statement items

9.2.3.1 Operating income and adjusted operating cash flow

Operating income

Operating income for the year ended December 31, 2012 was €1,095.0 million, compared to re-presented operating income of €829.1 million for the year ended December 31, 2011.

In addition to the change in adjusted operating cash flow described below, the change in operating income reflects:

- impairment losses on goodwill (and negative goodwill) of €85.6 million, recognized in particular on Group non-regulated activities in the Water division in the amount of €56.6 million and on Estonian activities in the Energy Services and Environmental Services divisions, compared with re-presented €470.4 million in impairments in 2011;
- an increase of €90.9 million in depreciation and amortization expense compared with re-presented 2011 figures, primarily due to recent developments particularly in the Energy Services and Water divisions. Net charges to operating depreciation and amortization expense totaled €1,479.8 million for the year ended December 31, 2012, compared with re-presented €1,388.9 million in 2011, including a foreign exchange impact of -€26.2 million;
- a decrease in net charges to operating provisions to €116.9 million for the year ended December 31, 2012, compared to re-presented €222.0 million in 2011. In 2011, net charges to operating provisions included non-current asset impairments of €151.6 million in Italy, presented as adjustments to operating income;
- stable capital gains on industrial and financial asset divestitures of €84.3 million in 2012 compared with re-presented €77.1 million in 2011.

Selling, general and administrative expenses (SG&A) for the year ended December 31, 2012 totaled €3,610.0 million compared to re-presented €3,667.3 million for the year ended December 31, 2011. The ratio of SG&A costs to revenue was therefore 12.3% in 2012, compared to re-presented 12.8% in 2011.

The 1.6% decline in these costs compared to re-presented 2011 figures reflects the initial benefits of cost reduction plans, despite implementation costs of €104.8 million.

General and administrative expenses (G&A) for the year ended December 31, 2012 totaled €3,002.3 million compared to re-presented €3,084.5 million for the year ended December 31, 2011. The ratio of G&A costs to revenue was therefore 10.2% in 2012, compared with re-presented 10.8% in 2011.

The Group's Efficiency and Convergence Plans generated €251 million in total net savings in 2012, of which €60 million is attributed to the Convergence Plan.

Operating income for the year ended December 31, 2012 and for the year ended December 31, 2011 on a re-presented basis, breaks down as follows by division:

	Operating income			
(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011 re-presented (*)	% change	% change at constant exchange rates
Water	617.7	790.4	-21.9%	-22.3%
Environmental Services	343.1	268.3	27.9%	24.1%
Energy Services	287.3	(36.4)	n/a	n/a
Other	(153.1)	(193.2)	20.8%	20.2%
Total	**1,095.0**	**829.1**	**32.1%**	
Total at 2011 exchange rates	**1,082.3**	**829.1**		**30.5%**
Operating income margin	**3.7%**	**2.9%**		

(*) A reconciliation of previously published and re-presented operating income for the year ended December 31, 2011 may be found in the Appendix.

Adjusted operating income

Adjusted operating income declined 23.4% (-24.5% at constant exchange rates) to €1,193.7 million for the year ended December 31, 2012, compared with re-presented €1,557.8 million for the year ended December 31, 2011. Excluding receivables write-downs and accrued expenses in Italy in the Energy Services division, adjusted operating income fell 18.1% (-19.2% at constant exchange rates) to €1,275.2 million.

In addition to the negative impacts identified in adjusted operating cash flow, non-current asset impairments impacted adjusted operating income due to the challenging macro-economic environment in the United Kingdom and Germany in the Environmental Services division provisions for contractual risks in the Water division and additional impairment losses recognized on SNCM of €35.0 million.

Adjusted operating income also includes capital gains on industrial and financial asset divestitures of €84.3 million in 2012 compared with re-presented of €77.1 million in 2011.

The adjusted operating income margin fell from re-presented 5.5% for the year ended December 31, 2011 to 4.1% in 2012. Excluding receivables write-downs and accrued expenses in Italy in the Energy Services division, the adjusted operating income margin would have been is 4.3% in 2012.

Changes in adjusted operating income break down as follows:

	Adjusted operating income			
(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011 re-presented (*)	% change	% change at constant exchange rates
Water	673.9	869.2	-22.5%	-23.3%
Environmental Services	356.0	417.0	-14.6%	-17.1%
Energy Services	298.5	387.0	-22.9%	-22.5%
Other	(134.7)	(115.4)	-16.7%	-17.8%
Total	**1,193.7**	**1,557.8**	**-23.4%**	
Total at 2011 exchange rates	**1,177.0**			**-24.5%**
Adjusted operating income margin	**4.1%**	**5.5%**		

(*) A reconciliation of previously published and re-presented operating income for the year ended December 31, 2011 may be found in the Appendix.

Operating income for the years ended December 31, 2012 and 2011 (re-presented) breaks down as follows:

Year ended December 31, 2012		Adjustments		
(€ million)	Adjusted operating income	Impairment losses on goodwill[(1)]	Other*	Operating income
Water	673.9	(56.6)	0.4	617.7
Environmental Services	356.0	(12.9)	0.0	343.1
Energy Services	298.5	(16.5)	5.3	287.3
Other	(134.7)	0.0	(18.4)	(153.1)
Total	**1,193.7**	**(86.0)**	**(12.7)**	**1,095.0**

* *Restructuring expenses relating to the voluntary redundancy plan in the Group holding companies are excluded from adjusted operating income.*

(1) Impairment losses on goodwill other than negative goodwill which are presented in "Other" adjustments column.

Year ended December 31, 2011 re-presented		Adjustments		
(€ million)	Adjusted operating income	Impairment losses on goodwill**[(1)]	Other***	Operating income
Water	869.2	(28.2)	(50.6)	790.4
Environmental Services	417.0	(78.1)	(70.6)	268.3
Energy Services	387.0	(366.1)	(57.3)	(36.4)
Other	(115.4)	0.0	(77.8)	(193.2)
Total	**1,557.8**	**(472.4)**	**(256.3)**	**829.1**

** *Impairment losses on goodwill recorded in respect of Group subsidiaries in Italy (€294.8 million) and the United States (€153.1 million) in 2011 (re-presented).*

*** *Impairment losses on non-current assets recorded in respect of Group subsidiaries in Italy and excluded from adjusted operating income total re-presented €151.6 million in 2011. Impairment losses on non-current assets of the SNCM group excluded from adjusted operating income total €77.8 million.*

(1) Impairment losses on goodwill other than negative goodwill which are presented in "Other" adjustment column.

Adjusted operating income is equal to operating income, adjusted to exclude the impact of goodwill impairment charges and certain special items (primarily significant capital gains, restructuring expenses and non-current asset impairments). See Section 7.2 for a more complete definition.

In 2012, adjusted operating income excludes impairment of goodwill (and negative goodwill) in the amount of €85.6 million. In general, the Group excludes impairment charges on non-current assets when they are large enough to significantly impact the economics of a cash-generating unit. In 2011, all impairment charges recorded in Italy resulting from the same external economic trigger and totaling €151.6 million, were excluded from adjusted operating income, even if the impact on operating results of certain divisions (taken in isolation) would not otherwise meet the Group's quantitative thresholds. In 2012, impairment charges on receivables and accrued expenses in the Energy Services division in Italy total €81.5 million and are included in adjusted operating income.

Adjusted operating cash flow

Adjusted operating cash flow declined 4.6% (-6.2% at constant exchange rates) to €2,722.8 million for the year ended December 31, 2012, compared with re-presented €2,852.6 million for the year ended December 31, 2011. The adjusted operating cash flow margin fell 0.8 points from re-presented 10.0% in 2011 to 9.2% in 2012.

In 2012, impairment losses on receivables and accrued expenses of €81.5 million were recorded in Italy in the Energy Services division. Excluding these impairment losses and accrued expenses in Italy, adjusted operating cash flow would have declined 1.7% (-3.3% at constant exchange rates) to €2,804.3 million.

The decrease in adjusted operating cash flow in 2012 was impacted by:

- a fall in operating performance in the Water division and particularly contractual erosion in France, recognition of the impact of the decrease in drinking water tariffs in Berlin ordered by the German Federal Cartel Office and the impact of the change to equity method accounting of the Group's stake in Berlin Water from October 31, 2012 (from proportionate consolidation method to equity method);

- an unfavorable recycled raw material price differential in France and Germany in the Environmental Services division;
- a challenging macro-economic environment in the Environmental Services division, particularly in Europe, which did not enable cost increases to be fully passed on to customers;
- receivables write-downs and accrued expenses of €81.5 million in the Energy Services division in Italy.

Conversely, adjusted operating cash flow benefited from:

- the positive contribution of cost saving plans, net of implementation costs;
- activity growth in the Water division in Central and Eastern Europe, tied to price increases in Romania, Slovakia and the Czech Republic;
- the reversal of operating difficulties in 2011 and the related restructuring costs incurred primarily in Italy, North Africa and the Middle East in the Environmental Services division; and
- activity growth with industrial clients in the Technologies and Networks business in the Water division.

The Group Efficiency and Convergence plan generated costs savings of €275 million, net of implementation costs, of which €84 million is attributed to the Convergence plan.

The €47.2 million foreign exchange impact on adjusted operating cash flow primarily reflects the appreciation against the euro of the Chinese renminbi yuan in the amount of €18.4 million, the pound sterling in the amount of €14.7 million and the US dollar in the amount of €10.2 million.

Changes in adjusted operating cash flow were as follows:

	Adjusted operating cash flow			
			% change	
(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011 represented(*)	Current exchange rates	Constant exchange rates
Water	1,172.2	1,279.4	-8.4%	-9.4%
Environmental Services	1,048.2	1,020.8	2.7%	-0.3%
Energy Services	544.4	588.9	-7.6%	-7.7%
Other	(42.0)	(36.5)	-15.1%	-21.6%
Adjusted operating cash flow	**2,722.8**	**2,852.6**	**-4.6%**	
Adjusted operating cash flow at 2011 exchange rates	**2,675.6**			**-6.2%**
Adjusted operating cash flow margin	**9.2%**	**10.0%**		

(*) A reconciliation of previously published and re-presented adjusted operating cash flow for the year ended December 31, 2011 may be found in the Appendix.

Excluding receivables write-downs and accrued expenses in the Energy Services division in Italy, the adjusted operating cash flow margin was 9.5% in 2012.

Adjusted operating cash flow reconciles to operating income as follows for the years ended December 31, 2012 and 2011 (re-presented):

Year ended December 31, 2012 *(€ million)*	**Adjusted operating cash flow**	**Net charges to operating provisions**	**Net depreciation and amortization**	**Impairment losses on goodwill and negative goodwill**	**Capital gains (losses) on disposal of non-current assets**	**Other**	**Operating income**
Water	1,172.2	(5.3)	(522.3)	(56.2)	63.3	(34.0)	617.7
Environmental Services	1,048.2	(68.8)	(639.4)	(12.9)	10.1	5.9	343.1
Energy Services	544.4	10.1	(258.3)	(16.5)	6.9	0.7	287.3
Other	(42.0)	(52.9)	(59.8)	-	4.0	(2.4)	(153.1)
TOTAL	**2,722.8**	**(116.9)**	**(1, 479.8)**	**(85.6)**	**84.3**	**(29.8)**	**1,095.0**

Year ended December 31, 2011 re-presented *(€ million)*	Adjusted operating cash flow	Net charges to operating provisions	Net depreciation and amortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	Operating income
Water	1,279.4	37.3	(492.6)	(26.2)	11.6	(19.1)	790.4
Environmental Services	1,020.8	(120.6)	(610.9)	(78.1)	54.4	2.7	268.3
Energy Services	588.9	(36.5)	(232.0)	(366.1)	11.3	(2.0)	(36.4)
Other	(36.5)	(102.2)	(53.4)	-	(0.2)	(0.9)	(193.2)
TOTAL	**2,852.6**	**(222.0)**	**(1,388.9)**	**(470.4)**	**77.1**	**(19.3)**	**829.1**

Analysis by division:

WATER

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011 re-presented	% change at current exchange rates	% change at constant exchange rates
Adjusted operating cash flow	1,172.2	1,279.4	-8.4%	-9.4%
Adjusted operating cash flow margin	*9.7%*	*10.7%*		
Adjusted operating income	673.9	869.2	-22.5%	-23.3%
Adjusted operating income margin	*5.6%*	*7.3%*		

Adjusted operating cash flow decreased 8.4% (-9.4% at constant exchange rates) to €1,172.2 million for the year ended December 31, 2012, compared with re-presented €1,279.4 million for the year ended December 31, 2011.

The adjusted operating cash flow margin (ratio of adjusted operating cash flow to revenue) fell from re-presented 10.7% for the year ended December 31, 2011 to 9.7% for the same period in 2012, and was penalized in particular by contractual erosion in France, the order from the German Federal Cartel Office to reduce water tariffs in Berlin and the impact of the change to equity method accounting of the Group's stake in Berlin Water from October 31, 2012.

For Operations activities, adjusted operating cash flow decreased by 10.6% and 11.6% at constant exchange rates.

In **France,** the decline in adjusted operating cash flow was due to the negative effects of contractual erosion, in a context of declining volumes sold compared with 2011 and operating difficulties in Guadeloupe.

Outside France, adjusted operating cash flow benefited from an improvement in Central and Eastern Europe, tied to price increases in Romania, Slovakia and the Czech Republic. These impacts were offset by the recognition of the €24.5 million reduction in Berlin water tariffs ordered by the German Federal Cartel Office, the impact of equity method accounting of the Group's stake in Berlin Water from October 31, 2012 (from proportionate consolidation method to equity method) as well as impairment losses on trade receivables and the carve-out expenses related to the divestiture of regulated activities in the United Kingdom incurred in the first half of 2012.

Finally, the adjusted operating cash flow of the Technologies and Networks business increased in line with the recovery in activity with industrial clients.

The Efficiency and Convergence plan had a net impact of €106 million in 2012, of which €40 million is attributed to the Convergence plan.

Adjusted operating income decreased 22.5% (-23.3% at constant exchange rates) to €673.9 million for the year ended December 31, 2012, compared with re-presented €869.2 million for the year ended December 31, 2011. In addition to the change in adjusted operating cash flow, adjusted operating income of the division was penalized, in particular, by provisions for contractual risk and the increase in net depreciation and amortization.

Net charges to operating provisions totaled €5.3 million for the year ended December 31, 2012, compared with re-presented net reversal €37.3 million for the year ended December 31, 2011.

Net charges to operating depreciation and amortization totaled €522.3 million for the year ended December 31, 2012, compared with re-presented €492.6 million for the year ended December 31, 2011. This increase was primarily due to the development of activities in Central and Eastern Europe.

Accordingly, the adjusted operating income margin (adjusted operating income / revenue) fell from re-presented 7.3% in the year ended December 31, 2011 to 5.6% in the year ended December 31, 2012.

ENVIRONMENTAL SERVICES

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011 re-presented**	**% change at current exchange rates**	**% change at constant exchange rates**
Adjusted operating cash flow	1,048.2	1,020.8	2.7%	-0.3%
Adjusted operating cash flow margin	*11.5%*	*11.3%*		
Adjusted operating income	356.0	417.0	-14.6%	-17.1%
Adjusted operating income margin	*3.9%*	*4.6%*		

Adjusted operating cash flow increased 2.7% (-0.3% at constant exchange rates) to €1,048.2 million for the year ended December 31, 2012, compared with re-presented €1,020.8 million for the year ended December 31, 2011.

Adjusted operating cash flow for 2012 was stable compared to 2011 at constant exchange rates and benefited, primarily, from:

- an increase in hazardous waste activities both in and outside France;
- the reversal of operating difficulties in 2011 and the related restructuring costs incurred primarily in Italy, North Africa and the Middle East;

offset by:

- a decrease in raw material prices, particularly in France, Germany and the United Kingdom;
- cost inflation in excess of service price increases in France, the United Kingdom, Germany and North America.

Adjusted operating cash flow also benefited from the implementation of the Efficiency and Convergence plans (€88 million), of which €28 million is attributed to the Convergence plan.

The adjusted operating cash flow margin increased from re-presented 11.3% in the year ended December 31, 2011, to 11.5% in the year ended December 31, 2012.

Adjusted operating income declined 14.6% (-17.1% at constant exchange rates) to €356.0 million for the year ended December 31, 2012, compared with re-presented €417.0 million for the year ended December 31, 2011.

In addition to changes in adjusted operating cash flow, this decrease in adjusted operating income also reflects non-current asset impairments recognized as a result of the challenging macro-economic environment in the United Kingdom and Germany and the differential of capital gains on divestitures related to the asset portfolio optimization program.

Net charges to operating provisions totaled €68.8 million for the year ended December 31, 2012, compared with re-presented €120.6 million for the year ended December 31, 2011.

Net charges to operating depreciation and amortization totaled €639.4 million for the year ended December 31, 2012, compared with re-presented €610.9 million for the year ended December 31, 2011.

The adjusted operating income margin fell from re-presented 4.6% in the year ended December 31, 2011 to 3.9% in the year ended December 31, 2012.

ENERGY SERVICES

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011 re-presented	% change at current exchange rates	% change at constant exchange rates
Adjusted operating cash flow	544.4	588.9	-7.6%	-7.7%
Adjusted operating cash flow margin	*7.1%*	*8.2%*		
Adjusted operating income	298.5	387.0	-22.9%	-22.5%
Adjusted operating income margin	*3.9%*	*5.4%*		

Adjusted operating cash flow decreased 7.6% (-7.7% at constant exchange rates) to €544.4 million for the year ended December 31, 2012, compared with re-presented €588.9 million for the year ended December 31, 2011. This decrease is attributable to receivables write-downs and accrued expenses of €81.5 million in Italy and adverse regulatory changes, partially offset by good activity levels in Central and Eastern Europe.

In **France**, the decline in adjusted operating cash flow of the Energy Services division was mainly due to a highly competitive environment and changes to cogenerated electricity pricing rules, despite an overall positive price effect.

Outside France, excluding the receivables write-downs and accrued expenses recorded in Italy, adjusted operating cash flow reflects:

- a favorable energy price effect in the Baltic States, the Czech Republic and Hungary, limited nonetheless in Hungary by the cessation of subsidies for the sale of cogenerated energy; and
- the contribution of the new Warsaw heating network contract (SPEC), limited by the decrease in energy certificates for cogenerated electricity produced from coal, and an increase in salary costs.

The Efficiency and Convergence plan had a net impact of €66 million in 2012, of which €8 million is attributed to the Convergence plan.

The adjusted operating cash flow margin decreased from re-presented 8.2% in the year ended December 31, 2011, to 7.1% in the year ended December 31, 2012. Excluding receivables write-downs and accrued expenses of €81.5 million in Italy, the margin would be 8.2%.

Adjusted operating income declined 22.9% (-22.5% at constant exchange rates) to €298.5 million for the year ended December 31, 2012, compared with re-presented €387.0 million for the year ended December 31, 2011.

Net reversals to operating provisions totaled €10.1 million for the year ended December 31, 2012, compared with re-presented net charges of €36.5 million for the year ended December 31, 2011. In 2011, net charges to operating provisions included impairment losses of €49.0 million in Italy.

Net charges to operating depreciation and amortization totaled €258.3 million for the year ended December 31, 2012, compared with re-presented €232.0 million for the year ended December 31, 2011, with the increase primarily attributable to the acquisition of the Warsaw heating network.

Overall, the adjusted operating income margin fell from re-presented 5.4% in the year ended December 31, 2011 to 3.9% in the year ended December 31, 2012. Excluding receivables write-downs and accrued expenses of €81.5 million in Italy, the margin was 5.0%.

OTHER SEGMENTS

Adjusted operating cash flow for this segment fell 15.1% (-21.6% at constant exchange rates) to -€42.0 million for the year ended December 31, 2012, compared with re-presented -€36.5 million for the year ended December 31, 2011.

The downturn over the period is mainly due to a negative fuel price effect in SNCM.

Adjusted operating cash flow also benefited from the implementation of the Efficiency and Convergence plans (€15 million), of which €8 million is attributed to the Convergence plan.

Adjusted operating income declined 16.7% (-17.8% at constant exchange rates) to -€134.7 million for the year ended December 31, 2012, compared with re-presented -€115.4 million for the year ended December 31, 2011. This figure includes additional asset impairments in respect of SNCM of €35.0 million, reducing the enterprise value in the Group accounts to €13 million.

Net charges to operating provisions totaled €52.9 million for the year ended December 31, 2012, compared with re-presented €102.2 million for the year ended December 31, 2011. Re-presented 2011 net charges to operating provisions included non-current asset impairments of €77.8 million in respect of SNCM.

Net charges to operating depreciation and amortization totaled €59.8 million for the year ended December 31, 2012, compared with re-presented €53.4 million for the year ended December 31, 2011.

9.2.3.2 Net finance costs

(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011 re-presented
Income	80.1	112.9
Expenses	(838.9)	(823.0)
Net finance costs	**(758.8)**	**(710.1)**
Other financial income and expenses	**(63.5)**	**(47.4)**

Net finance costs increased €48.7 million to €758.8 million in 2012 compared with re-presented €710.1 million in 2011, for average net financial debt of €14.3 billion over the 12- month period ended December 31, 2012 compared with €14.6 billion over the 12- month period ended December 31, 2011.

The increase in net finance costs was mainly due to the active management of debt and costs resulting from the early redemption of US private placements (USPP) in February 2012 and bond redemptions in the fourth quarter of 2012 (related repurchase costs of €47.3 million are presented as adjustments to net finance costs). These costs are partially offset by a decrease in expenses following the redemption of the bond line maturing in February 2012 (5.875%). These transactions were performed to optimize the cost of capital.

9.2.3.3 Income tax expense

The income tax expense for 2012 is €159.0 million.

In France, following the update of the forecast tax schedule, the Veolia Environnement tax group limited the recognition of deferred tax assets to the amount of deferred tax liabilities as of December 31, 2012, as at the previous year end.

As of December 31, 2012, Veolia Environnement capitalized additional €120 million of tax losses for the US tax group of, following amendments to the forecast tax schedule to take into account changes in scope and expected changes in the Group's activities in the United States.

The effective tax rate is 58.3%, primarily due to assets impairments not deductible for tax purposes.

The income tax rate for 2012 is 39.2% (37.2% published in 2011) after adjustment for one-off items and particularly:

- goodwill impairment of €85.6 million;
- impairment of property, plant and equipment and receivables of €186.5 million (€19.7 million deductible for tax purposes); and
- changes in the scope of the US tax group in the amount of +€53.9 million (tax amount).

9.2.3.4 Share of net income of associates

The share of net income of associates was €30 million for the year ended December 31, 2012, compared with €11.7 million for the year ended December 2011. This increase was mainly due to the change to equity method accounting of Berlin Water from October 31, 2012.

9.2.3.5 Net income from discontinued operations

Net income from discontinued operations was €386.1 million for the year ended December 31, 2012, compared with re-presented €121.0 million for the year ended December 2011.

This line item mainly comprises the following amounts:

- the net income of regulated Water activities in the United Kingdom divested in June 2012, including a capital gain on disposal of €233.3 million net of transaction costs;
- the net income of solid waste activities in the United States in the Environmental Services division divested in November 2012, including a capital gain on disposal of €208.4 million net of the tax impact and transaction costs;
- fair value adjustment of around €20 million to Veolia Transdev activities based on the reference value mentioned in the agreement for negotiation of October 22, 2012 of €400 million (100%);
- the reclassification and fair value remeasurement of net income and expenses of Water activities in Morocco, which is in the course of divestiture;
- the reclassification of net income and expenses of wind energy activities, which are in the course of divestiture;
- fair value remeasurement of the net income and expenses of Citelum urban lighting activities in the Energy Services division, which are in the course of divestiture;

Key operational indicators for Veolia Transdev in 2012 and 2011 (100%) are as follows:

(€ million)	**Veolia Transdev Year ended December 31, 2012(*)**	**Veolia Transdev year ended December 31, 2011(*) (**)**
Revenue	7,566.7	7,863.8
Adjusted operating cash flow	354.8	373.0
Operating income	(266.3)	(522.8)
Net income	**(363.9)**	**(615.9)**
Of which SNCM net income	*(21.6)*	*(149.5)*

(*) Veolia Transdev at 100%, not re-presented for IFRS 5, (at sub-group level), i.e including the results of SNCM.

(**) 2011 figures are twelve months figures. Veolia Transdev group published 2011 financial statements on a ten months basis, since the Veolia Transdev group creation on March 3rd, 2011.

On the same accounting basis, and at constant consolidation scope and exchange rates, Veolia Transdev reported revenue growth of 2.3%. This growth was driven by international activities and primarily the start-up of the Nassau County bus contract in New York, the Oresund train contract in Sweden, the second tranche of the Santiago bus contract in Chili, as well as a new tranche of a train contract with S.Bahn in Germany and the launch of Sydney ferry activities in August 2012 in Australia. France and the Netherlands reported a drop in activity following the loss of the Orleans and Aix en Provence contracts (effective January 1) and a downturn in taxi activities in the Netherlands, despite the renegotiation of urban contacts (particularly Nice and Saint-Etienne), the launch of new contracts (Mont Saint-Michel in 2012, Carcassonne and Perpignan airports in 2011) and organic growth (indexation and passenger frequency) in France.

Veolia Transdev adjusted operating cash flow decreased 4.9%, due to the increase in fuel costs and contractual changes in France and the Netherlands. Veolia Transdev benefited from the full effect of the contribution of new contracts outside France (particularly in the United States and Sweden) and the initial results of the efficiency and synergy plans.

As of December 31, 2012, Veolia Transdev's operating income was affected by impairment of goodwill and charges on non-current assets for -€320.7 million, notably in the Netherlands. For the record, as of December 31, 2011, impairment losses of -€569.9 million were recorded, notably relating to SNCM, Germany and France.

9.2.3.6 Net income attributable to non-controlling interests

Net income attributable to non-controlling interests is €136.0 million for the year ended December 31, 2012, compared with €173.2 million for the year ended December 31, 2011, and mainly concerns minority shareholders of subsidiaries in the Water division (€102.1 million), the Environmental Services division (€26.2 million), the Energy Services division (€14.3 million) and Other Segments (-€6.6 million).

The decrease in net income of non-controlling interests is mainly due to the decrease in the net income of Berlin Water in line with the order issued by the German Federal Cartel Office to reduce Berlin drinking water tariffs and to a lesser extent, the change in consolidation method of the Group's stake in Berlin Water (from proportionate consolidation to equity method accounting from October 31, 2012). This decrease is also attributable to EDF's share in receivables write-downs and accrued expenses in Italy in the Energy Services division.

9.2.3.7 Net income attributable to owners of the Company

Net income attributable to owners of the Company was €393.8 million for the year ended December 31, 2012, compared with a re-presented net loss of €489.8 million in 2011. Adjusted net income attributable to owners of the Company was €59.5 million for the year ended December 31, 2012, compared with €194.7 million for the year ended December 31, 2011, re-presented for discontinued operations.

Given the weighted average number of shares outstanding of 506.7 million in 2012 (basic and diluted) and 496.3 million in 2011 (basic and diluted), earnings per share attributable to owners of the Company (basic and diluted) was €0.78 in 2012, compared with –€0.99 in 2011. Adjusted net income per share attributable to owners of the Company (basic and diluted) is €0.12 in 2012, compared with re-presented €0.39 in 2011.

Adjusted net income for the year ended December 31, 2012 breaks down as follows:

Year ended December 31, 2012 *(€ million)*	**Adjusted**	**Adjustments**	**Total**
Operating income	1,193.7	(98.7)(*)	1,095.0
Net finance costs	(711.5)	(47.3)(***)	(758.8)
Other financial income and expenses	(63.5)		(63.5)
Income tax expense	(212.9)	53.9	(159.0)
Share of net income of associates	30.0		30.0
Net income (loss) from discontinued operations		386.1(**)	386.1
Attributable to non-controlling interests	(176.3)	40.3	(136.0)
Attributable to owners of the Company	**59.5**	**334.3**	**393.8**

(*) Adjustments to operating income are presented in Section 2.3.1.

(**) Includes primarily capital gains on disposal of regulated Water activities in the United Kingdom and solid waste activities in the United States in the Environmental Services division, as presented in Section 2.3.5.

(***) Costs related to bond redemption at the end of the year, as presented in section 2.3.2.

Re-presented adjusted net income for the year ended December 31, 2011 beaks down as follows:

Year ended December 31, 2011 re-presented *(€ million)*	**Adjusted**	**Adjustments**	**Total**
Operating income	1,557.8	(728.7)(*)	829.1
Net finance costs	(710.1)		(710.1)
Other financial income and expenses	(47.4)		(47.4)
Income tax expense	(337.3)	(183.6)	(520.9)
Share of net income of associates	11.7		11.7
Net income (loss) from discontinued operations	-	121.0	121.0
Attributable to non-controlling interests	(280.0)	106.8	(173.2)
Attributable to owners of the Company	**194.7**	**(684.5)**	**(489.8)**
Previously published Attributable to owners of the Company	**289.8**	**(779.6)**	**(489.8)**

(*) Adjustments to operating income are presented in Section 2.3.1.

9.3 Financing

The following table summarizes the Statement of change in net financial debt and the Consolidated cash flow statement and the reconciling items between both statements for 2012 and 2011.

Year ended December 31, 2012

(€ million)	**Statement of change in net financial debt (NFD)**	**Reconciling items**	**Consolidated cash flow statement**
Operating cash flow before changes in working capital	3,085		3,085
Income taxes paid	(336)		(336)
Changes in working capital	103		103
Net cash from operating activities (A)	**2,852**		**2,852**
Net cash used in investing activities (in the Statement of change in net financial debt) (B)	**2,187**	**(1,713)**	**n/a[(1)]**
Dividends received **(C)**	39		39
(Increase)/decrease in receivables and other financial assets **(D)**	(85)		(85)
Net cash used in investing activities (in the Consolidated cash flow statement)	**n/a[(1)]**		**428**
Net increase/(decrease) in current borrowings	-	(1,268)	(1,268)
New non-current borrowings and other debt	-	1,326	1,326
Principal payments on non-current borrowings and other debt	-	(1,660)	(1,660)
Issues of share capital subscribed by the non-controlling interests[(2)] **(E)**	1	2	3
Other share capital changes including issues of share capital by VE SA[(2)] **(F)**	-	-	-
Dividends paid **(G)**	(547)	-	(547)
Net interest paid[(3)] **(H)**	(774)	(71)	(845)
Transactions with non-controlling interests: partial purchases		(121)	(121)
Transactions with non-controlling interests: partial sales		(3)	(3)
Net cash from (used in) financing activities	**(1,320)**		**(3,115)**
FREE CASH FLOW = (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)		**3,673**	
Effect of foreign exchange rate changes and other[(*)]	(226)	37	(189)
Change	**3,447**	**(3,472)**	**(25)**
NET FINANCIAL DEBT/NET CASH AT THE BEGINNING OF THE YEAR	**(14,730)**		**5,284**
NET FINANCIAL DEBT/NET CASH AT THE END OF THE YEAR	**(11,283)**		**5,259**

(*) The line item "Effect of foreign exchange rate changes and other" in the Statement of change in net financial debt primarily includes in 2012 the impact of exchange rates on the debt in the amount of -€148 million, the removal of the external debt of Water activities in Morocco in the amount of €282.6 million, the recognition of put options in the amount of €140.4 million in the Water and Energy Services divisions and the reclassification of cash relating to the divestiture of Ridgeline in the amount of -€64 million.

(1) The symbol n/a denotes that this figure in the table does not correspond to the definition of net cash from (used in) investing activities in the Consolidated cash flow statement or the Statement of change in net financial debt. In 2012, net cash used in investing activities in the Consolidated cash flow statement and the Statement of change in net financial debt totaled +€428 and +€2,187 million, respectively.

The reconciling items correspond to:

- *assets purchased under finance lease (not included in investments in the Consolidated cash flow statement pursuant to IAS 7) in the amount of €60 million in 2012 compared with €46 million in 2011;*
- *the Net Financial Debt (excluding cash and cash equivalents) of companies acquired or divested for financial investments and financial divestitures in the amount of -€1,895 million in 2012 compared to -€33 million in 2011;*
- *transactions with non-controlling interests where there is no change in control for a net amount of -€122 million in 2012 and -€22 million in 2011.*

(2) The Consolidated cash flow statement includes all issues of share capital both by the non-controlling interests and the parent company Veolia Environnement, whereas the Statement of change in net financial debt includes only issues of share capital by the non-controlling interests.

(3) The reconciling items correspond to accrued interest on current and non-current borrowings.

Year ended December 31, 2011

(€ million)	**Statement of change in net financial debt (NFD)**	**Reconciling items**	**Consolidated cash flow statement**
Operating cash flow before changes in working capital	3,353		3,353
Income taxes paid	(368)		(368)
Changes in working capital	(41)		(41)
Net cash from operating activities (A)	**2,944**	**-**	**2,944**
Net cash used in investing activities (in the Statement of change in net financial debt) (B)	**(1,198)**	**101**	**n/a (1)**
Dividends received **(C)**	12	-	12
(Increase)/decrease in receivables and other financial assets **(D)**	(53)	-	(53)
Net cash used in investing activities (in the Consolidated cash flow statement)	**n/a (1)**		**(1,138)**
Net increase/(decrease) in current borrowings	-	(534)	(534)
New non-current borrowings and other debt	-	745	745
Principal payments on non-current borrowings and other debt	-	(315)	(315)
Issues of share capital subscribed by the non-controlling interests[2] **(E)**	49	(46)	3
Other share capital changes including issues of share capital by VE SA[2] **(F)**	2	-	2
Dividends paid **(G)**	(547)	-	(547)
Net interest paid[3] **(H)**	(771)	17	(754)
Transactions with non-controlling interests: partial purchases	-	(54)	(54)
Transactions with non-controlling interests: partial sales	-	78	78
Net cash from (used in) financing activities	**(1,267)**		**(1,376)**
FREE CASH FLOW = (A)+(B)+(C)+(D)+(E)+(F)+(G)+(H)		**438**	
Effect of foreign exchange rate changes and other[*]	50	(216)	(166)
Change	**488**	**(224)**	**264**
NET FINANCIAL DEBT/NET CASH AT THE BEGINNING OF THE YEAR	**(15,218)**	**-**	**5,020**
NET FINANCIAL DEBT/NET CASH AT THE END OF THE YEAR	**(14,730)**	**-**	**5,284**

(*) The line item "Effect of foreign exchange rate changes and other" primarily includes in 2011 the impact of exchange rates on the debt in the amount of -€64 million and the reclassification in assets and liabilities held for sale of external net financial debt of the Veolia Transdev combination in the amount of €205 million.

9.3.1 Operating cash flow before changes in working capital

Operating cash flow before changes in working capital totaled €3,084.7 million in 2012 compared to €3,352.9 in 2011, including adjusted operating cash flow of €2,722.8 million (compared with re-presented €2,852.6 million in 2011), operating cash flow from financing activities of €24.8 million (compared with re-presented €9.2 million in 2011) and operating cash flow from discontinued operations of €337.2 million (compared with re-presented €491.1 million in 2011).

9.3.2. Net investment flows

Net investment flows for the years ended December 31, 2012 and 2011 break down as follows:

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Net cash from/(used in) investing activities in the Consolidated cash flow statement	**428**	**(1,138)**
New operating financial assets (OFA)	-	(3)
Industrial investments	(60)	(43)
Financial investments	(219)	(40)
Transactions with non-controlling interests: partial purchases	(121)	(54)
Industrial and financial divestitures(*)	2,114	7
Transactions with non-controlling interests: partial sales	(1)	32
Dividends received	(39)	(12)
Increase/(decrease) in receivables and other financial assets	85	53
Net cash from/(used in) investing activities in the Statement of change in net financial debt	**2,187**	**(1,198)**
Issues of share capital subscribed by the non-controlling interests	1	49
Total Net Investments	**2,188**	**(1,149)**

(*) Changes in consolidation scope impacting Net financial debt are included in financial investments and divestitures in the Statement of change in net financial debt whereas only changes in consolidation scope impacting cash are included in the consolidated cash flow statement. In 2012, these impacts mainly concerned net financial debt (excluding cash) for entities that were either divested or had changes in their consolidation method in the Water division.

9.3.2.1 Net investments

Year ended December 31, 2012

(€ million)	Water	Environmental Services	Energy Services	Other[2]	TOTAL
Industrial investments[1]	607	725	571	458	**2,361**
Financial investments	307	34	21	26	**388**
New operating financial assets	162	56	173	21	**412**
Transactions with non-controlling interests: partial purchases	105	9	7	-	**121**
Total Gross Investments	**1,181**	**824**	**772**	**505**	**3,282**
Industrial divestitures	(22)	(68)	(28)	(56)	**(174)**
Financial divestitures	(3,050)	(1,552)	(123)	(200)	**(4,925)**
Transactions with non-controlling interests: partial sales	-	-	1	-	**1**
Issues of share capital subscribed by the non-controlling interests	5	(2)	(3)	(1)	**(1)**
Total divestitures	**(3,067)**	**(1,622)**	**(153)**	**(257)**	**(5,099)**
Principal payments on operating financial assets	(197)	(30)	(120)	(24)	**(371)**
Total Net Investments	**(2,083)**	**(828)**	**499**	**224**	**(2,188)**

Year ended December 31, 2011

(€ million)	Water	Environmental Services	Energy Services	Other[2]	TOTAL
Industrial investments[1]	638	807	544	312	**2,301**
Financial investments	29	92	263	28	**412**
New operating financial assets	194	47	92	34	**367**
Transactions with non-controlling interests: partial purchases	1	44	8	1	**54**
Total Gross Investments	**862**	**990**	**907**	**375**	**3,134**
Industrial divestitures	(40)	(54)	(16)	(59)	**(169)**
Financial divestitures	(144)	(323)	(209)	(618)	**(1,294)**
Transactions with non-controlling interests: partial sales	-	-	(32)	-	**(32)**
Issues of share capital subscribed by the non-controlling interests	-	-	(50)	1	**(49)**
Total divestitures	**(184)**	**(377)**	**(307)**	**(676)**	**(1,544)**
Principal payments on operating financial assets	(199)	(79)	(143)	(20)	**(441)**
Total Net Investments	**479**	**534**	**457**	**(321)**	**1,149**

(1) Including assets purchased under finance leases.

(2) Including investment flows and divestitures of SNCM and other Group holding companies.

The Company continues to apply selective investment criteria, while maintaining industrial investments as required by contractual terms or required maintenance.

(i) Industrial investments

Industrial investments (including assets purchased under finance leases) amounted to €2,361 million in 2012 compared with €2,301 million in 2011 and break down as follows:

- €607 million in the Water division (down 4.9% vs 2011), including €415 million in growth investments and €192 million in maintenance-related investments (€220 million in 2011). Growth investments mainly concerned concession assets in France and Eastern Europe (extension of the scope of the Glina and Cassetta concessions in Romania) and investment in Gabon deferred until 2012;
- €725 million in the Environmental Services division (down 10.2% vs 2011), including €274 million in growth investments and €451 million in maintenance-related investments (€524 million in 2011). Industrial investments, mainly comprising growth investment in the new waste management and recycling contracts in the United Kingdom, remain under tight control;
- €571 million in the Energy Services division (up 5.0% vs 2011), including €455 million in growth investments and €116 million in maintenance-related investments (€131 million in 2011). The increase in industrial growth investments mainly concerned new biomass projects, particularly in France;
- €458 million in the Other operating segments (up 46.8% vs 2011), including €305 million in growth investments and €153 million in maintenance-related investments (€219 million vs 2011). This increase is mainly attributable to the wind farm construction project in the United States in the renewable energy sector in the amount of €185 million.

Maintenance-related investments totaled €912 million in 2012 (3.1% of revenue), compared with re-presented €1,094 million in 2011 (3.8% of revenue).

(ii) Financial investments

Financial investments totaled €388 million in 2012, compared with €412 million in 2011. In 2012, financial investments mainly comprised the acquisition of an additional 49% stake in Azaliya for an enterprise value of €247 million and a 10% stake in the investment fund Affinity Water A (formerly, Rift Acquisition Ltd) after its acquisition of the regulated Water activities in the United Kingdom, for a consideration of €44 million. This stake will be held for a period of at least 5 years.

In 2011, financial investments primarily concerned the acquisition of the Warsaw district heating network in the Energy Services division for an enterprise value of €227 million (Group share).

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

New operating financial assets totaled €412 million in 2012 compared with €367 million in 2011 and break down as follows:

- €162 million in the Water division and mainly new operating financial assets under the Berlin contract, before the change in consolidation method;
- €173 million in the Energy Services division, concerning various cogeneration investments in France.

(iv) Transactions with non-controlling interests: partial purchases

Partial purchases with non-controlling interests where there is no change in control totaled €121 million in 2012 and included the purchase of 6.9% of Veolia Voda, in the Czech Republic, from the EBRD for an enterprise value of €79 million.

(v) Industrial and financial divestitures

Transactions related to the asset portfolio optimization program amounted to €5,099 million in 2012 compared with €1,544 million in 2011 and break down as follows:

- Financial transactions of €4,925 million, including:
  - the divestiture of regulated activities in the United Kingdom in the Water division for an enterprise value of GBP1.2 billion (€1.5 billion). This transaction reduced Veolia Environnement's net financial debt by €1,516.8 million;
  - the divestiture of solid waste activities in the United States in the Environmental Services division for an enterprise value of €1,464.0 million;
  - the loss of joint control exercised by the Group over the Berlin water contract, leading to a reduction in net financial debt of €1,427.8 million;
  - the divesture of wind energy activities in the United States for an enterprise value of €202.7 million;
  - the divestiture of Energy Services activities in Estonia for an enterprise value of €62,9 million;
- industrial divestitures of €174 million, including €68 million in the Environmental Services division and €56 million in the "Other" operating segment;

(vi) Transactions with non-controlling interests: partial sales

Partial sales with non-controlling interests where no change in control occurred totaled -€1 million in 2012.

(vii) Principal payments on operating financial assets

Principal payments on operating financial assets amounted to €371 million in 2012 (including €197 million in the Water division and €120 million in the Energy Services division), compared with €441 million in 2011.

(viii) Issues of share capital subscribed by the non-controlling interests

Issues of share capital subscribed by non-controlling interests totaled €1 million in 2012.

9.3.3 Working capital

The improvement in working capital requirements impacted net cash from operating activities in the amount of €103 million for the year ended December 31, 2012, and was due to:

- efforts in recent years to speed up invoicing and payment receipt in the Water division in France;
- increased securitization of receivables in the Energy Services division in France;
- write-downs of receivables and accrued expenses in the amount of €81.5 million in the Energy Services division in Italy; and
- a fall in trade receivables following the order by the German Federal Cartel Office to reduce Berlin drinking water tariffs.

These favorable impacts were partially offset by the end of certain major Design and Build contracts in the Technologies and Networks business in the Water division.

9.3.4 Free Cash Flow

The Company monitors the free cash flow indicator, a non GAAP indicator defined in Section 7.2. The calculation of this indicator for the year ended December 31, 2012 is presented in Section 3.

Free cash flow for the year ended December 31, 2012 (after payment of the dividend) is therefore €3,673 million, compared with €438 million in 2011.

The free cash flow between December 31, 2011 and 2012 reflects:

- implementation of the asset portfolio optimization program, which contributed to the reduction in Group net financial debt in the amount of €5,099 million;
- the €103 million contribution of working capital requirements;
- the continuation of the Group's non-controlling interest buyout policy (including the acquisition of 49% of the share capital of Azaliya for an enterprise value of €247 million and the buyout of non-controlling interests in the Czech Republic in the Water division for €79 million), in a context of tight control over industrial investment;
- the decline in adjusted operating cash flow.

For the year ended December 31, 2012, the Group generated positive cash flow after payment of financial expense and taxes, before net financial divestments (and before operating cash flow before changes in working capital minus industrial divestments of discontinued operations entities) of €89 million. This non-GAAP indicator is defined in section 7.2.

9.3.5 Net cash from (used in) financing activities

Net cash from (used in) financing activities in the Statement of change in net financial debt for the years ended December 31, 2012 and 2011 breaks down as follows:

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Issues of share capital subscribed by the non-controlling interests	1	49
Other share capital changes including issues of share capital by VE SA	-	2
Dividends paid	(547)	(547)
Net interest paid	(774)	(771)
Net cash from (used in) financing activities	**(1,320)**	**(1,267)**

Net cash used in financing activities in the Statement of change in net financial debt totaled €1,320 million in 2012, compared with €1,267 million in 2011. This increase was due to the reduction in share issues subscribed by non-controlling interests in 2012 compared with 2011.

Net cash from (used in) financing activities in the Consolidated cash flow statement for the years ended December 31, 2012 and 2011 breaks down as follows:

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011**
Net increase/(decrease) in current borrowings	(1,268)	(534)
New non-current borrowings and other debt	1,326	745
Principal payments on non-current borrowings and other debt	(1,660)	(315)
Issues of share capital subscribed by the non-controlling interests	3	3
Other share capital changes	-	2
Dividends paid	(547)	(547)
Net interest paid	(845)	(754)
Transactions with non-controlling interests: partial purchases	(121)	(54)
Transactions with non-controlling interests: partial sales	(3)	78
Net cash from (used in) financing activities	**(3,115)**	**(1,376)**

Net cash used in financing activities in the Consolidated cash flow statement totaled €3,115 million in 2012, compared with €1,376 million in 2011.

- the decrease in current borrowings in 2012 includes the end of the receivables securitization program in the Water division in France (€341 million), commercial paper issues (€444 million) and the redemption of the euro bond line which matured in February 2012 (€671 million),
- new non-current borrowings and other debt include the issue of a new €750 million bond line maturing in 2027 by Veolia Environnement SA in conjunction with a public exchange offering performed in March 2012,
- repayment of non-current borrowings and other debt includes the early redemption in February 2012 of €350 million of the US private placements, the early redemption through a public exchange offer of €750 million in bonds maturing in 2013, 2014, 2017 and 2018 and €750 million partial repurchases carried out during the fourth quarter of 2012 on U.S. dollar denominated bonds maturing in 2015 and 2018 and euro denominated bonds maturing in 2016 and 2017.

For more details on the Company's financing policy, please refer to Section 3.7 "External financing."

The financing rate (defined as the ratio of net finance costs excluding fair value adjustments to instruments not qualifying for hedge accounting to average monthly net financial debt for the period) decreased to 5.25% in 2012 compared to 5.39% in 2011, (excluding cost of debt repurchases in December 2012 of €47M presented as adjustments to net finance costs). This decrease is mainly due to active debt management and amortization of debt, as well as the impact of the reimbursement of bonds maturing in February 2012.

9.3.6 Other changes

9.3.6.1 Increase/(decrease) in receivables and other financial assets

The decrease of €85 million is mainly due to the change in loans granted to proportionately consolidated companies, mainly Dalkia International, the €25.9 million loan granted to RVB on October 31, 2012, the date from which the Berlin Water management company is equity accounted and the loan granted to RIFT Acquisition Midco in connection with the acquisition of a 10% stake in the investment fund Affinity Water A (formerly Rift Acquisition Ltd) which acquired the regulated Water activities in the United Kingdom (GBP 13 million).

9.3.6.2 Dividends paid

Dividends paid include dividends paid by the parent Company of €330 million (€354 million net of the scrip dividend distribution of €24 million) and dividends paid to non-controlling interests of €217 million.

9.3.7 External financing

9.3.7.1 Rating agencies

As of December 31, 2012, Moody's and Standard & Poor's rated Veolia Environnement SA as follows:

	Short-term	Long-term	Outlook	Recent events
Moody's	*P-2*	*Baa1*	Stable	On February 7, 2012, Moody's downgraded the long-term credit rating one notch from "A3" to "Baaa1", with a stable outlook. The short-term credit rating remains unchanged at P-2.
Standard and Poor's	A-2	*BBB+*	Negative	On October 10, 2012, Standard and Poor's confirmed the ratings assigned on October 3, 2005, but down-graded the outlook from stable to negative.

9.3.7.2 Main events

Early redemption of US private placements

On January 9, 2012, Veolia Environnement SA sent a notice of early redemption to all holders of the US private placement performed in January 2003. Early redemption was effectively performed on February 9, 2012 for a euro-equivalent of €350.2 million.

Bond exchange

Between March 19 and March 27, 2012, Veolia Environnement refinanced by early redemption of a portion of the Company's bonds maturing in 2013, 2014, 2017 and 2018 for an amount of €750 million. At the same time, the Company issued a new bond line maturing in 2027 for the same amount. This operation enabled the Group to increase the maturity of its debt and smooth the redemption schedule, without significantly impacting the finance cost.

Bond issue in China

On June 26, 2012, as part of its EMTN program, Veolia Environnement issued a new bond line of CNY500 million (€63.3 million at the settlement date) maturing in June 2017, to finance the requirements of its subsidiaries in China.

Early reversal of a portion of the swap portfolio

In July and August, given the historically low mid-term interest rates, the Group launched the unwinding of a portion of its swap portfolio of euro-denominated floating-rate payer swaps. These swaps were classified as fair value swaps hedging Veolia Environnement bond issues. Balancing amounts paid by the banks totaled €420 million and concerned notional amounts of €3,075 million.

Partial buyback of USD and euro-denominated bond lines

During the fourth quarter, Group transactions concerned the full buy back of the USD 50 million (€38.8 million at the transaction date) private placement under the EMTN program, paying a coupon of 4.685% and maturing in June 2015, the partial buy back in the amount of €341 million of the euro-denominated bonds paying a coupon of 4.0% and maturing in February 2016, the partial buy back in the amount of €256 million of the euro-denominated bonds paying a coupon of 4.375% and maturing in January 2017 and the partial buy back in the amount of USD 153 million (€116.1 million at the transaction date) of the U.S. dollar-denominated bonds paying a coupon of 6.0% and maturing in June 2018.

The total cost of these transactions of €47 million was presented as adjustments to net finance costs.

These partial buybacks bring remaining outstandings on these bond lines to €559 million, €744 million and USD 547 million, respectively.

These transactions reduce the carrying cost of available cash, following the Company's divestitures in 2012 and are part of the company's active management of its debt and the optimization of its net finance costs.

9.3.7.3 Liquidity position

Liquid assets of the Company as of December 31, 2012 and 2011 break down as follows:

(€ million)	**As of December 31, 2012**	As of December 31, 2011
Veolia Environnement:		
Undrawn MT syndicated loan facility	2,607.3	2,692.7
Undrawn MT bilateral credit lines	625.0	700.0
Undrawn ST bilateral credit lines	300.0	300.0
Letter of credit facility	473.7	483.0
Cash and cash equivalents	4,349.6	4,283.3
Subsidiaries:		
Cash and cash equivalents	1,198.2	1,440.6
Total liquid assets	**9,553.8**	**9,899.6**
Current debts and bank overdrafts and other cash position items		
Current debts	3,629.2	3,942.3
Bank overdrafts and other cash position items	288.7	440.2
Total current debts and bank overdrafts and other cash position items	**3,917.9**	**4,382.5**
Total liquid assets net of current debts and bank overdrafts and other cash position items	**5,635.9**	**5,517.1**

Veolia Environnement may draw on the multi-currency syndicated credit facility and all credit lines at any time.

Undrawn Medium-Term syndicated loan facilities

Veolia Environnement signed two syndicated credit facilities on April 7, 2011: a 5-year €2.5 billion multi-currency credit facility and a 3-year €500 million credit facility available for drawdown in Polish zloty, Czech crown and Hungarian forint (drawn in Polish zloty for a euro-equivalent of €392.7 million as of December 31, 2012). Both facilities include two one-year extension options. These facilities refinanced in advance the €4 billion multi-currency syndicated credit facility held by Veolia Environnement. The extension option of the two syndicated facilities was exercised and accepted in 2012.

Bilateral credit lines

Undrawn credit lines as of December 31, 2012 are as follows:

Bank	**Maturity**	**Amount** *(€ million)*
Société Générale	12/29/2015	150
Banco Santander	08/19/2015	100
Bank of Tokyo-Mitsubishi	10/01/2015	150
NATIXIS	04/13/2015	150
CM CIC	12/17/2013	100
Commerzbank	12/10/2013	100
CACIB	04/16/2013	100
La Banque Postale	06/25/2015	75
Total		**925**

Letter of credit facility

The portion of the USD 1.25 billion US letter of credit facility signed on November 22, 2010 that may be drawn in cash is capped at USD 625 million, i.e. half of the facility. As of December 31, 2012, the facility was drawn USD 374.1 million in the form of letters of credit. The portion that may be drawn in cash of USD 625 million (€473.7 million euro equivalent) is undrawn and therefore recorded in the liquidity table.

Cash and cash equivalents of VE SA

Veolia Environnement SA cash surpluses (€4,349.6 million as of December 31, 2012) are managed with a profitability objective close to that of the money market, avoiding exposure to capital risk and maintaining a low level of volatility. Cash equivalents are mainly invested in UCITS (mutual funds), negotiable debt securities (bank certificates of deposit, negotiable medium term notes and commercial paper) and related instruments.

9.3.7.4 Information on early debt repayment clauses

Veolia Environnement SA debt

The legal documentation for bank financing and bond issues contracted by the Company does not contain any financial covenants, i.e. obligations to comply with a debt coverage ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Subsidiary debt:

Certain project financing or financing granted by multilateral development banks to the Group's subsidiaries contain financial covenants (as defined above).

Based on due diligence performed within the subsidiaries, the Group considers that the covenants included in the documentation of material financing were satisfied (or had been waived by lenders) as of December 31, 2012.

Project financing in Italy in the Environmental Services division that did not comply with all covenants as of December 2011 was retained in current borrowings as of December 31, 2012 given ongoing legal proceedings.

9.3.7.5 Net financial debt structure

The net financial debt structure as of December 31, 2012 and 2011 is as follows:

(€ million)	**As of December 31, 2012**	As of December 31, 2011
Non-current borrowings	13,083.7	16,706.7
Current borrowings	3,629.2	3,942.3
Bank overdrafts and other cash position items	288.7	440.2
Sub-total borrowings	**17,001.6**	**21,089.2**
Cash and cash equivalents	(5,547.8)	(5,723.9)
Fair value gains/losses on hedge derivatives	(170.4)	(635.4)
Net financial debt	**11,283.4**	**14,729.9**

9.3.7.6 Maturity of non-current borrowings

Non-current borrowings of the Group fall due as follows as of December 31, 2012:

		Maturity of non-current borrowings		
(€ million)	**Amount**	**2 to 3 years**	**4 to 5 years**	**More than 5 years**
Bonds	10,870.6	1,904.2	1,810.8	7,155.6
Bank borrowings	2,213.1	966.5	384.2	862.4
Non-current borrowings	**13,083.7**	**2,870.7**	**2,195.0**	**8,018.0**

9.4 Return on Capital Employed (ROCE)

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

The return on capital employed is defined in Section 7.2 below.

Net income from operations is calculated as follows:

(€ million)	**Year ended December 31, 2012**	Year ended December 31, 2011, re-presented
Adjusted operating income	1,193.7	1,557.8
+ Share of net income of associates	30.0	11.8
- Adjusted income tax expense	(212.9)	(337.3)
- Revenue from operating financial assets	(329.4)	(383.7)
+ Income tax expense allocated to operating financial assets	69.1	83.3
Net income from operations	**750.5**	**931.9**

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

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

Capital employed in 2012 includes assets and liabilities classified in assets and liabilities held for sale as of December 31, 2012.

Capital employed is calculated as follows:

(€ million)	**As of December 31, 2012**	As of December 31, 2011, re-presented	As of December 31, 2010, re-presented
Intangible assets and property, plant and equipment, net	12,499.3	14,398.2	15,373.7
Goodwill, net of impairment	4,795.0	5,795.9	6,840.2
Investments in associates	441.5	325.2	311.7
Operating and non-operating working capital requirements, net	(423.7)	(777.4)	(506.4)
Net derivative instruments and other[(1)]	(118.1)	(111.0)	(71.3)
Provisions	(2,635.7)	(2,681.9)	(3,003.8)
Capital employed of companies classified in assets and liabilities held for sale	66.4	98.2	76.4
Capital employed	**14,624.7**	**17,047.2**	**19,020.5**
Impact of operations discontinued in 2011 and other restatements[(2)]	-		(1,798.1)
2011 published capital employed		**17,047.2**	**17,222.4**
Impact of operations discontinued in 2012 and other restatements[(3)]	-	(2,111.9)	(1,858.9)
2012 published capital employed	**14,624.7**	**14,935.3**	**15,363.5**
2012 average capital employed	**14,780.0**	**15,149.4**	**14,885.2**

(1) Excluding derivatives hedging the fair value of debt in the amount of €190.6 million as of December 2012, €653.9 million as of December 31, 2011 and €531.4 million as of December 31, 2010.

(2) Adjustments mainly include the impact on 2011 published figures of the capital employed of discontinued operations, that is Citelum activities in the Energy Services division, the "Proxiserve" household assistance services business in the Water and Energy Services divisions, the entire Transportation division and the reclassification of Water division activities in Gabon to continuing operations;

(3) Adjustments mainly include the impact of the capital employed of discontinued operations in 2012, that is regulated Water activities in the United Kingdom, Water activities in Morocco, solid waste activities in the United States in the Environmental Services division and wind energy activities (Eolfi) and the reclassification to continuing operations of the activities of the SNCM Group;

The Company's return on capital employed (ROCE) after tax is as follows:

(€ million)	Net income from operations	Average capital employed	ROCE after tax
2012	**750.5**	**14,780.0**	**5.08%**
2011	931.9	15,149.4	**6.15%**

The decrease in the return on capital employed between 2012 and 2011 was due to the downturn in operational performance in 2012.

Capital employed breaks down by division and country as follows:

Year ended December 31, 2012 *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	1,265.0	518.7	235.5	937.8	431.2	120.9	50 .8	1,844.6	33.8	121.1	**5,559.4**
Environmental Services	1,408.3	715.8	1,203.8	203.8	178.6	208.1	376.8	223.2	77.3	172.2	**4,767.9**
Energy Services	1,109.1	7.2	89.9	1,545.0	420.1	503.8	11.4	251.4	12.0	41.3	**3,991.2**
Other	(143.1)	-	(33.9)	-	173.3	183.7	-	0.6	(2.4)	128.0	**306.2**
Segment assets	**3,639.3**	**1,241.7**	**1,495.3**	**2,686.6**	**1,203.2**	**1,016.5**	**439.0**	**2,319.8**	**120.7**	**462.6**	**14,624.7**

Year ended December 31, 2011, re-presented *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	1,164.8	539.2	471.6	903.3	480.2	136.3	50.5	1,810.4	(15.2)	139.4	**5,680.5**
Environmental Services	1,453.0	735.3	1,148.2	229.3	231.0	268.8	371.9	178.5	77.5	169.5	**4,863.0**
Energy Services	1,067.9	6.6	113.3	1,495.7	516.1	515.1	10.0	193.9	35.5	39.3	**3,993.4**
Other	(7.7)	-	(27.7)	-	175.5	147.0	-	-	(2.0)	113.3	**398.4**
Segment assets	**3,678.0**	**1,281.1**	**1,705.4**	**2,628.3**	**1,402.8**	**1,067.2**	**432.4**	**2,182.8**	**95.8**	**461.5**	**14,935.3**

Change *(€ million)*	France	Germany	United Kingdom	Central and Eastern Europe	Other European countries	United States	Oceania	Asia	Middle East	Rest of the world	**Total**
Water	100.2	-20.5	-236.1	34.5	-49.0	-15.4	0.3	34.2	49.0	-18.3	**-121.1**
Environmental Services	-44.7	-19.5	55.6	-25.5	-52.4	-60.7	4.9	44.7	-0.2	2.7	**-95.1**
Energy Services	41.2	0.6	-23.4	49.3	-96.0	-11.3	1.4	57.5	-23.5	2.0	**-2.2**
Other	-135.4	-	-6.2	-	-2.2	36.7	-	0.6	-0.4	14.7	**-92.2**
Segment assets	**-38.7**	**-39.4**	**-210.1**	**58.3**	**-199.6**	**-50.7**	**6.6**	**137.0**	**24.9**	**1.1**	**-310.6**

9.5 Statutory auditors' fees

In 2012 and 2011, Veolia Environnement and its fully consolidated subsidiaries paid the following fees to its statutory auditors for services rendered in connection with all consolidated companies:

	KPMG Network				Ernst & Young Network			
	Amount (excl. taxes)		Percentage		Amount (excl. taxes)		Percentage	
	2012	2011	2012	2011	2012	2011	2012	2011
Statutory audit, certification, audit of Company and consolidated accounts[1]	12.4	12.3	82.6%	81.9%	10.6	11.2	79.8%	83.6%
- Veolia Environnement:	1.2	1.2	7.8%	7.9%	1.1	1.0	8.2%	7.8%
- Fully-consolidated subsidiaries	11.2	11.1	74.8%	74.0%	9.5	10.2	71.6%	75.7%
Other diligences and services directly related to the statutory audit engagement[2]	2.6	2,7	17.4%	18.1%	2.7	2.2	20.2%	16.4%
- Veolia Environnement:	1.7	1.2	11.4%	8.3%	1.2	0.9	9.2%	6.8%
- Fully-consolidated subsidiaries	0.9	1.5	6.1%	9.9%	1.5	1.3	11.0%	9.5%
Sub-total 1	**15.0**	**15.0**	**100%**	**100%**	**13.3**	**13.4**	**100%**	**100%**
Other services rendered by the networks to fully consolidated subsidiaries[3]								
- Legal, tax, employee-related								
- Other								
Sub-total 2								
Total (1+2)	**15.0**	**15.0**	**100%**	**100%**	**13.3**	**13.4**	**100%**	**100%**

(1) Including services provided by independent experts and statutory auditor network members at the request of the statutory auditors for the purpose of the audit.

(2) Diligences and services rendered to Veolia Environnement or its subsidiaries by the statutory auditors or members of their networks.

(3) Non-audit services rendered by network members to Veolia Environnement subsidiaries.

9.6 Forward-looking Information and objectives

At the Investor Day on December 6, 2011 and then on the publication of the interim financial statements for the half-year ended December 31, 2012, Veolia Environnement set a number of objectives.

For the period 2012-2013, Veolia Environnement's objective was:

- to sell €5 billion in assets;
- to reduce its net financial debt below €12 billion excluding the impact of foreign exchange fluctuations,
- gross cost reductions of €270 million and net cost reductions of €170 million to benefit the operating income given changes in the economic environment; and
- to pay a dividend in 2013 of €0.70 per share, in respect of fiscal year 2012.

After 2013, the Company aims, assuming an average economic environment, for:

- organic revenue growth of over 3% per year;
- growth in adjusted operating cash flow of over 5% per year;
- a debt leverage ratio (net financial debt/(Operating cash flow before changes in working capital + principal payments on operating financial assets) of around 3.0x +/-5%;
- a payout ratio in line with the historical average; and
- gross cost reductions of €500 million and net cost reductions of €470 million to benefit the operating income in 2015.

Due to the changes in accounting rules imposing the equity accounting of joint ventures and the faster than scheduled implementation of the divestiture program, the Group amended its objectives as follows.

For the period 2012-2013, Veolia Environnement's objective is:

- to sell €6 billion[(1)] in assets, including the repayment of joint venture loans relating to divestures;
- to reduce its net financial debt to between €8 billion to €9 billion and adjusted net financial debt (net of joint venture loans) to between €6 billion to €7 billion excluding the impact of foreign exchange fluctuations;
- gross cost reductions of €270 million and net cost reductions of €170 million to benefit the operating income, including over 20% in joint ventures, given changes in the economic environment; and
- to pay a dividend in 2013 and 2014 of €0.70 per share, in respect of fiscal years 2012 and 2013 respectively.

After 2013, the Company aims, assuming an average economic environment, for:

- organic revenue growth of over 3% per year;
- growth in adjusted operating cash flow of over 5% per year;
- a debt leverage ratio (adjusted net financial debt/(Operating cash flow before changes in working capital + principal payments on operating financial assets) of around 3.0x +/-5%;
- a payout ratio in line with the historical average;
- gross cost reductions of €500 million and net cost reductions of €470 million in 2015 to benefit the operating income, including over 20% in joint ventures.

(1) Including the debt reduction of €1.4 billion related to the change to equity method accounting for the Berlin contract

9.7 Appendices to the Operating and Financial Review

9.7.1 2011 Reconciliation of previously published and re-presented data for the year ended December 31, 2011 (revenue, adjusted operating cash flow and operating income)

Revenue by segment *(€ million)*	**Year ended December 31, 2011 published**	**Restatement IFRS 5**	**Restatement IFRS 8**	**Year ended December 31, 2011, re-presented**
Water	12,617.1	(581.2)*	(114.6)	11,921.3
Environmental Services	9,740.2	(586.2)*	(143.2)	9,010.8
Energy Services	7,290.0	(32.1)*	(119.7)	7,138.2
Other	-	128.7*	377.5	506.2
Revenue as per the consolidated income statement	**29,647.3**	**(1,070.8)**	**-**	**28,576.5**

(*) reclassification to Net income (loss) from discontinued operations of Water activities in Morocco and wind energy activities (previously presented under the Energy Services division in 2011) as well as solid waste activities in the United States and regulated Water activities in the United Kingdom. Reclassification to continuing operations of SNCM.

Adjusted operating cash flow by segment *(€ million)*	**Year ended December 31, 2011 published**	**Restatement IFRS 5**	**Restatement IFRS 8**	**Year ended December 31, 2011, re-presented**
Water	1,462.4	(155.9)*	(27.1)	1,279.4
Environmental Services	1,197.3	(152.8)*	(23.7)	1,020.8
Energy Services	597.6	(1.6)*	(7.1)	588.9
Other	(105.0)	10.6*	57.9	(36.5)
Total operating segments	**3,152.3**	**(299.7)**	**-**	**2,852.6**

(*) reclassification to Net income (loss) from discontinued operations of Water activities in Morocco and wind energy activities (previously presented under the Energy Services division in 2011) as well as solid waste activities in the United States and regulated Water activities in the United Kingdom. Reclassification to continuing operations of SNCM.

Adjusted operating income by segment *(€ million)*	**Year ended December 31, 2011 published**	**Restatement IFRS 5**	**Restatement IFRS 8**	**Year ended December 31, 2011, re-presented**
Water	971.7	(80.3)*	(22.2)	869.2
Environmental Services	508.3	(78.8)*	(12.5)	417.0
Energy Services	386.2	6.3*	(5.5)	387.0
Other	(165.7)	10.1*	40.2	(115.4)
Total operating segments	**1,700.5**	**(142.7)**	**-**	**1,557.8**

(*) reclassification to Net income (loss) from discontinued operations of Water activities in Morocco and wind energy activities (previously presented under the Energy Services division in 2011) as well as solid waste activities in the United States and regulated Water activities in the United Kingdom. Reclassification to continuing operations of SNCM.

9.7.2 Accounting definitions

GAAP (Generally Accepted Accounting Principles) indicators

Operating cash flow before changes in working capital, as presented in the Consolidated cash flow statement, is comprised of three components: operating cash flow from operating activities (referred to as "adjusted operating cash flow" and known in French as "capacité d'autofinancement opérationnelle") consisting of operating income and expenses received and paid ("cash"), operating cash flow from financing activities including cash financial items relating to other financial income and expenses and operating cash flow from discontinued operations composed of cash operating and financial income and expense items classified in net income from discontinued operations pursuant to IFRS 5.

The operating income margin is defined as operating income as a percentage of revenue from continuing operations.

Net finance costs represent the cost of gross debt, including related gains and losses on interest rate and currency hedges, less income on cash and cash equivalents.

Net income (loss) from discontinued operations is the total of income and expenses, net of tax, related to businesses divested or in the course of divestiture, in accordance with IFRS 5.

Non-GAAP indicators

In addition, the Group uses non-GAAP indicators for management purposes. These are relevant indicators of the Group's operating and financial performance and can be defined as follows:

- The term "internal growth" (or "growth at constant consolidation scope and exchange rates") includes growth resulting from:
  - the expansion of an existing contract, primarily resulting from an increase in prices and/or volumes distributed or processed,
  - new contracts, and
  - the acquisition of operating assets allocated to a particular contract or project;
- The term "external growth" includes growth through acquisitions (performed in the period or which had only partial effect in the prior period), net of divestitures, of entities and/or assets deployed in different markets and/or containing a portfolio of more than one contract;
- The term "change at constant exchange rates" represents the change resulting from the application of exchange rates of the prior period to the current period, all other things being equal;
- Net financial debt (NFD) represents gross financial debt (non-current borrowings, current borrowings, bank overdrafts and other cash position items), net of cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt;
- The financing rate is defined as the ratio of net finance costs (excluding fair value adjustments to instruments not qualifying for hedge accounting) to average monthly net financial debt for the period, including the ratio of net finance costs of discontinued operations;
- The terms adjusted operating income and adjusted net income attributable to owners of the Company correspond respectively to operating income and net income attributable to owners of the Company adjusted to exclude goodwill impairment and certain special items. Special items include items such as gains and losses from asset disposals that substantially change the economics of one or more cash-generating units and restructuring costs. Special items also include significant impairment charges relating to assets other than goodwill. In general, we exclude impairment charges in respect of such assets as "special" items when they are large enough to significantly impact the economics of a cash-generating unit. Items may qualify as "special" even though they may have occurred in prior years or are likely to recur in subsequent years. Other "special" items may be nonrecurring, meaning that the nature of the relevant charge or gain is such that it is not reasonably to recur within two years and there was not a similar charge or gain within the two prior years.
- The adjusted operating cash flow margin is defined as the ratio of adjusted operating cash flow to revenue from continuing operations;

- The adjusted operating income margin is defined as adjusted operating income as a percentage of revenue from continuing operations.
- Free Cash Flow represents cash generated (sum of operating cash flow before changes in working capital and principal payments on operating financial assets) net of the cash component of the following items: (i) changes in working capital for operations, (ii) operations involving equity (share capital movements, dividends paid and received), (iii) investments net of divestitures, (iv) the change in receivables and other financial assets, (v) net financial interest paid and (vi) tax paid;
- Cash flow before financial divestments and after payment of financial expense and taxes represents the sum of adjusted operating cash flow and operating cash flow from financing activities, principal payments on operating financial assets, changes in working capital for operations and industrial investments and industrial divestitures, excluding net industrial investments of discontinued operations.
- The term net investment, as presented in the Statement of change in net financial debt, includes industrial investments net of industrial asset disposals (purchases of intangible assets and property, plant and equipment net of disposals), financial investment net of financial divestitures (purchases of financial assets net of divestitures, including the net financial debt of companies entering or leaving the scope of consolidation), partial purchases net of sales resulting from transactions with non-controlling interests where there is no change in control, new operating financial assets and principal payments on operating financial assets. The net investment concept also takes into account issues of share capital by non-controlling interests;
- The Group considers growth investments, which generate additional cash flows, separately from maintenance-related investments, which reflect the replacement of equipment and installations used by the Group.
- The return on capital employed is defined as the ratio of:
  - net income from operations after tax, plus the share of net income from associates, less net operational income, after tax, from operating financial assets (return on operating financial assets net of tax allocated to this activity), to
  - average capital employed during the year, where
  - capital employed excludes operating financial assets and net income from operations excludes the related income.

10

Cash flow and capital RFA

Information on cash flows, working capital requirements and investments is set forth in Chapter 9, Sections 9.3.1 to 9.3.6 above of this registration document and in Chapter 20, Section 20.1, Notes 13, 14 and 30 to the consolidated financial statements, below.

Information on borrowing terms and conditions and Veolia Environnement's financing structure is set forth in this registration document in Chapter 9, Section 9.3.7 above and Chapter 20, Section 20.1, Notes 14, 17, 20 and 21 to the consolidated financial statements, below.

11

Research and innovation, patents and licenses

11.1 Research and innovation

11.1.1 Research and Innovation: a priority for Veolia Environnement

Veolia Environnement's activities are at the crossroads of several major challenges facing the modern world: demographic explosion and urbanization, increasing scarcity of resources, access to water, fighting climate change. The solution to these challenges requires a global industrial and technological approach. This transversal approach lies at the heart of Veolia Environnement's Research and Innovation (R&I) strategy.

With today's technologies, these challenges are already lost. It is therefore by focusing fully on the inventive-capacity of its research teams that the Group plans to rise to the environmental challenge, by proposing innovative solutions offering high economic and environmental performance at an affordable cost.

The four-pronged approach of the Veolia Environnement R&I Department comprises: (i) managing and preserving resources, (ii) limiting the impact on the environment, (iii) improving the quality of life of populations and (iv) developing renewable energies sources. Fighting against climate change also occupies a leading place in this framework. Research efforts are concentrated on optimizing energy consumption at Group installations, developing alternative energy sources (bioenergies, biomass, waste-to-energy, alternative fuels), the desalination of sea water and the improvement of treatment processes, monitoring the quality of drinking water, prevention of microbiological contamination, the recycling and recovery of waste, the optimization of urban transportation and the intelligent management of cities and their different flows through information technology.

In each of these areas, the know-how and technologies developed by the Group set it apart from the competition. Thanks to their complementary nature, they are also a unique asset enabling the Group to innovate at the crossroads between its businesses and develop the environmental services of the future.

These innovation efforts are supported by a network of international experts renowned for their excellence. Strengthened by this knowledge of markets and needs, the implementation of research programs at test sites around the world enables Veolia Environnement to bring creative solutions to specific local problems and contexts that may be adapted to other regions of the world.

Innovation in environmental services offers an essential competitive edge when responding to calls for tenders, as well as clearly contributing to the development of a more virtuous economy.

11.1.2 The organization of Research & Innovation activities

The organization of R&I activities seeks to break down barriers between research units and pool expertise and resources across transversal subjects. The scientific and technical teams of the Divisions report directly to a single management structure comprising seven departments representing the Group's main areas of expertise. For example, water and waste biologists work together directly. By organizing its teams by area of expertise, the R&I Department seeks to develop scientific synergies and thereby favor the emergence of ground-breaking solutions, innovate at the crossroads between the businesses and facilitate the development of outside partnerships.

Interaction between Veolia Environnement's different activities is constantly increasing - water and waste, waste and energy, energy and water, etc. – leading to the implementation of a more unified methodology and research team structure: improved information sharing, pooling of expertise, creation of transversal programs. Already, wastewater treatment plants have the means for energy self-sufficiency and to produce bioplastics; treated water can be reused to power energy turbines and waste is used to produce electricity.

Organized into five areas, the research programs reflect the major technological challenges facing the Group: Waste collection, sorting and recovery; Drinking water and the large water cycle; Wastewater; Energy and buildings and New Veolia offerings.

These programs are carried out in a spirit of innovation, in close conjunction with the Divisions. This synergy and openness strengthens our ability to respond to current and future challenges facing the Group.

In addition, to give our experts sufficient time to concentrate on project completion, a programs department is responsible for defining lines of research and the dynamic management of project portfolios in conjunction with the technical departments to ensure their industrialization. Each innovative solution must therefore lead to the creation of new services or an improvement in the quality of existing services: increased efficiency, yield or reliability or a decrease in impacts and costs. By intensifying its technology integration role, research activities also strengthen the difference between Veolia Environnement's offerings and those of the competition.

11.1.3 Veolia Environnement Research and Innovation Resources

Veolia Environnement's research activities are overseen by Veolia Environnement Recherche et Innovation (VERI). In 2012, these R&I activities involved nearly 900 experts worldwide (including 450 researchers and 450 on-site developers), with a total budget of approximately €103.9 million.

VERI works on behalf of all Group Divisions, as their needs are similar, such as controlling health and environmental risks, the development of operational tools, energy optimization, material recovery and resource preservation. In this way, VERI helps ensure better consistency of R&D activities with the Group's strategy.

Veolia Environnement has four main research centers in France in Rueil-Malmaison, Maisons-Laffitte, Limay and Saint-Maurice, which operate in a network as a single research center.

11.1.4 An international network of Research and Innovation officers

In 2003, Veolia Environnement set up an international network of R&I officers, to identify innovation needs in each region of the world and communicate research work. Certain research centers abroad have acquired specialized expertise and have partnered with centers in France. These research units have become showcases for Veolia Environnement's technological expertise. Locally, the Research & Innovation department provides the Group Divisions with a competitive advantage, by adapting their offerings to the specific requirements of each market. Globally, it groups together initiatives identified around the world in a pool of knowledge, enabling constant improvements in the Company's know-how and the identification of future business trends.

The management of water resources, the availability and quality of which can vary significantly, is a typical example of an area where innovation by the Research department enables technological solutions adapted to each local context to be proposed. In Germany, the Berlin Research Center (KWB) is working on hybrid solutions associating the natural environment (lake embankments) and technology (ozonation) for the production of drinking water or the refining of treated wastewater. In Milwaukee in the United States, the development of a Water Impact Index (WIIX) enables a comprehensive assessment of the impact of city operations on water resources and the definition of action plans aimed at minimizing environmental pressure. In China, the majority of surface water is heavily polluted by industrial waste. In 2010, the Research and Innovation department joined forces with a leading Chinese university, the University of Tsinghua, to open a joint research center and work on the treatment of this industrial effluent. In 2012, a heating network center of excellence was created to strengthen Veolia's leading position in this sector: the Heat Tech Center in Warsaw will undertake new research projects focusing on smart heating networks and energy optimization.

Innovation, is also improving existing solutions where this is preferable to their replacement. In Central Europe for example, where most heating requirements are met by coal boilers, work by the Research department contributes to the replacement of an increasing percentage of this fossil fuel by biomass, improving the carbon footprint of operations. In Germany, where solid recovered fuels (SRF) are booming, researchers have developed a measurement tool enabling a more detailed assessment of waste deposits for the production of SRF.

The Research Department relies on its foreign units and has developed a network of over 200 international partners in order to stay tuned to emerging markets and technologies and benefit from genetic and marine biology expertise. In Sweden, it is working with AnoxKaldnes, now a subsidiary of the Group, to perfect a bio-polymer producing wastewater treatment plant, leading to the roll-out of a prototype at the Brussels wastewater treatment plant this year. In the United States, the Research Department is working with leading universities and Cleantech networks to develop and identify innovations of interest to our strategic lines of development.

11.1.5 Innovation: a tried-and-tested approach

The research teams seek to provide innovative practical solutions within their areas of expertise, to improve the competitiveness of the Veolia Environnement Group. R&I is carried out as part of a tried-and-tested approach enabling technological risks to be controlled and enabling rapid progress and the creation of successful commercial applications that are both reliable and effective. The main steps in the innovation process are:

- Strict monitoring of regulations and technology, as well as the competition that enables the Group to foresee future needs and launch new research programs as quickly as possible;
- Laboratory or field tests to verify the feasibility of the research. Digital modeling is often carried out at this stage to enable operating areas to be more rapidly explored and procedures to be intensified (cost savings and efficiency gains, reduced emissions or residues, etc.);
- If the tests are successful, a prototype is built in the laboratory or on-site to evaluate and refine the technology used and also develop advanced management tools to facilitate subsequent operational roll-out;
- The next phase is the development of a pre-industrial unit to be installed at an appropriate site and operated by personnel.

At each step in the innovation process, the collaboration of various parties (research teams, university or private laboratories) is necessary and determines the successful outcome of the research project.

Veolia Environnement's R&I teams are part of a network of researchers. They forge links with basic research teams, each drawing benefit from the expertise of colleagues. While this collaboration enriches the knowledge of the Group R&I department and keeps it informed of recent developments, it also provides effective outlets for scientific progress and feedback to our partners. R&I teams also work with several top universities and participate in research programs led by national and international institutions. They also share their technological knowledge with industrial players.

11.1.6 Main Research and Innovation challenges facing Veolia Environnement

The four main challenges at the core of Veolia Environnement's current Research and Innovation are:

Managing and preserving natural resources

The sector that will be most affected by climate change is water. Research into sea water desalination processes, collection of rain water and the re-use of wastewater after treatment, is aimed at meeting the expected increase in water requirements. In order to preserve natural resources, it is also essential to find solutions to decrease consumption. The mechanization and automation of sorting processes for used materials, as well as the design of recycling processes for end-of-life products or industrial effluents, encourage in this way the re-use and recovery of materials found in waste at a competitive cost.

Limiting environmental impacts

The improvement of treatment techniques for industrial effluents and hazardous waste makes it possible to limit the dispersion of pollutants in the environment and better respect biodiversity and public health. As a global reference in environmental services, the Veolia Environnement Group must set the example with regards to reducing the impact of its activities. Current efforts are therefore focused on reducing discharges from Veolia Environnement facilities, decreasing noise and olfactory pollution and developing waste, water and energy flow management solutions, while minimizing pressure on the environment.

Improving quality of life worldwide

The perfecting of wastewater depollution and waste management systems tailored to developing countries improves the environmental safety of non-Western cities and helps prevent epidemics from spreading on a worldwide scale. It also preserves the quality of water and thus the health of those who consume it. The integrated energy management of industrial and urban systems also helps reduce greenhouse gas emissions.

Developing alternative energy sources

As carbon dioxide emissions continue exceeding the absorption capacity of the biosphere, the production of substitute fuels and biofuels, the recovery of biomass as energy, the development of industrial applications for fuel cells and the optimization of the performance of Group waste incineration plants help limit greenhouse gas emissions. These measures also help respond to the increasing global demand for energy and address the depletion of fossil fuel reserves by replacing them with clean energies.

A large majority of Veolia Environnement's research programs contribute to reducing greenhouse gas emissions, bearing witness to the Group's strong commitment to fighting climate change. Current processes seek to eliminate greenhouse gas emissions or, where this is not possible, reduce emission levels. To this end, R&I activities focus primarily on reducing emissions, improving processes and energetic efficiency and exploiting more renewable energy sources. System approaches now form an integral part of R&I work aimed at integrating the development of decentralized energy sources into the optimized management of energy utilities. At the same time, the Group is striving to implement processes to capture, store and recover CO_2 and foresee future constraints relating to climate change.

11.1.7 Progress in 2012

DRINKING WATER AND THE LARGE WATER CYCLE

Development of the Opalix® process for the removal of Dissolved Organic Carbon by ion exchange

The removal of organic matter remains one of the key challenges in the production of drinking water. The Research & Innovation department has been testing a new organic matter removal process by ion exchange, Opalix®, at its Annet-sur-Marne platform since 2009. This innovative, patented process, which is in the course of industrial roll-out, enables the treatment of natural organic matter in drinking water using specific, proprietary ion exchange resins in a recirculated solution.

"Inspect'o" internal inspection of metal pipes

A pipe inspection service using an intrusive probe and non-destructive distant field eddy current technology has been developed to assess the state of repair of buried drinking water pipes (cast iron and steel). The innovation lies in the development of operational technical solutions enabling the probe to be injected into the network via an airlock connected at a 45° angle to the pipes and then propelled up to 800m by the network flow. The results enable the thickness of uncorroded metal sections to be calculated and work to rehabilitate and renew the sections identified as critical to be proposed. This "Inspect'o" service will be added to the solutions presented in the SETHA "Aquadiagsolutions" catalogue in 2013.

New bathing water offering

In order to provide a comprehensive analytical offering for the detection of Escherichia coli (± total coliforms) and fecal enterococci in bathing water, the R&I department developed an enterococci cartridge adapted to the ENDETEC TECTA B16 platform and usable with the E. coli cartridge already available and an E. coli and fecal enterococci polymerization method with a viability indicator (in conjunction with the Ruppin Institute). A benchmark study at test sites of these solutions against products available on the market demonstrated the reliability and performance of the solutions developed. This product will supplement Veolia Eau's "Coliplage" bathing offering and will be included in ENDETEC's solutions catalogue. ENDETEC is currently industrializing this solution and effective roll-out is scheduled for 2013.

Actiflo Turbomix Evolution included in around ten John Meunier (JMI) Canada offerings

A flagship product of Veolia Water Solutions & Technologies' offering, Actiflo® is a compact clarification process based on microsand ballasted lamellar settling. Since its launch in 1989 and installation at more than 750 sites in 58 countries (including 200 sites in the USA), an improved version of Actiflo® that is twice as compact, Actiflo® Turbo, has been launched.

Over the last three years, the R&I department, John Meunier and the Technical department have developed a new generation of Actiflo® Turbo. Substantial modeling work led to the optimized design of the flocculation tank, the Turbomix Evolution tank, a patented system (patent WO 2012/107704 A1 filed in August 2012) enabling better mixing. This invention enables not only a 20% reduction in the mixing speed, but also the suppression of shearing vortex. Polymer doses can therefore be decreased and the mirror speed increased. This innovation was proposed in over ten offerings by John Meunier in Canada. The first industrial unit is in the course of production at the Eléonore Mines plant.

Desalination: launch of a research hub in Fujairah (United Arab Emirates)

A desalination research hub was launched in March 2012 in Fujairah, in the United Arab Emirates. It performs parallel tests on several inverted osmosis treatment approaches, with the following objectives:

- improving the design of future inverted osmosis desalination plants (support for tender offers);
- optimizing the operation of the Fujairah 2 desalination plant;
- developing solutions to reduce disruption caused by the presence of seaweed

This high-tech hub will be key to future desalination research and has already provided the Veolia Eau technical department with pertinent results in several areas.

URBAN AND INDUSTRIAL WASTEWATER

First three commercial applications of the innovative wastewater energy recovery solution: Energido

Veolia Eau won three tender offers incorporating the wastewater heat recovery technology (Energido) developed by the Veolia Research & Innovation department into the Veolia offering. This innovative solution, supported by ADEME, was selected by the Roquebrune-Cap-Martin and Toulouse public authorities. The Roquebrune-Cap-Martin project will be delivered in the summer of 2013 and will generate 800 kW of power, while the Toulouse project will generate 240 kw of power. Veolia Eau South-West also adopted Energido technology to heat the Ginestous-Garonne wastewater treatment plant composting platform. This equipment will generate 250 kW of power, enabling savings of 650,000 kWh/year at the site.

This energy recovery solution allows sites to optimize their energy performance and reduce their carbon footprint.

Thermal hydrolysis of sewage sludge – Exelys

EXELYS ™ represents a major step forward in the thermal hydrolysis of sludge. The continuous operating mode and low energy consumption of this technology makes it unique in the market. EXELYS ™ is key to attaining the objective of an energy-neutral plant.

This process was developed by Veolia's research teams in conjunction with Veolia Eau and its subsidiary, Krüger A/S.

The first two references in France are in Versailles and Lille.

ANITA™Mox: Development of the future treatment sector enabling a more cost-effective and environmentally-friendly solution to the elimination of nitrogen oxide

The energy required for aeration in the principal biological process increases proportionally with the nitrogen oxide load, with a significant impact on plant performance. The aim of the R&I project, performed with Veolia Eau and Anoxkaldnes, was to optimize the performance of the ANITA ™ Mox process applied to flow treatment.

The first semi-industrial test of the ANITA ™ Mox process was undertaken at Saint-Thibault.

ANITA ™ Mox offers a sustainable and profitable solution, adapted to all advanced sludge treatment processes. ANITA ™ will contribute to the objective of an energy-neutral wastewater treatment plant, while meeting increasingly stringent regulations on nitrogen levels in treated water. Current references are the Malmo and Vaxjo wastewater treatment plants in Sweden and the Holbæk wastewater treatment plant in Denmark.

The US Department of Energy awards a US$4.8million grant to develop a hybrid membrane process, enabling a reduction in the environmental footprint of industrial wastewater management

RTI International and Duke University, in partnership with Veolia Eau Solutions & Technologies and the Group Research department, received a US$4.8 million grant from the US Department of Energy (US DOE) for this industrial wastewater treatment project.

Industrial water use is generally synonymous with the consumption of large quantities of water and energy, little reuse or recycling of water and the production of activated sludge, containing volatile organic compounds. However, the atmospheric emission of these "pollutants" can be controlled and the compounds can become a source of energy, if the heat emitted is captured and used.

The project aim is to develop and assess an approach obtaining a reduction in the environmental footprint of industrial wastewater management, focusing on anaerobic treatment for the conversion of carbon in wastewater and direct osmosis and/or membrane distillation for end-treatment to enable the reuse of treated water.

ENERGY AND BUILDINGS

Smart grid: the REFLEXE demonstration project in Nice enters the operating phase

This 3.5 year project was launched in 2011 and selected by ADEME for inclusion in the "Investing in the Future Program". The REFLEXE project seeks to explore the environmental and economic benefits of a smart grid and experiment the role of Veolia as a load shedding aggregator. Led by the Veolia Research & Innovation department, this project includes four partners: Alstom Grid, Sagemcom, Supelec Engineering School and CEA – Ines. The project entered the demonstration operating phase in March 2012. The scope encompasses a varied panel of around twenty consumers at service-sector and industrial sites (data center, hotels, airport, university, museums, pharmaceutical laboratory, drinking water network, sorting center, etc.).

Effective building quality

The "CARPET PLOT" tool developed by the Veolia Research & Innovation department was rolled-out in Dalkia in 2012 and is now available in the Dalkia monitoring system. It enables the rapid verification of the temperature setting of installations and thereby the identification of dysfunctions and poor settings.

Preventive maintenance at heating networks: development and initial deployment of a pipe inspection robot

Veolia research scientists developed a pipe inspection robot providing images of difficult-to-access buried pipes. These images can be used to identify leaks and improve preventive management. The robot was used by Dalkia to detect leaks in the largest heating network in Europe in Warsaw.

Improving the performance of biomass procedures

In order to improve the performance and control the environmental and health impact of biomass procedures, the Veolia R&I department has accepted several technological challenges encompassing the management of boilers, the diversification of usable types of biomass, reducing gas emissions and residues and mastering alternative conversion processes.

ENVIRONMENTAL SERVICES

Launch of the METHA-Data application to consolidate information on the composition and biochemical methane potential of all organic substrates

The METHA-Data application is operational. This French-English bilingual tool provides online access via the R&I intranet to the characteristics, composition and biochemical methane potential (BMP) of all types of organic substrate, whether of urban, industrial or agricultural origin.

It capitalizes on data collected during trials performed both within the various Veolia Group entities concerned and externally and the most relevant data in scientific literature.

Information sheets are also available in the tool for certain key substrates, summarizing all essential information and figures: characteristics, deposits, composition, anaerobic digestion capacity, feedback.

Flash BMP – Rapid tool for measuring BMP

As part of research into the characteristics of waste mixes for use in anaerobic digestion, the Veolia R&I department in conjunction with Ondalys, a specialist in chimiometry, developed a BMP forecast model, FlashBMP®, for dried, ground matrices for a wide range of waste. This model measures BMP in only a few minutes, after around 2-days preparation, compared to at least 30 days for laboratory tests.

Each partner contributed 50% of samples to the database for the set-up of the model. The Veolia R&I department developed the model using Thermo-Fisher near infrared spectrometry (NIRS) equipment, while Ondalys did the same using Büchi equipment. The FlashBMP model is available for use within Veolia Group and is now commercialized by Ondalys for external customers.

NEW VEOLIA OFFERINGS

Development in the Rochelle of a rapid charge station for electric car-sharing services aimed at reducing costs and improving vehicle availability

The Veolia Research & Innovation department is a participant in the "Electric Vehicle Ecosystems" project. This project for the optimized management of electric vehicle charge stations is partly financed by ADEME, as part of the vehicles of the future section of the "Investing in the Future Program". It seeks to reduce the overall cost of electric car-sharing services, while improving flexibility and vehicle availability. The aim is a comprehensive management offering for rapid charge stations connected to the local energy grid.

Veolia R&I sites use electric mobility solutions

A prototype rapid charge station with storage capacity was installed at the Limay research site, where electric vehicles will be made available to employees. This station was developed to connect to the building's electricity grid and will enable the development of electro-mobility services. This new product was designed and installed in partnership with EVTRONIC and can charge an electric vehicle in less than 30 minutes, without disrupting the electricity grid. Furthermore, the battery capacity can be configured to connect to any network with a contract power of less than 36kVA (Blue tariff). Finally, the station can be controlled remotely.

City of tomorrow: Development of an environmental performance appraisal tool for urban development projects

Veolia research scientists developed and delivered to Veolia Environnement Conseil Aménagement (VECA), a tool for the 2EI consulting firm enabling it to enrich its project management services and provide a better scientific picture of resources consumed and emission generated – particularly with respect to greenhouse gases – by development operations.

This application is operational and provides engineers with a user-friendly and secure tool, enabling the management of several urban development projects and the comparison of several variants and integrating the calculation of uncertainties.

As a consulting firm, 2EI advises and assists local authorities and developers with the preparation of urban development programs, while optimizing technical costs.

City of tomorrow: "ForCity", an urban modeling-based decision-making tool

Urban modeling is at the heart of territorial concerns. The Veolia Research & Innovation department, in partnership with an SME, developed an urban modeling platform combined with a 3D representation of "ForCity" that will enable scenarios to be proposed for urban flows (water, energy, waste), aimed at optimizing services and related infrastructures to meet economic, environmental and quality of life objectives. An initial demonstration will be financed in 2013 under the Ecocité program (CDC) and will seek to model the Gerland district in Lyon.

City of tomorrow: "Novéa®", Lyon a sustainable city: an innovative Veolia Environnement system to assist Greater Lyon with its sustainable city approach

"NOVEA®", Lyon a sustainable city, is a concrete, innovative and experimental system at the service of the region. The Novéa approach drives projects contributing to the reach of the Lyon metropolis: support for start-ups, sustainable real estate projects at the heart of the conurbation, systematic urban modeling, actions in favor of social integration and training, development of clean technologies and new services for citizens, etc.

11.2 Patents and licenses

See Chapter 6, Section 6.2.5 above (Intellectual property – Company Dependence).

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Information on trends RFA

12.1 Trends

The main trends relating to or affecting the Company's business are described in Chapters 6 and 9 above.

The events or circumstances that could reasonably have a material effect on the Company's outlook for 2013 were communicated by the Company during the presentation of its 2012 annual results on February 28, 2013 (see Section 12.2 below), following the approval of the Company accounts by the Board of Directors' meeting on February 27, 2013.

12.2 Recent developments

Veolia Environnement

On January 10, 2013, the Company published a press release announcing the success of the subordinated perpetual hybrid debt issue in euros and pound sterling. The high demand (over €9 billion for the two tranches) reflects investor confidence in the financial strength of Veolia Environnement.

On February 28, 2013, the Company published a press release presenting its annual results for 2012.

The Group's post-balance sheet events are presented in Note 41 to the consolidated financial statements.

In addition, Eolfi's European activities were divested on February 28, 2013.

On March 7, 2013, the Company announced the signature of an agreement with the UK investment fund, Actis, for the sale of its water, wastewater and electricity concession activities in Morocco.

The Veolia Environnement Board of Directors' meeting of March 14, 2013 decided to convene a Combined Shareholders' Meeting on May 14, 2013 and propose a number of resolutions concerning its composition and its Articles of Association:

- ratification of the appointment and renewal of Mrs. Marion Guillou, co-opted as director by the Board of Directors' meeting of December 12, 2012;
- renewal of the term of office of Caisse des dépôts et consignations, represented by Mr. Olivier Mareuse, and of Mr. Paolo Scaroni;
- non-renewal of the term of office of Mr. Philippe Kourilsky;
- extension of the age limit per the Articles of Association applicable to Vice-Chairmen of the Board of Directors.

Veolia Eau

In the United States, Veolia Eau was awarded a contact for the management of the water and wastewater systems of Rialto, California, on January 31, 2013. This 30-year contract will generate total cumulative revenue for Veolia Eau estimated at €300 million. The city of Rialto and Rialto Water Services (RWS, concession holder and financing company) opted for a public-private concession model, in a bid to modernize the networks by conferring on Veolia Eau a dual operating management and cost control role.

Veolia Propreté

Veolia Environnement and CEA (the French Alternative Energies and Atomic Energy Commission) signed a general cooperation agreement on January 15, 2013 covering nuclear facility dismantling and remediation, as well as a specific agreement concerning two facilities: one at the CEA center in Marcoule and the other in the CEA center in Cadarache.

Through its dedicated subsidiary Asteralis (Veolia Propreté subsidiary), Veolia Environnement will contribute its expertise to propose industrial solutions adapted to the complete characterization of the radiological state of the facilities before, during and after dismantling.

Dalkia

On February 15, 2013, Veolia Environnement and EDF signed an agreement on the financing of Dalkia International (see Section 12.2, Veolia Environnement, above).

Veolia Transdev

The Group continued the rationalization of its structure up to the end of December 2012.

On January 31, 2013, Veolia Transdev, through its 75%-held subsidiary, Transdev BNG Connexxion Holding, acquired the 33.33% stake in Connexxion Holding held until then by the Dutch State. Transdev BNG Connexxion Holding is now the sole shareholder of Connexxion Holding.

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Objectives and outlook

The results of the first year of the Company's 2012-2015 Transformation Plan, enable confirmation of the objectives set during the December 6, 2011 Investor Day and revised on the publication of Veolia's first half 2012 results.

The significant improvements achieved during the second half of 2012 will be reinforced in 2013 by the continuation of the Company's transformation, supported by the appointment of a new Chief Operating Officer in December 2012.

New IFRS accounting standards on consolidation (IFRS 10, IFRS 11 and IFRS 12) were adopted by the European Union on December 29, 2012. These standards require consolidation of joint ventures by the equity method. Veolia Environnement will apply these standards from January 1, 2013.

Given the application of these new IFRS standards, and the faster than scheduled implementation of the divestiture program, the Company's objectives have been revised as follows:

- for the 2012-2013 period:
  - to sell €6 billion(1) of assets, including the repayment of joint venture loans related to divestitures;
  - to reduce Net Financial Debt to between €8 billion and €9 billion(2) and adjusted Net Financial Debt(3) to between €6 billion and €7 billion, excluding closing exchange rate impacts;
  - to reduce gross costs in 2013 by €270 million and net costs by €170 million at operating income level, including approximately 20% in joint ventures; and
  - to pay a dividend in 2013(4) and 2014 of €0.70(5) per share, in respect of the 2012 and 2013 fiscal years.
- after 2013, the company aims, in a mid-cycle economic environment, for:
  - organic revenue growth of over 3% per year;
  - adjusted operating cash flow growth of over 5% per year;
  - a leverage ratio (Adjusted Net Financial Debt / (Operating cash flow before changes in working capital + principal payments on operating financial assets)) of approximately 3x, +/-5%;
  - a payout ratio in line with the historic average payout ratio; and
  - gross cost reductions in 2015 of €500 million and net cost reductions of €470 million at operating income level, including approximately 20% in joint ventures.

(1) Including debt reduction of €1.4 billion relating to the equity accounting of Berlin Water and the repayment of inter-company loans related to divestitures.

(2) Excluding closing exchange rate impacts

(3) Net financial debt less loans to equity-accounted companies

(4) In cash or shares

(5) Subject to approval by the Veolia Environnement Board of Directors and the General Shareholders' Meeting

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Board of Directors, Management and Supervisory Bodies and Executive Management RFA

The Company has been a *société anonyme* (a French incorporated company) with a Board of Directors since the general shareholders' meeting (GM) of April 30, 2003. The Company's shares are listed on the Euronext Paris stock market and on the New York Stock Exchange (NYSE). The Company is subject to French laws and regulations, in particular relating to corporate governance, and to regulations applicable to foreign companies listed in the United States.

14.1 Board of directors of the Company

14.1.1 Composition of the Board of Directors and positions held by directors outside the Company

The Company's Board of Directors has seventeen directors and one non-voting member ("*censeur*") as of the date this registration document was filed (See Chapter 16, Section 16.1.2 below).

Name of the director/censeur	Date of appointment or first reappointment	Date of last reappointment	Term of office expires[1][2]
Antoine Frérot, *Chairman and Chief Executive Officer*	May 7, 2010	-	2014 GM
Louis Schweitzer*, *Senior Independent Director*	April 30, 2003	May 17, 2011	2015 GM
Jacques Aschenbroich*	May 16, 2012	-	2016 GM[2]
Maryse Aulagnon*	May 16, 2012	-	2016 GM[2]
Daniel Bouton*	April 30, 2003	May 7, 2010	2014 GM
Caisse des dépôts et consignations, represented by Olivier Mareuse	March 15, 2012	-	**2013 GM**
Pierre-André de Chalendar*	May 7, 2009	May 17, 2011	2015 GM
Paul-Louis Girardot*	April 30, 2003	May 7, 2010	2014 GM
Groupama SA* represented by Georges Ralli	May 16, 2012	-	2016 GM[2]
Groupe Industriel Marcel Dassault*, Represented by Olivier Costa de Beauregard	May 7, 2010	-	2014 GM
Marion Guillou*[3]	December 12, 2012	-	**2013 GM**
Philippe Kourilsky	April 30, 2003	May 7, 2009	**2013 GM**
Serge Michel	April 30, 2003	May 16, 2012	2016 GM[2]
Baudouin Prot*	April 30, 2003	May 17, 2011	2015 GM
Qatari Diar Real Estate Investment Company* Represented by Dr. Mohd Alhamadi	May 7, 2010	-	2014 GM
Nathalie Rachou*	May 16, 2012	-	2016 GM[2]
Paolo Scaroni*	December 12, 2006	May 7, 2009	**2013 GM**
Thierry Dassault, *censeur*	May 7, 2010	-	2014 GM

(1) The duration of the directors' term of office is 4 years since the adoption by the general meeting of May 7, 2009 of the resolution reducing the directors' term of office from 6 to 4 years (instantaneous implementation provision for running corporate offices).

(2) To allow for the reappointment of one-quarter of the Board of Directors in compliance with the Articles of Association, it will be necessary before the AGM of 2015 to conduct a lottery for one director among those appointed or reappointed by the AGM of 2012, whose term will be reduced to three years, expiring at the AGM to be convened in 2015.

(3) Marion Guillou was co-opted as director by the Board of Directors on December 12, 2012, replacing Henri Proglio, for the remainder of his term, i.e., until the end of the combined general meeting called to approve the financial statements for the year ended December 31, 2012. Ratification of this appointment will be submitted to the Shareholders' Meeting of May 14, 2013.

* *Independent director.*

The table below shows the names and ages of the members of the Board of Directors as of the date the registration document was filed, as well as the date of such persons' first appointment and reappointment, if applicable, and the expiration date of their terms of office. In addition, the table shows the principal position they hold outside the Company and corporate offices they have held with all companies during the last five years.

The corporate offices held by directors, as shown in the list below, are current as of December 31, 2012 on the basis of actualized or known information on the filing date of this registration document with the French Regulatory Authority (AMF).

	Principal Positions Held Outside the Company – Other Corporate Offices	**Other Professional References and Activities During the Past Five Years**
Antoine Frérot Age: 54 Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Main duties exercised in the Company:*** Chairman and Chief Executive Officer of Veolia Environnement*	***In France:*** • General Manager of Veolia Eau – Compagnie Générale des Eaux[VE]; • Director and Chairman of the Board of Directors of Veolia Water[VE]; • Director of Veolia Transdev[VE]; • Member of the Supervisory Board of Dalkia France[VE]; • Chairman of Campus Veolia Environnement[VE]; • Director of Dalkia International[VE]; • Director of Société des Eaux de Marseille; • Chairman of VE France Régions[VE]; • Member of the A and B Supervisory Boards of Dalkia (Ex Dalkia Holding)[VE]; • Chairman of Fondation d'Entreprise VE[VE]; • Standing Representative of Veolia Environnement to the Board of Directors of Institut Veolia Environnement[VE]; • Vice-Chairman of the Orientation Board of Institut de l'Entreprise; • Director of Paris Ile-de-France Capitale Economique; • Director of the Société des Amis du Musée du Quai Branly.	***In France:*** • Chairman of the Board of Directors of Veolia Transdev until 12/03/2012[VE;] • Chairman of the Board of Directors of Veolia Propreté until 10/31/2012[VE]; • Member and Chairman of the Supervisory Board of Eolfi until 06/29/2012; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Institut Veolia Environnement until 02/22/2011; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Fondation d'Entreprise VE until 01/25/2010; • Chairman of the Board of Directors of Veolia Propreté until 10/07/2011; • Director of Veolia Transport until 03/24/2011; • Member of the Supervisory Board of Ponts Formation Edition until 03/01/2011; • Member of the Supervisory Board of Louis Dreyfus BV until 02/03/2011; • Chief Executive Officer of Veolia Environnement until 12/12/2010; • Director of SADE CGTH until 06/23/2010; • Director of CEP Ports until 04/28/2010; • Member and Chairman of the Supervisory Board of SETDN until 05/28/2010; • Member and Chairman of the Supervisory Board of CEO until 05/28/2010; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Société des Eaux de Marseille until 04/21/2010; • Director of SARP until 02/18/2010; • Standing Representative of Veolia Eau – Compagnie Générale des Eaux to the Board of Directors of Proxiserve Holding until 01/15/2010; • Chief Executive Officer of Veolia Water until 11/27/2009; • Director and Chairman of the Board of Directors of VWST until 12/07/2009; • Standing Representative of Sud Cars to the Board of Directors of VE Airport until 11/27/2008. ***Outside France:*** • Director of Veolia Environmental Services North America (USA)[VE] until 12/31/2012; • Director of Société Monégasque des Eaux (Monaco) until 04/07/2010.

GM = General shareholders' meeting convened to vote on the financial statements for the past year.

* *Listed company.*

VE *Company belonging to the Veolia Environnement Group.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Louis Schweitzer Age: 70 Date of first appointment: April 30, 2003 Reappointed: May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; **Senior Independent Director** since May 16, 2012; Member of the Nominations and Compensation Committee since April 30, 2003	***Principal position held outside the Company:*** • Chairman of Initiative France. ***Other corporate offices and positions held in any company:*** ***In France:*** • Director of BNP Paribas*; • Director of L'Oréal*; • Member of the Board of The Quai Branly Museum; • Member of the Board of The National Political Science Foundation; • Chairman of the Board of Directors of Société des Amis du Musée du Quai Branly; • Chairman of the Board of Directors of Festival d'Avignon; • Chairman of the Board of Directors of Maison de la Culture M.C 93. ***Outside France:*** • Member of the Advisory Board of Allianz* (Germany); • Member of the Advisory Board of Bosch (Germany).	***In France:*** • Vice-Chairman of the Board of Directors of Veolia Environment until 05/16/2012; • Chairman of the Board of Directors of Renault*; • Director of Électricité de France (EDF)*; • Member of the Board of Directors of the Musée du Louvre; • Chairman of the National Authority against Discrimination and for Equality ("HALDE"); • Chairman of the Supervisory Board of the "Le Monde" group; • Member of the Advisory Board of the Banque de France. ***Outside France:*** • Vice-Chairman of the Supervisory Board of Philips* (Netherlands); • Chairman of the Board of Directors of AstraZeneca* (United Kingdom); • Chairman of the Board of Directors of AB Volvo* (Sweden).
Jacques Aschenbroich Age: 58 Date of first appointment: May 16, 2012 Term of office expires: 2016 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; Member of the Accounts and Audit Committee since December 12, 2012; and Chairman of the Research, Innovation and Sustainable Development Committee since December 12, 2012.	***Principal position held outside the Company:*** • Chairman and Chief Executive Officer of Valeo ***Other offices and positions held with any company:*** ***In France:*** • Chairman of Valeo Finance; • Chairman of Valeo Service; • Director of the Ecole Nationale Superieure des Mines Paris Tech. ***Outside France:*** • Chairman of Valeo SpA (Italy); • Chairman of Valeo Limited (UK); • Director of Valeo Service España, S.A. (Spain).	***In France:*** • Chairman and Chief Executive Officer and director of SEPR-Société Européenne des Produits Réfractaires – France; • Chairman and Chief Executive Officer of Saint-Gobain Glass France; • Chairman of Saint-Gobain Sekurit France. ***Outside France:*** • Vice-Chairman, President, Chief Executive Officer and Director of Saint-Gobain Corporation (USA); • Chairman and Chief Executive Officer of Saint-Gobain Advanced Ceramics Corp. (USA); • Chairman of Saint-Gobain Abrasives Inc. (USA), Saint-Gobain Advanced Ceramics Corp. (USA), and Saint-Gobain Ceramics & Plastics Inc. (USA) • Chairman of Saint-Gobain Corporation Foundation Inc. (USA) and Saint-Gobain Ceramics & Plastics Inc. (USA); • Director of Saint-Gobain Corporation (USA), Saint-Gobain Corporation Foundation Inc. (USA), Saint-Gobain Performance Plastics Corporation. (USA), Saint-Gobain Containers Inc. (USA), Solaglas Ltd (United Kingdom), Saint-Gobain Sekurit Hanglas Polska (Poland), Saint-Gobain Sekurit Benelux SA (Belgium), Saint-Gobain Sekurit Italia (Italy), Grindwell Norton Ltd. (India), Saint-Gobain Glass India Ltd. (India) and Saint-Gobain Sekurit India (India), Saint-Gobain K.K. (Japan), Hankuk Glass Industries Inc. (Korea), Saint-Gobain Glass Mexico (Mexico), Saint-Gobain Sekurit Mexico (Mexico), ESSO S.A.F.; • Member of the Supervisory Board of Saint-Gobain Autoglas GmbH (Germany) and Saint-Gobain Glass Deutschland GmbH (Germany); • Member of the Advisory Board of AvanCis GmbH & Co. KG (Germany).

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Maryse Aulagnon Age: 63 Date of first appointment: May 16, 2012 Term of office expires: 2016 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*	***Principal position held outside the Company:*** • Chairman and Chief Executive Officer of Affine SA. ***Other offices and positions held with any company:*** ***Inside France*** • Director of Air France KLM*; • Chairman of Mab-Finances SAS; • Representative of Affine, Mab Finances and Promaffine to the boards of various entities of the Affine Group; • Member of the Supervisory Board of BPCE (Banques Populaires Caisses d'Épargne) Group. ***Outside France:*** • Chairman of Banimmo (Belgium); • Director of Holdaffine BV (Pays-Bas).	***Inside France*** • Member of the Executive Committee of Business Facility International SAS; • Director of Abcd. ***Outside France:*** • Manager of Affinvestor GmbH (Germany); • Chairman of GPBeta Holding (Luxembourg); • Director of European Asset Value Fund (Luxembourg).
Daniel Bouton Age: 62 Date of first appointment: April 30, 2003 Reappointed: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; Member of the Nominations and Compensation Committee since April 1, 2005; Member of the Accounts and Audit Committee since November 2, 2009 and Chairman of this Committee since January 1, 2010.	***Principal position held outside the Company:*** • Chairman of DMJB Conseil; • Senior Advisor of Rothschild & Cie Banque; • Senior Advisor of CVC Capital Partners. ***Other offices and positions held with any company:*** • none	***In France:*** • Director of Total SA*; • Chief Executive Officer and Chairman of the Board of Directors of Société Générale*.
Caisse des dépôts et consignations Date of first appointment: March 15, 2012 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director of Veolia Environnement*	***Principal position held outside the Company:*** none ***Other offices and positions held with any company:*** ***In France:*** • Director of CNP Assurances*; • Director of Compagnie des Alpes*; • Director of Egis SA; • Director of FSI; • Director of Icade*; • Director of la Poste; • Director of Oseo SA; • Member of the Supervisory Board of SNI; • Director of Veolia Transdev.	***Outside France:*** Director of Dexia* (Belgium).

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Olivier Mareuse Age: 49 ***Principal position held within the Company:*** Permanent Representative of Caisse des Dépôts et Consignations to the Board of Directors of Veolia Environnement*	***Principal position held outside the Company:*** • Financial Director of the Caisse des Dépôts et Consignations group (CDC). ***Other offices and positions held with any company***: ***In France:*** • Director of AEW Europe; • Director of CDC Infrastructure; • Director of Icade*; • Director of the CDC's Société Forestière; • Permanent Representative of CDC to the Board of Directors of Qualium Investissement; • Member of Management Committees of CDC.	***In France:*** • Director of FSI; • Member of the Supervisory Board of IXIS Asset Management. ***Outside France:*** • Director of Dexia* (Belgium).
Pierre-André de Chalendar Age: 54 Date of first appointment: May 7, 2009 Reappointed: May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; member of the Research, Innovation and Sustainable Development Committee since May 7, 2010	***Principal position held outside the Company:*** • Chairman and Chief Executive Officer of Compagnie de Saint-Gobain*. ***Other offices and positions held with any company:*** ***In France:*** • Chairman of the Board of Directors of Verallia; • Director of BNP Paribas. ***Outside France:*** • Director of Saint-Gobain Corporation (USA).	***In France:*** • Assistant Chief Executive Officer of Compagnie de Saint-Gobain*. • Member of the Accounts and Audit Committee. ***Outside France:*** • Director of SG Aldwych (United Kingdom); • Director of BPB (United Kingdom); • Director of SG Distribution Nordic AB (Sweden).
Paul-Louis Girardot Age: 79 Date of first appointment: April 30, 2003 Reappointed: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; member of the Accounts and Audit Committee since April 1, 2005; member of the Research, Innovation and Sustainable Development Committee since September 14, 2006	***Principal position held outside the Company:*** • Chairman of the Supervisory Board of Veolia Eau – Compagnie Générale des Eaux [VE]. ***Other offices and positions held with any company:*** ***In France:*** • Member of the Supervisory Board of Dalkia France [VE]; • Member of the A and B Supervisory Boards of Dalkia [VE]; • Director of Veolia Propreté [VE]; • Director of Veolia Water [VE]; • Director of Société des Eaux de Marseille[VE]; • Chairman of the Supervisory Board of Compagnie des Eaux et de l'Ozone[VE]; • Vice-Chairman of Institut Veolia Environnement[VE].	***In France:*** • Chairman of the Supervisory Board of Compagnie des Eaux de Paris; • Director of Veolia Transport.

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Groupama SA Date of first appointment: May 16, 2012 Term of office expires: 2016 GM **Principal position held within the Company:** Independent Director of Veolia Environnement*	***Offices and positions held with any company:*** ***In France and with the Groupama SA group:*** • Founding member of the Nationale Centaure association; • Director of Astorg Actions Europe; • Director of Centaure Bretagne; • Director of Centaure Centre-Atlantique; • Director of Centaure Grand-Est; • Director of Centaure île-de-France; • Director of Centaure Midi Pyrénées; • Director of Centaure Nord Pas de Calais; • Director of Centaure Paris Normandie; • Director of Centaure Provence Méditerranée; • Director of Centaure Rhône Alpes; • Director of Cofintex 6 S.A.; • Director of Compagnie Foncière Parisienne (CFP); • Director of GIE G20; • member of GIE Immeubles & Services; • Director of Groupama Asset Management; • Director of Groupama Assurance-Crédit; • Director of Groupama Banque; • Director of Groupama Chegaray Services; • Director of Groupama Epargne Salariale; • Chairman of Groupama Investissements; • Director of Groupama Private Equity; • Director of Groupama Protection Juridique; • Director of Groupama Supports et Services; • Director of Le Vœu Funéraire; • Member of the Supervisory Board of Plateau de veille téléassistance à la personne; • Member of the Supervisory Board of Présence Verte S.A.; • Director of Rent a Car; • Member of the Managment Board of the S.C.A. du Château d'Agassac; • Manager of SCI des Frères Lumières; • Director of Service informatique pour l'expertise automobile (SIDEXA).	none

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Georges Ralli Age 64 ***Principal position held within the Company:*** Permanent Representative of Groupama SA to the Board of Directors of Veolia Environnement*	***Principal positions held outside the Company:*** • Director of Chargeurs*; • Director of Silic*; • Director of Carrefour.	***In France:*** • Chairman of Maison Lazard SAS; • Chairman and Managing Partner of Lazard Frères Gestion SAS; • Managing Partner of Compagnie Financière Lazard Frères SAS and of Lazard Frères SAS; • Member of the Supervisory Board of VLGI; • Censeur of Eurazeo*; • Member of the Supervisory Board of Bazile Telecom; • Vice-President and Executive Director of Compagnie Financière Lazard Frères SAS; • Vice-President and Executive Director of Lazard Frères SAS; • Chairman and Chief Executive Officer and Director of Lazard Frères Banque; • Director of Fonds Partenaires Gestion. ***Outside France:*** • Deputy chairman and managing director of Lazard Group LLC (USA); • Chief Executive of the European Investment Banking Business of Lazard (USA); • Co-Chairman of the European Investment Banking Committee of Lazard (USA); • Director of Lazard AB (Sweden); • Member of the Executive Committee of Lazard BV (Belgium); • Director of Lazard Asesores Financieros SA (Spain); • Director of Credit Agricole Lazard Financial Products Bank (UK); • Director of Lazard Wealth Management Holding SL (Spain); • Director of Lazard & Co Srl (Italy); • Director of Lazard Investments Srl (Italy); • Chairman of the Advisory Board of Lazard GmbH (Switzerland); • Chairman of Lazard Wealth Management • Europe Sarl (Luxembourg); • Director of LAZ-MD Holding LLC (USA); • Member of LFCM Holdings LLC (USA); • Chairman of the Executive Committee of Lazard Fund Management GmbH (Germany).

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* *Listed company*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Groupe Industriel Marcel Dassault Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; member of the Nominations and Compensation Committee since May 7, 2010; Member of the Accounts and Audit Committee since May 7, 2010	***Principal position held outside the Company:*** none ***Other offices and positions held with any company:*** none	none
Olivier Costa de Beauregard Age: 53 ***Principal position held within the Company:*** Permanent Representative of Groupe Industriel Marcel Dassault (GIMD) to the Board of Directors of Veolia Environnement*	***Principal position held outside the Company:*** • Chief Executive Officer of Groupe Industriel Marcel Dassault (GIMD). ***Other offices and positions held with any company:*** ***In France:*** • Chairman of Financière Dassault; • Chairman of the Management Board of Immobilière Dassault SA*; • Director of Dassault Médias; • Director of Figaro Classifieds; • Director of Groupe Figaro; • Director of As de Trèfle; • Member of the Supervisory Board of GIMD; • Permanent Representative of GIMD to the Board of Directors of Genoway*, Artcurial et Dassault Développement. ***Outside France:*** • Director of SITA S.A. (Switzerland); • Director of Financière Terramaris (Switzerland); • Vice-Director of Dassault Belgique Aviation (Belgium).	none
Marion Guillou Age: 58 Date of first appointment: May 16, 2012 Term of office expires: 2013 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; member of the Research, Innovation and Sustainable Development Committee since December 12, 2012	***Principal position held outside the Company:*** • Chairman of Agreenium. ***Other offices and positions held with any company:*** • Chairman of the Board of Directors of École Polytechnique; • Chairman of a joint initiative of research on agriculture and climate change (JPI FACCE); • Member of the Board of Directors of the Sciences-Po Foundation; • Member of the national council of the Legion of Honour; • Director of Imerys*; • Director of Apave; • Member of the Supervisory Board of Areva as a representative of the State; • Member of the Board of CGIAR.	none

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Philippe Kourilsky Age: 70 Date of first appointment: April 30, 2003 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Director of Veolia Environnement*	***Principal position held outside the Company:*** • Emeritus Professor at the Collège de France; • Member of the Science Academy. ***Other offices and positions held with any company:*** ***In France:*** • Director of Fondation du Collège de France; • Consulting activities in several companies. ***Outside France:*** • Chairman of the Singapore Immunology Network.	***In France:*** • Chairman of the Research, Innovation and Sustainable Development Committee of Veolia Environnement; • Member of the Board of Directors of the Collège international de philosophie; • Member of Haut Conseil de la Science et de la Technologie.
Serge Michel Age: 86 Date of first appointment: April 30, 2003 Reappointed: May 16, 2012 Term of office expires: 2016 GM ***Principal position held within the Company:*** Director of Veolia Environnement*; Chairman of the Nominations and Compensation Committee since April 30, 2003	***Principal position held outside the Company:*** • President of Soficot SAS. ***Other offices and positions held with any company:*** ***In France:*** • President of SAS CIAM; • President of SAS Carré des Champs-Élysées; • President of SAS Société Gastronomique de l'Étoile; • President of SAS Groupe Epicure; • President of SAS Les Joies de Sofi; • Member of the Supervisory Board of Compagnie des Eaux de Paris; • Director of SARP Industries[VE]; • Permanent Representative of EDRIF to the Supervisory Board of Veolia Eau-Compagnie Générale des Eaux[VE]; • Member of the Supervisory Board of Société des Eaux de Trouville Deauville et Normandie [VE]; • Permanent Representative of CEPH to the Board of Directors of SEDIBEX[VE]; • Director of Orsay Finance 1; • Director of LCC SA; • Director of Infonet Services.	***In France:*** • Member of the Supervisory Board of Eolfi [VE]; • Director of Eiffage SA*; • Permanent Representative of SARP to the Board of Directors of SARP Industries.

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* *Listed company.*

[VE] *Company belonging to the Veolia Environnement Group.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Baudouin Prot Age: 61 Date of first appointment: April 30, 2003 Reappointed: May 17, 2011 Term of office expires: 2015 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*	***Principal position held outside the Company:*** • Chairman of the Board of Directors of BNP Paribas*. ***Other offices and positions held with any company:*** ***In France:*** • Director of Lafarge*; • Director of Pinault-Printemps-Redoute*; • Member of the French Banking Federation Executive Committee. ***Outside France:*** • Director of the Institute of International Finance (IIF); • Chairman of the International Monetary Conference (IMC); • Member of the International Advisory Panel of the Monetary Authority of Singapore (MAS) (Singapore); • Member of the International Business Leaders' Advisory Council (IBLAC) of the city of Shanghaï (China)*; • Director of Pargesa Holding SA* (Switzerland); • Director of Erbé SA (Belgium).	***In France:*** • Director and Chief Executive Officer of BNP Paribas*; • Director of Accor*. ***Outside France:*** • Director of BNL* (Italy).
Qatari Diar Real Estate Investment Company Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*	***Principal position held outside the Company:*** ***Other offices and positions held with any company:*** none	***In France:*** • Director of Vinci*;
Dr Mohd Alhamadi Age: 50 ***Principal position held within the Company:*** Permanent Representative of Qatari Diar Real Estate Investment Company to the Board of Directors of Veolia Environnement	***Principal position held outside the Company:*** • Chief Corporate Improvement Officer of Qatari Diar Real Estate Investment Company. ***Other offices and positions held with any company:*** • Director of Qatari Diar Egypt (Qatar).	***Outside France:*** • Director of United Libyan Qatari Company (Qatar); • Director of Al Lybia Al Qataria Company (Qatar); • Director of Qatar Projects Company (Qatar); • Director of Qatar Fuel Company (Qatar); • Vice-Chairman of the Steering Committee of Qatar College of Technology (Qatar).

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* *Listed company.*

	Principal Positions Held Outside the Company – Other Corporate Offices	Other Professional References and Activities During the Past Five Years
Nathalie Rachou Age: 54 Date of first appointment: May 16, 2012 Term of office expires: 2016 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*; Member of the Accounts and Audit Committee since December 12, 2012	***Principal position held outside the Company:*** • Founder and managing director of Topiary Finance Ltd. ***Other offices and positions held with any company:*** • Director de Société Générale*; • Member of the Audit, Internal Control and Risks Committee of Société Générale*; • Director of the merchant bank Liautaud &Cie; • Director and member of the audit committee of Altran Technologies*.	none
Paolo Scaroni Age: 66 Date of first appointment: December 12, 2006 Reappointed: May 7, 2009 Term of office expires: 2013 GM ***Principal position held within the Company:*** Independent Director of Veolia Environnement*	***Principal position held outside the Company:*** • Chief Executive Officer of ENI* (Italy). ***Other offices and positions held with any company:*** ***Outside France:*** • Vice-Chairman of London Stock Exchange Plc* (England); • Member of the Board of Directors of Columbia Business School (USA); • Member of the Board of Directors of Assicurazioni Generali* (Italy); • Member of the Board of Directors of Fondazione Teatro alla Scala (Italy).	none
Thierry Dassault Age: 54 Date of first appointment: May 7, 2010 Term of office expires: 2014 GM ***Principal position held within the Company:*** Censeur of Veolia Environnement*; Member of the Research, Innovation and Sustainable Development Committee	***Principal position held outside the Company:*** • Chairman and Director of Keynectis SA; • Deputy Chief Executive Officer and Member of the Supervisory Board of Groupe Industriel Marcel Dassault SAS. ***Other offices and positions held with any company:*** ***In France:*** • Director of Dassault Medias SA; • Director of Société du Figaro SAS; • Director of Gaumont SA*; • Member of the Supervisory Board of Particulier et Finances Editions SA; • Member of the Supervisory Board of Veolia Eau – Compagnie Générale des Eaux; • Member of the Managing Committee of I-Ces SAS; • Permanent Representative of SC TDH, Director of Halys SAS; • Permanent Representative of SC TDH, Director of If Research SAS; • Director of Dassault Belgique Aviation.	***In France:*** • Director of Socpresse SA.

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* *Listed company.*

The members of the Board of Directors may be contacted at the Company's head office, 36/38 Avenue Kléber, 75116 Paris, France.

14.1.2 Biographical Information about Directors

Born on June 3, 1958 in Fontainebleau (France), **Antoine Frérot** is a graduate of the École Polytechnique (year 1977), engineer at the Ponts et Chaussées corps and holds a doctorate from the École Nationale des Ponts et Chaussées.

He started his career in 1981 as an engineering researcher at the Central Research Office for French Overseas Departments and Territories. In 1983, he joined the Center of Study and Research of the École Nationale des Ponts et Chaussées as project manager and then became assistant director from 1984 to 1988. From 1988 to 1990, he was in charge of financial operations at Crédit National. In 1990, Antoine Frérot joined Compagnie Générale des Eaux as an official representative and, in 1995, became Chief Executive Officer of CGEA Transport. In 2000, he was appointed Chief Executive Officer of CONNEX, the Transport Division of Vivendi Environnement, and member of the Executive Committee of Vivendi Environnement. In January 2003, Antoine Frérot was appointed Chief Executive Officer of Veolia Eau, the Water Division of Veolia Environnement, and Senior Executive Vice President of Veolia Environnement. In November 2009, he was appointed Chief Executive Officer, and in December 2010 Chairman and Chief Executive Officer of Veolia Environnement.

Louis Schweitzer is a graduate of the Institut d'Études Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA) and was a financial controller in the Treasury department. From 1981 to 1986, he was chief of staff for Laurent Fabius (who was successively junior Budget Minister, Minister for Industry and Research and Prime Minister). In 1986, he joined Renault's senior management and then successively held the positions of director of planning and management control, Chief Financial Officer and Executive Vice-President. He was appointed Chief Executive Officer of Renault in December 1990, then Chairman and Chief Executive Officer in May 1992 until April 29, 2005, when he was appointed Chairman of the Board of Directors of Renault. Louis Schweitzer did not wish to seek the renewal of his term of office as Director of Renault during the annual general meeting held on May 6, 2009. After serving as Vice-Chairman of the Veolia Environnement Board of Directors since November 27, 2009, he is now a Senior Independent Director of the Company, since May 16, 2012.

Jacques Aschenbroich, a graduate in engineering from the Corps des Mines, has held several posts in the French civil service, serving in the Prime Minister's cabinet in 1987 and 1988. He then moved into industry, at the Saint-Gobain Group from 1988 to 2008. He managed the Group's subsidiaries in Brazil and Germany before becoming Managing Director of the Flat Glass Division of the Compagnie de Saint-Gobain. He went on to become President of Saint-Gobain Vitrage in 1996. From October 2001 to December 2008, he was Senior Vice-President of Saint-Gobain, managing the Flat Glass and High Performance Materials sectors from January 2007, and the Group's operations in the United States as Director of Saint-Gobain Corporation and Executive Vice-President for the United States and Canada from September 1, 2007. He was appointed a Director and Chief Executive Officer of Valeo in March 2009.

Maryse Aulagnon is Founder and Chief Executive Officer of Groupe Affine, consisting of two property companies listed in Paris and Brussels specializing in commercial real estate. Mrs. Aulagnon holds a master's degree in economics and is a graduate of Institut d'Etudes Politiques (IEP) and of the Ecole Nationale d'Administration (ENA). She is an honorary Maître des Requêtes of the Conseil d'Etat (1975 to 1979). After holding various positions at the French Embassy in the United States (1979-1981) and on the staff of several French ministers (Budget and Industry), she joined Compagnie Générale d'Electricité (now Alcatel) in 1984 as Director of International Affairs. She then joined Euris as Deputy Chief Executive Officer when it was created in 1987. In 1990 she founded Groupe Affine, which she has directed since then. She has also been a member of the Supervisory Board of the BPCE banking group (Banques Populaires Caisses d'Epargne) since December 2010 and a Director of Air France-KLM (Chairman of the Audit Committee) since July 2010. She is a board member of several professional organisations (Director of the Club de l'Immobilier, member of the executive board of Sociétés Immobilières et Foncières, Director of the Palladio Foundation, a founding member of Cercle 30, etc.). She also serves on the boards of a number of cultural and academic organisations (the French American Foundation, German Marshall Fund, Femmes Forum, etc.).

Daniel Bouton holds a degree in Political Science, is a graduate of the École Nationale d'Administration (ENA) and was Inspector of Finance at the French Treasury. He has held a number of positions in the French Ministry of Economy, Finance and Industry, including that of budget director, between 1988 and 1991. In 1991, he began working at Société Générale, serving as Chief Executive Officer starting in 1993, and as Chairman and Chief Executive Officer starting in 1997. He was appointed to the position of Chairman of the Board of Directors of Société Générale in May 2008, then resigned from his duties of Director and Chairman of the bank in May 2009. In November 2009, Daniel Bouton incorporated a consulting company, DMJB Conseil, of which he is the Chairman.

Caisse des dépôts et consignations, established in 1816, is a public establishment carrying out tasks of general interest; as such it is a long-term investor seeking to contribute to the growth of companies. Its Permanent representative on the Board of Directors of Veolia Environnement, **Olivier Mareuse**, graduated from the IEP in Paris in 1984 and from the École Nationale d'Administration in 1988. He joined CNP Assurances in 1988 as an assistant director in the financial institutions department. In 1989 he was named technical and financial director in the collective insurance department. He then worked as special assistant to the CEO of CNP Assurances between 1991 and 1993. From 1993 to 1998 he worked as director of strategy, management control and relations with shareholders, and he was responsible for the introduction of CNP Assurances to the stock market. He was then appointed director of investments, a post he occupied until 2010. Finally, in October 2010, Mr. Mareuse joined the Caisse des dépôts et consignations, first as deputy CFO and then, as from December 2010, as CFO and a member of the management committees.

Pierre-André de Chalendar is a graduate of ESSEC and the École Nationale d'Administration (ENA). He was Inspector of Finance at the French Treasury. In November 1989, he joined *Compagnie de Saint Gobain* where he held various positions, before being appointed Deputy Chief Executive Officer in May 2005, Director in June 2006, then Chief Executive Officer in June 2007. He was appointed Chairman and Chief Executive Officer of *Compagnie de Saint Gobain* in June 2010.

Paul-Louis Girardot was a director and Chief Executive Officer of Vivendi until 1998. He focused principally on developing the Veolia Environnement Group's utilities concessions, particularly in the water sector. In addition, he contributed significantly to Vivendi's activities in the telephone sector, in particular mobile telephones. He also worked to expand the Veolia Environnement Group's business in the energy services sector and in the decentralized production of electric power (cogeneration), through the Dalkia subsidiary. Paul-Louis Girardot has been Chairman of the Supervisory Board of Veolia Eau-Compagnie Générale des Eaux since 2001.

Groupama SA is part of the Groupama Group, a French mutual insurance, banking and financial services group. This company is responsible for managing the operational activities of Groupama and its subsidiaries, as well as the reinsurance of all Groupama entities (regional banks and subsidiaries). It is a major player in the insurance market, in the businesses of property and casualty insurance, life and health insurance, savings, banking services and asset management. Its permanent representative on the Board of Directors of Veolia Environnement is **George Ralli**, who holds a graduate degree (DESS) in banking and finance from the University of Paris-V and is a graduate of the Institut d'Études Politiques (IEP) in Paris and the Institut Commercial in Nancy. In 1970, he joined Crédit Lyonnais, where he held various management positions in the company and the network until 1981. In 1982, he served as secretary of the Savings Development and Protection Commission. From 1982 to 1985, he headed the financial negotiations department of Crédit du Nord. He joined Lazard in 1986 and became managing partner in 1993, jointly heading the mergers and acquisitions department of Lazard LLC starting in 1999. In 2000, Georges Ralli was appointed Deputy Chairman and Managing Director of the Executive Committee of Lazard LLC (United States), and in 2005 Co-Chairman and Chief Executive of European Investment Banking. He was head of La Maison Française from 2005 to 2009. Lastly, between 2010 and 2012, he supervised the M&A and private banking activities of Lazard in Europe.

Groupe Industriel Marcel Dassault operates in the civil aeronautics and military sector and invests in various other industries. Its Permanent Representative to the Board of Directors of Veolia Environnement, **Olivier Costa de Beauregard**, passed the *agrégation* examination of History and is a graduate of the Institut d'Études Politiques (IEP) in Paris and of the École Nationale d'Administration (ENA) (1984-1986). He was Inspector of Finance at the French Treasury from 1986 to 1990 and became a project leader with the Chief Investment Officer of the Union des Assurances de Paris (UAP) in 1991. Mr. Costa de Beauregard was on the Prime Minister's staff from 1993 to 1995 as the Chief Technical Counsel of the Public Facilities, Accommodation and Transportation sectors and was appointed Chief Strategy Officer of AXA–UAP France in 1996. In 1998 he was appointed Executive Officer of Crédit Commercial de France. In 2005 Mr. Costa de Beauregard joined in the Groupe Industriel Marcel Dassault of which he is the Chief Executive Officer.

Marion Guillou is a graduate of the Ecole Polytechnique (class of 1973), holds a PhD in Food Sciences, and is a General Engineer in rural, water and forestry engineering, and a member of the Academy of Technology and the Academy of Agriculture. She served as Director General of Food at the French Ministry of Agriculture (1996-2000). She led the National Institute of Agronomic Research (INRA) for four years (2000-2004) before being named its President and CEO (2004-2012), where she helped guide research on agriculture, food and the environment (2004-2012). She is currently President of Agreenium (since 2010), Chairman of the Board of École Polytechnique (since 2008) and Director of Imerys (since September 2012).

Philippe Kourilsky is a graduate of the École Polytechnique, and holds a doctorate in sciences from the University of Paris. He has devoted his career to life sciences research. He has held numerous management positions in the public and private research sectors, and in particular was the Director of Research at the CNRS and Director General of the Institut Pasteur from 2000 to 2005. Philippe Kourilsky is currently a professor emeritus at the Collège de France, a member of the Académie des Sciences and holds honorary doctorates from several foreign universities. He is also Chairman of the Singapore Immunology Network.

Serge Michel has spent his entire career in the construction and public works sector. After having held the position of Executive Vice-President with the Compagnie de Saint-Gobain group and been Chairman of Socea, he chaired the SGE group until 1991 and the CISE group until 1997. He was Executive Vice-President of the Compagnie Générale des Eaux until 1992. He is currently President of Soficot, a business management and investment consulting company he founded in 1997. Since April 30, 2003, Mr. Michel has been a Director of the Company and Chairman of the Nominations and Compensation Committee.

Baudouin Prot is a graduate of the École des Hautes Etudes Commerciales (HEC) and of the École Nationale d'Administration (ENA). From 1974 to 1983, he was successively the deputy to the prefect of the Franche-Comté region, Inspector of Finance at the French Treasury and deputy to the energy and raw materials director general in the Ministry of Industry. He joined Banque Nationale de Paris in 1983, where he held various positions before being appointed Executive Vice-President in 1992 and Chief Executive Officer in 1996. After having been appointed director and Executive Vice-President of BNP Paribas in March 2000, then Director and Chief Executive Officer of BNP Paribas in June 2003, Baudouin Prot was appointed Chairman of the Board of Directors of BNP Paribas on December 1, 2011.

Qatari Diar Real Estate Investment Company is 100% held by Qatar Investment Authority, which is the sovereign fund of the State of Qatar. The Fund is a large scale class investor in development and property and operates in twenty countries in the Middle East, Africa and Europe. Qatari Diar has total investment funds of more than US$ 60 billion. Its permanent representative on the Board of Directors of Veolia Environnement, **Dr. Mohd A. Wahed Ali Alhamadi**, is a Ph.D. and a B.Sc. from Clarkson University (Potsdam, New York, USA) and a M.Sc. from the North Carolina Agricultural and Technical State University (Greensboro, North Carolina, USA). He began his career as a researcher and teacher at the Qatar College of Technology, of which he was Vice Dean from 1995 to 1997, Acting Dean from 1997 to 2000, and Director from 2001 to 2005. Subsequently, he was at the Qatar University, of which he was Director of the Office of Institutional Research & Planning from 2004 to 2007, and since 2007, Vice President for Institutional Planning & Development. He joined Qatari Diar Real Estate Investment Company in November 2008 as Deputy Chief Executive Officer for Corporate Development, and in March 2010 became its Chief Corporate Improvement Officer in charge of strategic development and planning. Over the past five years, he has served on the Boards of various companies throughout the world (Qatar Fuel Company up to 2008, and from 2009 until present, Qatar Projects Company, United Libyan Qatari Company and Al Libya Al Qataria Company). He has been a member of the Institute of Electrical and Electronics Engineering (USA) since 1987 and of the Association of Institutional Research (USA) since 2006.

Nathalie Rachou is CEO of Topiary Finance Ltd., an asset management company (funds of funds) serving private clients based in the UK which she founded in 1999. Mrs. Rachou graduated from the École des Hautes Etudes Commerciales (HEC business school) in 1978, and then started her career at Banque Indosuez (now Crédit Agricole). After working as a foreign exchange broker in London and Paris from 1978 to 1982, she was in charge of assets and liabilities management and market risks until 1986, and then created the MATIF business and the bank's brokerage subsidiary. From 1991 to 1996, she was Company Secretary for Banque Indosuez, then from 1996 to 1999 she was head of Global Foreign Exchange and Currency Options worldwide. In November 1999, Mrs. Rachou created Topiary Finance, a UK-based asset management company, which she has led ever since. She has been a non-executive Director of the Liautaud & Company investment bank since 2000 (member of the strategy committee), of Société Générale since 2008 (member of the audit, risk and internal control committee) and of Altran Technologies (member of the audit committee) since 2012. She has been a French foreign trade advisor since 2001, and is on the board of ARIS (the Indosuez retiree and former employees' association) and a member of the Cercle d'Outre-Manche, as well as participating in associations at HEC.

Paolo Scaroni holds a degree in economics from Bocconi University in Milan and an MBA from Columbia Business School in New York. After having spent a year with McKinsey & Company following his MBA, between 1973 and 1985 he held various positions with Saint Gobain, ultimately heading the "flat glass" division. In 1985, Paolo Scaroni became Chief Executive Officer of Techint, while at the same time holding the positions of deputy Chairman of Falck and Executive Vice-President of SIV, a joint venture between Techint and Pilkington plc. He became Chief Executive Officer of Pilkington plc in 1996, a position he held until May 2002. He was Chief Executive Officer of Enel from 2002 to 2005, and in June 2005 became Chief Executive Officer of Eni, a position he still holds.

Thierry Dassault, after earning a baccalaureat in Economics and performing his military service at the French military Photographic and Cinematographic Institute, was in charge of civil equipment at Électronique Serge Dassault in Brazil (1979-1981), Chief Executive Officer of an alarm systems company (1982-1984), and Associate Producer and Director of Advertising and Institutional Films at Claude Delon Productions (1985-1993). From 1994 to 2006 Mr. Dassault was President of Dassault Multimedia, which acquired shares in Infogrames, Gemplus, Infonie, BFM, CdandCo, Net2one, Emme and Welcome Real-time. He also personally invested in Chapitre.com. In 2004, he led Keynectis, a leader in securing digital identities and transactions, as chairman. At the end of 2006, Thierry Dassault established the investment company TDH, specialized in emerging technologies and niche industries (and which holds shares in Aquarelle, Bernardaud, Keynectis, Halys, I-Ces 4D, L Capital, Oletis, Wallix, and YouScribe.com). He is Deputy Chief Executive Officer of Groupe Industriel Marcel Dassault, and a member of the Boards of Dassault Belgique Aviation, Dassault Médias (Le Figaro), Gaumont, Groupe Industriel Marcel Dassault, Halys, Keynectis, Particulier and Finances Éditions, Veolia Environnement as a non-voting director (*censeur*), Veolia Eau and Wallix. He is a member of the strategic committee of YouScribe. He is President of the 58th National Session of the IHEDN, a French national defence academy and think tank. He is Chevalier de la Légion d'Honneur and is an air force Colonel of the French military reserve. Finally, he is Vice-Chairman of the Kidney Foundation (*Fondation du rein*).

14.2 Convictions, bankruptcies, conflicts of interest and other information

On the basis of the representations made by the members of the Board of Directors to Veolia Environnement, to the Company's knowledge, there are no family ties among the members of the Company's Board of Directors and, during the last five years: (i) no member of the Board of Directors of Veolia Environnement has been convicted of fraud; (ii) no member of the Board of Directors has been involved in any bankruptcy, receivership or liquidation proceedings; (iii) no statutory or regulatory authority (including designated professional organisations) has made any official public accusation and/or imposed a sanction on these persons; and (iv) no director has been forbidden by a court from holding a position as a member of a Board of Directors or Management or Supervisory Body of a publicly held company or from participating in the management or business operations of a publicly held company.

To the Company's knowledge, there is no conflict of interest at the level of the Board of Directors or executive management of Veolia Environnement except for Caisse des dépôts et consignations represented by Mr. Olivier Mareuse regarding Veolia Transdev, of which Caisse des dépôts et consignations holds 50% of the share capital. In addition to the provisions of the French Commercial Code (*Code de Commerce*) concerning regulated agreements, the Board of Directors' internal rules and regulations provide that directors must inform the Board of Directors of any existing or potential conflict of interests and abstain from voting in any situation where such a conflict of interest exists. No service contract providing for benefits to be granted in the event such contract is terminated exists between a director or the Chief Executive Officer and the Company or its subsidiaries.

No arrangement or agreement has been concluded with the Company's principal shareholders, other than those concluded with the Groupe Industriel Marcel Dassault and Qatari Diar Real Estate Investment Company (see chapter 18.1, below) or with its customers or suppliers, pursuant to which a member of the Board of Directors thereof has been selected to act as a director or to hold an executive management position in the Company.

Lastly, to the Company's knowledge, the members of the Board of Directors have not agreed to any restrictions on their ability to transfer any interest they may hold in the capital of Veolia Environnement, with the exception of the provision in the Articles of Association requiring each director to own at least 750 registered shares of the Company, without prejudice to the agreements concluded with the Groupe Industriel Marcel Dassault and Qatari Diar Real Estate Investment Company (see chapter 18.1, below).

15

Compensation and benefits of Corporate Officers and Directors RFA

15.1 Compensation of Executive Corporate Officers

The total compensation paid during fiscal 2012 to Executive Corporate Officers and other corporate officers of the Company and by controlled companies within the meaning of Article L. 233-16 of the French Commercial Code is detailed below.

At its meeting on January 7, 2009, the Board of Directors of Veolia Environnement became aware of the consolidated version of the AFEP-MEDEF Corporate Governance Code of December 2008 concerning, notably, the compensation of Executive Corporate Officers of listed companies. It confirmed that Veolia Environnement uses this corporate governance code as a reference. This registration document and, notably, the tables in Section 15.1 hereafter and in Chapter 17, Sections 17.3 and 17.4 below (stock subscription or purchase options and free shares) have been prepared in accordance with the format recommended by the AFEP-MEDEF consolidated code, as revised in April 2010, and the AMF's recommendation of December 22, 2008.

15.1.1 Rules and principles adopted by the Board to determine the compensation paid to Executive Corporate Officers

Principles used to determine the compensation of Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer

Fixed compensation and benefits

At its meeting on March 15, 2012, the Board of Directors decided, following the recommendation made by the Nominations and Compensation Committee, to maintain the fixed portion of compensation awarded in 2012 to Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer of the Company at 900,000 euros.

In addition to his compensation, he is entitled to a company car and to social security benefits equivalent to those of employees (sickness, disability). Furthermore, he is eligible for the supplementary defined benefits group pension plan set up in 2006 for category 9 management employees and directors who are executive corporate officers of Veolia Environnement.

Variable compensation for the 2010, 2011 and 2012 fiscal years

The variable portion of the Chief Executive Officer's compensation is weighted since 2003 between a quantitative portion of 70% and a qualitative portion of 30% of the target basis of the variable compensation (the "Bonus basis"). The target Bonus basis accounted for 100% of fixed compensation in 2010 and 125% in 2011 and 2012. The Nominations and Compensation Committee and the Board of Directors consider that the consistency of these weighting rules is a positive element of governance. Since 2010, the financial criteria for determining the quantitative portion of variable compensation have been constant. Since that date, they are incorporated into the Group's objectives of positive free cash flow (after payment of dividend), cost reduction, cash flow after deduction of net investments and an increase in adjusted operating income. The quantitative portion of variable compensation is determined on the basis of financial criteria and involved the achievement during the financial year concerned of the budgetary objectives fixed annually by the Board of Directors. The criteria for the qualitative portion for financial years 2010, 2011 and 2012 are set out below.

2010 variable portion of compensation paid to Mr. Antoine Frérot, in his capacity as Chief Executive Officer

Following the proposals made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 24, 2010, for the purposes of determining the variable portion of the Chief Executive Officer's compensation in respect of the year 2010, maintained a quantitative portion of 70% and a qualitative portion of 30%. The criteria for the quantitative portion of the variable compensation of the Chief Executive Officer involved the achievement of the budgetary objectives relating, on the one hand, to adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and, on the other hand, to the increase in Adjusted Operating Income (weighted at 35%).

These criteria were in line with the Group's major objectives for 2010 to control its debt and to improve its profitability as part of a strategy of organic and profitable growth.

The qualitative portion of 30% was assessed with respect to the following qualitative criteria: the individual and managerial performance, the implementation of Group projects creating synergies and the promotion of actions taken by the Group in terms of safety.

Applying these criteria and given that the objectives set for 2010 were largely achieved, the Board of Directors, at its meeting on March 24, 2011, allocated an amount of 754,063 euros to Mr. Antoine Frérot in respect of the quantitative and qualitative portion of his variable compensation for 2010.

2011 variable portion of compensation paid to Mr. Antoine Frérot, in his capacity as Chairman and Chief Executive Officer

Following the proposals made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 24, 2011, maintained, for the purposes of determining the variable portion of the Chairman and Chief Executive Officer's compensation in respect of the year 2011, the weighting concerning the quantitative portion of 70% and the qualitative portion of 30%. This was in line with the Group's objectives for 2011, which were positive free cash flow after payment of the dividend, and increasing adjusted operating income (excluding the effect of the Veolia Transport-Transdev merger) and an increase in net profits. The criteria for the quantitative portion of the variable compensation of the Chairman and Chief Executive Officer involve the achievement of the budgetary objectives concerning (i) adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and (ii) the increase in Adjusted Operating Income (weighted at 35%).

The qualitative portion of 30% had been assessed with respect to the following qualitative criteria: the individual and managerial performance, the implementation of Group projects creating synergies and the promotion of actions taken by the Group in terms of safety.

Applying these criteria and given the partial achievement of the objectives announced for 2011 (achievement of a positive free cash flow above the external objectives announced and an adjusted operating income down sharply as compared to 2010), the Board of Directors, on March 15, 2012, awarded Mr. Antoine Frérot an amount of 244,940 euros in respect of the quantitative portion of his variable compensation for 2011. However, at the specific request of Mr. Antoine Frérot, he was not awarded the qualitative portion of variable compensation.

2012 variable portion of compensation paid to Mr. Antoine Frérot, in his capacity as Chairman and Chief Executive Officer

Following the proposals made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 15, 2012, maintained, for the purposes of determining the variable portion of the Chairman and Chief Executive Officer's compensation in respect of the year 2012, the weighting concerning a quantitative portion of 70% and the qualitative portion of 30%. With regard to the Group's 2012 objectives of disposals and debt reduction in line with the objective to increase positive free cash flow (after payment of dividends) and cost reduction in line with the objective to increase adjusted operating income (excluding Veolia Transport-Transdev), the criteria for the quantitative portion of the variable compensation of the Chairman and Chief Executive Officer were based on the achievement of the budgetary objectives concerning (i) adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in Working Capital Requirements (weighted at 35%), and, (ii) the increase in Adjusted Operating Income (weighted at 35%).

The qualitative portion of 30% was assessed with respect to the following qualitative criteria: the achievement of the Group's strategic transformation plan, and more specifically the level of achievement of the plan and the contribution to achievement of this plan.

Applying these criteria and given the achievement of the objectives announced for the year 2012 (for the quantitative portion: achievement of a positive free cash flow above the external objectives announced, exceeding of the debt reduction objective and the cost reduction plan ahead of schedule despite the drop in adjusted operating income compared with 2011; for the qualitative portion: successful completion of disposals and group refocusing), the Board of Directors, on March 14, 2013, decided to award Mr. Antoine Frérot an amount of 679,293 euros in respect of the quantitative and qualitative portion of his variable compensation for 2012.

The methods used to calculate the variable portion of the Chairman and Chief Executive Officer's compensation for the year 2013, adopted by the Board of Directors on March 14, 2013, are set out at the end of this Chapter 15.1.1.

Total compensation paid to Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer of Veolia Environnement

In fiscal 2012, the total compensation paid to Mr. Antoine Frérot amounted to 1,219,123 euros. Mr. Antoine Frérot thus received the fixed portion of his compensation for 2012 (900,000 euros), as well as the variable portion of his compensation in his capacity as Chairman and Chief Executive Officer of Veolia Environnement for the year 2011, paid in 2012 (244,940 euros). Finally, he received benefits in kind and directors' fees for 2011 for his positions held within the Company and other companies of the Group.

In respect of the year 2012, the total compensation due amounts to 1,580,610 euros (up 0.2% compared to that due in respect of the 2010 fiscal year and 27% compared with 2011), specifying that Mr. Antoine Frérot waived the qualitative portion of variable compensation in 2011, including the fixed portion of his compensation for 2012, unchanged from 2011 (900,000 euros), the variable portion of his compensation for the 2012 fiscal year (679,293 euros) as well as the benefits in kind. Mr. Antoine Frérot did not receive directors' fees for his positions held within the Company and other companies of the Group.

The table below shows a summary of compensation of all kinds, detailed in the tables hereafter and in Chapter 17, Section 17.3.2 and 17.4 below concerning information relating to stock subscription or purchase options and performance shares.

Table summarising the total compensation, options and shares granted to Mr. Antoine Frérot

(in euros)	**2010 fiscal year**	**2011 fiscal year**	**2012 fiscal year**
Total compensation owed for the fiscal year	1,577,946	1,244,604	1,580,610
Value of options granted during the fiscal year	0	0	0
Value of performance shares granted during the fiscal year		0	0
TOTAL	1,577,946	1,244,604	1,580,610

Table summarising the compensation paid out to Mr. Antoine Frérot

	2010 fiscal year	**2011 fiscal year**		**2012 fiscal year**	
	Amounts owed for the fiscal year	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Fixed compensation in his capacity as Chairman and Chief Executive Officer of the Company	750,000	900,000	900,000	900,000	900,000
Variable compensation in his capacity as Chairman and Chief Executive Officer of the Company	754,063[(1)]	244,940[(2)]	754,063	679,293[(3)]	244,940
Extraordinary compensation	0	0	0	0	0
Directors' fees					
• Paid by Veolia Environnement	21,877	33,600	33,600[(5)]	0	8,400[(4)]
• Paid by controlled companies[(6)]	50,558	64,466	50,558	0	64,466
Benefits in kind[(7)]	1,448	1,598	1,598	1,317	1,317
TOTAL	**1,577,946**	**1,244,604**	**1,739,819**	**1,580,610**	**1,219,123**

(1) Variable portion for 2010 paid out in 2011.

(2) Variable portion for 2011 paid out in 2012.

(3) Variable portion for 2012 to be paid out in 2013.

(4) Directors' fees paid in respect of his position as director for the 4th quarter of 2011.

(5) Directors' fees paid in respect of his position as director for the 4th quarter of 2010 and the first three quarters of 2011.

(6) Directors' fees received or to be received in respect of positions in other companies of the Veolia Environnement Group, in France and abroad.

(7) Provision of a company car.

Compensation of Mr. Antoine Frérot in his capacity as Chairman and Chief Executive Officer and objectives for 2013

Following the recommendations made by the Nominations and Compensation Committee, the Board of Directors, at its meeting on March 14, 2013, decided, for the year 2013, to maintain the fixed portion of Mr. Antoine Frérot's compensation unchanged, at (900,000 euros).

In respect of the Group's objectives for 2013, the Board of Directors decided, for the purposes of determining the variable portion of the Chairman and Chief Executive Officer's compensation in respect of the 2013 fiscal year, to maintain a quantitative portion of 70% and a qualitative portion of 30% as well as the Base Bonus.

The criteria applied to determine the quantitative portion of the Chairman and Chief Executive Officer's variable compensation for 2013 have remained unchanged for the past three years. With respect to the two major objectives of controlling debt and improving profitability as part of a refocusing strategy, the criteria for the quantitative portion (70% of the Base Bonus) continue to depend on the achievement of the budgetary objectives relating (i) to adjusted operating cash flow after deduction of net investments, adjusted by the positive or negative change in the working capital requirement (weighted at 35%), and (ii) to the increase in adjusted operating income (weighted at 35%).

Furthermore, the qualitative portion of 30% will be assessed depending on the achievement of the Group's strategic transformation plan.

Allocation of stock subscription or purchase options and performance shares

With regard to the policy for the allocation of stock subscription or purchase options and performance shares to the Company's senior executive management, the Board of Directors, on March 24, 2011 and March 15, 2012, decided that due, in particular, to legal constraints, no allocation of this kind to the Chairman and Chief Executive Officer would be made in 2011 and 2012. For 2013, the Board of Directors, on March 14, 2013, reiterated this decision, while asking the Nominations and Compensation Committee to examine and propose methods for calculation of compensation or incentives based on the achievement of medium- or long-term performance. These methods, which are yet to be determined, would be applied to the Chairman and Chief Executive Officer and extended to the other Group executives as from 2014.

Information concerning any stock subscription or purchase options granted to and exercised by the Chairman and Chief Executive Officer during the year 2012 appears in Chapter 17, Section 17.3 below.

15.1.2 Total compensation paid to Directors[1]

Amount and distribution of directors' fees in 2012

The General Meeting of May 7, 2011, following a proposal from the Board of Directors, set the total annual amount of directors' fees at 866,000 euros. Since 2010, a provision has been made for an attendance fee: half of the amount of directors' fees due to a director is paid entirely in proportion to his or her recorded attendance (considering participation using telecommunication methods as attendance).

For the year 2012, following the proposals made by the Nominations and Compensation Committee, the Board of Directors, on March 15, 2012, decided not to request any changes to the annual amount of directors' fees from the General Meeting of Shareholders held on May 16, 2012. It decided, furthermore, to retain the same distribution of directors' fees as that applied in 2011[2] subject to the following changes:

- the Chairman and Chief Executive Officer indicated to the Board of Directors his decision to waive his directors' fees for the year 2012;
- the Board of Directors, having decided to replace the post of Vice-Chairman, which expires at the time of the General Meeting of Shareholders on May 16, 2012, by that of Senior Independent Director, the annual amount of directors' fees allocated to the Senior Independent Director in an official capacity has been set at 50,000 euros (or a reduction of 34,000 euros compared to the fees allocated to the Vice-Chairman of the Board in an official capacity).

(1) Non-executive corporate officers.

(2) an amount of 33,600 euros in respect of the directorship, comprising (a) a fixed amount of 16,800 euros and (b) a variable potential amount of 16,800 euros paid only in proportion to the rate of participation of the director concerned in meetings of the Board during the fiscal year;

- *an additional amount of 8,400 euros in respect of the participation of a director as a member (and not as Chairman) of a Board committee;*
- *an additional amount of 67,200 euros for the Chairman of the Acccounts and Audit Committee;*
- *an additional amount of 33,600 euros for the Chairman of the Nominations and Compensation Committee;*
- *an additional amount of 16,800 euros for the Chairman of the Research, Innovation and Sustainable Development Committee, and*
- *an amount of 16,800 euros in respect of the term of office of the non-voting member [censeur] (or 50% of the amount set aside in respect of the directorship), half of which is only due in proportion to the rate of the non-voting member's participation in meetings of the Board.*

Table of directors' fees in 2012 and 2011

The table below shows the amount of directors' fees paid in 2012 and 2011, as well as the amount owed for these two fiscal years to members of the Board of Directors of Veolia Environnement by the Company and by controlled companies. Moreover, as from 2012 and for that year, Mr. Antoine Frérot has decided to waive attendance fees paid by Group-controlled companies.

	2012				2011			
	Amounts owed for the fiscal year		Amounts paid out during the fiscal year		Amounts owed for the fiscal year		Amounts paid out during the fiscal year	
Name of the director	**By the Company**	**By controlled companies[1]**	**By the Company**	**By controlled companies**	**By the Company**	**By controlled companies**	**By the Company**	**By controlled companies**
Jean Azéma[1]	N/A	N/A	N/A	N/A	16,948	0	22,909	0
Jacques Aschenbroich[2]	14,891	0	12,600	0	N/A	N/A	N/A	N/A
Maryse Aulagnon[2]	14,891	0	12,600	0	N/A	N/A	N/A	N/A
Daniel Bouton	109,200	0	109,200	0	109,200	0	109,200	0
Caisse des dépôts et consignations[3]	22,018	0	18,200	0	N/A	N/A	N/A	N/A
Thierry Dassault, *Censeur*	16,036	4,600	14,700	4,600	14,700	4,600	14,050	4,600
Pierre-André de Chalendar	47,345	0	46,200	0	46,200	0	48,873	0
Jean-François Dehecq[4]	12,600	0	15,400	0	28,000	0	29,018	0
Augustin de Romanet de Beaune[4]	5,600	0	12,600	0	32,200	0	30,545	0
Antoine Frérot[5]	0	0	8,400	64,466	33,600	64,466*	33,600	50,558
Paul-Louis Girardot	50,400	44,795	50,400	47,969	50,400	47,969*	50,400	46,471
Groupama SA[2]	13,363	0	12,600	0	N/A	N/A	N/A	N/A
Groupe Industriel Marcel Dassault[6]	50,400	0	50,400	0	50,400	0	50,400	0
Marion Guillou[7]	700	0	0	0	N/A	N/A	N/A	N/A
Esther Koplowitz[4] [8]	12,600	0	18,200	0	30,800	0	32,073	0
Philippe Kourilsky	47,345	0	50,400	0	50,400	0	48,873	0
Serge Michel	67,200	10,430	65,800	10,430	65,800	10,430*	67,200	10,238
Henri Proglio[9]	16,800	7,400	23,800	14,014	32,200	14,014*	25,200	19,210
Baudouin Prot	27,491	0	25,200	0	25,200	0	25,964	0
Qatari Diar Real Estate Investment Company[10]	30,545	0	33,600	0	33,600	0	54,455	0
Nathalie Rachou[2] [8]	14,891	0	12,600	0	N/A	N/A	N/A	N/A
Georges Ralli[4]	4,200	0	11,200	0	32,200	0	32,073	0
Paolo Scaroni[8]	25,200	0	26,600	0	26,600	0	22,909	0
Louis Schweitzer	104,750	0	111,850	0	124,600	0	126,000	0
TOTAL	**708,466**	**67,225**	**742,550**	**141,479**	**803,048**	**141,479**	**823,742**	**131,077**

N/A: not applicable

(1) Directors' fees have been paid to Groupama SA at the request of Jean Azéma. Jean Azéma tendered his resignation as director on October 21, 2011.

(2) Jacques Aschenbroich, Maryse Aulagnon, Groupama SA, represented by Georges Ralli, and Nathalie Rachou were appointed as Directors by the General Meeting of May 16, 2012.

(3) Caisse des Dépôts et Consignations, represented by Olivier Mareuse, was co-opted by the Board of Directors on March 15, 2012 as director to replace Mr. Augustin de Romanet de Beaune, who resigned on February 29, 2012 with effect from March15, 2012.

(4) The terms of office of Jean-François Dehecq, Esther Koplowitz and Georges Ralli expired on May 16, 2012.

(5) The full compensation of Antoine Frérot is indicated in Chapter 15.1.1. At the Board of Directors meeting of March 1, 2012, Antoine Frérot indicated his decision to waive his directors' fees for the year 2012. He also decided to waive attendance fees paid by controlling companies for fiscal 2012.

(6) As from fiscal 2011, directors' fees are paid to Olivier Costa de Beauregard at the request of the Groupe Industriel Marcel Dassault.

(7) Marion Guillou was co-opted by the Board of Directors on December 12, 2012 as director to replace Mr. Henri Proglio.

(8) Amounts before withholding tax at source.

(9) Henri Proglio tendered his resignation as director on October 10, 2012.

(10) Directors' fees are paid to Dr. Mohd Alhamadi at the request of Qatari Diar Real Estate Investment Company. The fees due for the years 2010 and 2011 were paid respectively in 2011 and 2012 by the Company.

** The amount of attendance fees has been adjusted in relation to the 2011 registration document to reflect the amounts effectively paid in 2012.*

Amount and distribution of directors' fees in 2013

Following the recommendations made by the Nominations and Compensation Committee, the Board of Directors, on March 14, 2013, decided not to ask for the change in the annual amount of attendance fees during the General Meeting of Shareholders to be held on May 14, 2013. It also decided to maintain the same distribution of attendance fees as in 2011 and 2012 (see details in cross-reference 2 of the foregoing paragraph "Amount and distribution of directors' fees in 2012") and validated the renewal of the Chairman and Chief Executive Officer's decision to waive his attendance fees for 2013.

15.2 Compensation of executive managers who are not corporate officers (Executive Committee members)

All members of the Executive Committee in office on December 31, 2012 (see Chapter 16, Section 16.4 below), (excluding the Chairman and Chief Executive Officer) received total gross compensation totalling **3,445,263** euros in 2012 (for an Executive Committee made up of 8 members excluding the Chairman and Chief Executive Officer), as compared to 5,222,821 euros in 2011 (for an Executive Committee made up of 9 members excluding the Chairman and Chief Executive Officer).

The tables below show the total gross compensation paid out to members of the Company's Executive Committee on December 31, 2010, 2011 and 2012, with the exception of the Chairman and Chief Executive Officer, including the fixed and variable compensation paid or due in respect of these fiscal years by Veolia Environnement, benefits in kind and directors' fees received by Executive Committee members in respect of directorships held in companies of the Veolia Environnement Group in France and abroad.

	2010 fiscal year (8 members)	
(in euros)	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Fixed compensation	3,067,244	3,067,244
Variable compensation	2,328,945	1,817,258[(1)]
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	140,161	140,161
Benefits in kind	22,952	22,952
TOTAL	**5,559,302**	**5,047,615**

(1) Variable portion for the year 2009 paid in 2010.

	2011 fiscal year (9 members)	
(in euros)	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Fixed compensation	3,113,259	3,113,259
Variable compensation	1,335,273	1,923,382[(1)]
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	162,245	162,245
Benefits in kind	23,935	23,935
TOTAL	**4,634,712**	**5,222,821**

(1) Variable portion for the year 2010 paid in 2011.

Contrary to the previous fiscal year where profit-sharing of 36,000 euros had been paid out in 2010 in respect of 2009, no profit-sharing was paid out to employees under an employment contract with the Company in 2011 in respect of 2010.

Contrary to the previous fiscal year where no profit-sharing had been paid out in 2011 in respect of 2010, total profit sharing of 11,687 euros was paid to the members of the Executive Committee excluding corporate officers.

	2012 fiscal year (8 members)	
(in euros)	**Amounts owed for the fiscal year**	**Amounts paid out during the fiscal year**
Fixed compensation	3,025,864	2,168,864
Variable compensation	1,546,000	1,140,455
Directors' fees		
• Paid by Veolia Environnement	0	0
• Paid by controlled companies	0[(1)]	124,991[(2)]
Benefits in kind	10,953	10,953
TOTAL	**4,582,817**	**3,445,263**

(1) As from 2012, it has been decided that members of the Group Executive Committee and executives will no longer receive attendance fees in respect of their positions held in 2012.

(2) Amounts paid in 2012 for the 2011 fiscal year.

15.3 Retirement pensions and other benefits

There is no contract between the members of the Board and the Company or its subsidiaries that provides for the payment of benefits or compensation owed, or that may be owed, in the event of members ceasing or changing their functions within the Company or its subsidiaries, other than the Chairman and Chief Executive Officer's severance compensation and the supplementary defined benefits group pension plan described below.

Compensation in the event of termination of office as Chairman and Chief Executive Officer

In accordance with the recommendations of the AFEP-MEDEF Consolidated Corporate Governance Code of December 2008, the Company's Board of Directors, at its meeting on December 17, 2009, recorded the termination, as of January 1, 2010, of Mr. Antoine Frérot's employment contract, which had been suspended on November 27, 2009 when he was appointed Chief Executive Officer of Veolia Environnement. It should be noted that the termination of Mr. Antoine Frérot's employment contract causes him to lose the right under the collective bargaining agreement to receive severance compensation related to his years of service within the Group.

The Board of Directors, at its meeting on December 17, 2009, following a proposal from the Nominations and Compensation Committee, decided to award Mr. Antoine Frérot compensation in the event of the termination of his term of office as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L. 225-42-1 of the French Commercial Code). Such compensation is subject to compliance with performance requirements and is excluded if he is entitled to a retirement pension under the supplementary defined benefits group pension plan set up for the members of the Company's Executive Committee or if he accepts another position within the Group. Payment of this compensation is limited to cases of dismissal, non-renewal of his term of office or "forced departure in connection with a change of control or strategy". In accordance with the AFEP-MEDEF Consolidated Corporate Governance Code, the maximum amount of this termination compensation is equal to twice the amount of total annual gross compensation (excluding directors' fees and benefits in kind), including the sum of the fixed portion of compensation for the last fiscal year ("Fixed Portion") and the average variable portion of compensation ("Variable Portion") paid or owed for the last three fiscal years ended before the termination of his term of office as Chief Executive Officer ("Reference Compensation"). The amount and the fixed and variable components of this compensation both depend on meeting the performance objectives applied to calculate his annual variable compensation. The amount of this compensation is equal to twice the sum of (1) the Variable Portion of his Reference Compensation (the average of the last three fiscal years) and (2) the Fixed Portion of his Reference Compensation (last fiscal year), adjusted by a "Performance Rate" equal to the average percentage of the target bonus (also called "base bonus" or meeting 100% of annual objectives) met over the last three fiscal years ended before the termination of his term of office. In the event that Mr. Antoine Frérot's term of office as Chief Executive Officer is terminated before it is possible to calculate the Reference Compensation or the average Performance Rate over the last three fiscal years, these indicators will be calculated, as the case may be, over the last one or two fiscal years ended before the date of termination of Mr. Antoine Frérot's term of office as Chief Executive Officer.

This severance compensation, in the event of termination of Mr. Antoine Frérot's term of office, was approved on May 7, 2010 by the Company's General Meeting of Shareholders.

Supplementary defined benefits group pension plan

Starting in the year 2006, the Company set up a supplementary defined benefits group pension plan for members of the Company's Executive Committee (salaried category 9 management employees, including corporate officers who are parties to a suspended employment contract), in line with practices of other groups included in the CAC 40.

This supplementary pension plan is a regulated agreement subject to the provisions of Article L. 225-42-1 of the French Commercial Code. Accordingly, it was presented for authorisation and approved at the Annual General Meeting of Shareholders on May 11, 2006.

This supplementary pension plan, whose funding is outsourced to an insurance company, has the following characteristics:

- a specific plan that takes into account the cancellation of the supplementary pension plan for the benefit of the Group's executive managers following the split-up of the Vivendi and Veolia Environnement groups and the loss of seniority they had acquired until December 31, 2002 as employees of the former principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal, and was then renamed Vivendi);
- an additional plan that is separate from other pensions, that is based on seniority (a minimum of five years' seniority and two years' seniority as a member of the Executive Committee), capped at 25% of the annual reference compensation (for 25 years of service);
- a limit on the total retirement benefits received set at a maximum of 50% of the annual reference compensation;
- salaried management employees or senior executive management acquire a potential right to an annual retirement pension calculated as a percentage of their reference compensation up to an amount equal to 60 times the maximum annual Social Security ceilings;
- in accordance with legal requirements, the benefits of this supplementary group pension plan are conditioned on the member's completion of his/her career, whether he/she is a salaried management employee or someone who holds a senior executive management position in Veolia Environnement.

In March 2009 (approved by the General Meeting of Shareholders on May 7, 2009), the rules and regulations of this plan were amended following the Company's adoption of provisions bringing it into conformity with the provisions of the AFEP-MEDEF Consolidated Corporate Governance Code recommending the termination of the employment contract of the Chairman and Chief Executive Officer. To ensure that the termination of the employment contracts of senior executive management did not negatively affect their rights, it was decided to amend the rules and regulations governing this plan in order to clarify the eligibility requirements, in an official capacity, of this supplementary defined benefits group pension plan for senior executive management, whether or not they are parties to an employment contract.

After obtaining the opinion of the Nominations and Compensation Committee, the Board of Directors, at its meetings held on October 21 and December 17, 2009, decided to make additional amendments to the rules and regulations governing the supplementary defined benefits group pension plan in order to include, as beneficiaries, members who permanently end their professional career after the age of 55 without subsequently engaging in other professional activity in accordance with legal requirements, to entitle the beneficiaries to choose to defer the payment date of their retirement pension after exercising their retirement rights and to choose between the payment of a survivor's pension to the surviving spouse and the payment of guaranteed annuities to any person of their choice. Lastly, the annual reference compensation is now based on the average of the three highest years of gross annual compensation from among the last ten years. However, this reference compensation is limited to 60 times the annual Social Security ceiling.

In accordance with the provisions of Articles L. 225-38 and L. 225-40 of the French Commercial Code, on the basis of a special report prepared by the statutory auditors, the General Meeting of Shareholders on May 7, 2010 approved these changes to the extent that they concern senior executive management.

The amount booked as provisions (cost of services rendered) for this supplementary group pension for 2012 is equal to the amount shown as post-employment benefits in note 38.2 of the notes to the consolidated financial statements (see below).

Mr. Henri Proglio[(1)] is no longer a member of this group plan, having chosen to exercise his retirement rights on November 1, 2009 after more than 37 vested years of service within the Group. Due to Henri Proglio's very lengthy period of service within the Company and the rights acquired as such, the annual amount of his lifetime annuity is measured at 37% of his annual reference compensation.

In accordance with the recommendations of the AFEP-MEDEF Consolidated Corporate Governance Code, the value of the benefits provided by the supplementary pension plan is taken into account when setting the Chairman and Chief Executive Officer's total compensation. Furthermore, the group of potential beneficiaries is not only limited to senior executive management, but also includes salaried executive managers who are members of the Company's Executive Committee. Each year, the increase in potential rights is equal to only a limited percentage of the beneficiaries' compensation. Thus, in the case of the "specific" plan, which takes into account the years of service until December 31, 2002 as employees of the former principal shareholder (Compagnie Générale des Eaux, which became Vivendi Universal, and was then renamed Vivendi), potential rights represent 0.4% of the beneficiary's reference compensation for each year of service. In the case of the "additional" plan, which takes into account the years of service after December 31, 2002, potential rights represent 10% of the beneficiary's reference compensation after five years' seniority, including at least two years' seniority as a member of the Company's Executive Committee, then 0.75% of his reference compensation for each additional year of service. The reference period used to calculate benefits is the average compensation calculated over several years, excluding compensation paid at the time of employment termination or retirement, as well as any other type of extraordinary compensation. Lastly, provided he is still with the company at the time of his departure or retirement in accordance with legal requirements, the theoretical annual amount of the lifetime annuity of Mr. Antoine Frérot, Chairman and Chief Executive Officer, could, upon his retirement, represent 30% of his annual reference compensation.

Summary of the situation as of December 31, 2012

	Employment contract[(1)]		Supplementary pension plan		Compensation or benefits owed or likely to be owed in the event of termination or a change of position		Compensation pursuant to a non-compete covenant	
Directors – Corporate Officers	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Antoine Frérot, Chairman and Chief Executive Officer Start date of term of office as Chief Executive Officer: November 27, 2009 End date of term of office as Chairman and Chief Executive Officer: Ordinary General Meeting 2014		X[(1)]	X[(2)]		X[(3)]			X

(1) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, the employment contract of the Chief Executive Officer, Antoine Frérot, was terminated with effect as of January 1, 2010.

(2) Antoine Frérot is a member of the supplementary defined benefits group pension plan set up for the members of the Executive Committee of Veolia Environnement (see Chapter 15.3 above).

(3) Pursuant to a decision adopted by the Board of Directors on December 17, 2009, Antoine Frérot is entitled to compensation in the event of termination of his term of office as Chief Executive Officer, in accordance with the provisions of the "TEPA" Act (Article L. 225-42-1 of the French Commercial Code) and the AFEP-MEDEF Consolidated Corporate Governance Code (see Chapter 15.3 above).

Change in the supplementary defined benefits group pension plan in 2013

After a favourable opinion of the Works Council and the Nominations and Compensation Committee, on March 14, 2013, the Board of Directors decided, upon a motion by the Chairman and Chief Executive Officer, to amend the supplementary defined benefits group pension plan of members of the Company's Executive Committee (category 9 management employees and the corporate officer who is not party to an employment contract) in order to cut down on costs.

(1) In his capacity as Director until October 10, 2012

This change would be carried out in two stages:

First stage: the cancellation of the current defined benefits group pension plan in 2013 for Executive Committee members (category 9 employees and the corporate officer) approved by the General Meeting of May 7, 2010 and its replacement with the defined benefits group pension plan open to all category 8 and higher management employees (and the senior executive manager).

This amendment to the supplementary defined benefits group pension plan will apply as from mid-203 and will reduce costs for the company. Beneficiaries, members of the Executive Committee (including the executive corporate officer) will have less favourable guarantees and benefits. The main characteristics of this new supplementary defined benefits group pension plan that will be submitted for vote at the General Meeting of May 14, 2013 (as a regulated commitment) are as follows:

- Eligibility of employees will be conditional upon the following: at least five years of service, the completion of their career in the company and their presence in the company workforce at the time of voluntary or involuntary retirement as well as the settlement of their general plan at the full rate (including mandatory basic pensions or supplementary pensions).
- The reference compensation taken into account to determine the amount of the pension is equal to the average of the last three years of full remuneration within the limit of eight annual social security caps.
- The pension amount is determined based on the number of years of service in the company and capped at a maximum of 10% of the reference compensation for beneficiaries with more than 30 years of service.

Second stage: the new supplementary defined benefits group pension plan to replace the existing plan is scheduled for implementation in early 2014. Its characteristics are not yet finalized, but it would be open to category 8 and higher managers (including the executive corporate officer). The implementation of the second stage will be submitted for the approval of the Board of Directors and the vote of the General meeting in 2014, since this is a regulated commitment in favour of the executive corporate officer.

16

Operation of management and supervisory bodies

16.1 Operation of the Board of Directors

16.1.1 Principles of Corporate Governance and AFEP-MEDEF Code

The Company applies a corporate governance code in accordance with the provisions of the French Commercial Code in connection with its stock listing on the Euronext Paris market, as well as the US corporate governance principles, especially under the Sarbanes-Oxley Act, since the Company has an ADR listing on the New York Stock Exchange.

On January 7, 2009, the Company's Board of Directors took note of the consolidated version of the AFEP-MEDEF Code of December 2008 and declared that it would use that Code as a reference. The Company adheres to that corporate governance code on a voluntary basis, especially with respect to the preparation of the Chairman of the Board's report required under Article L. 225-37 of the French Commercial Code; its practices comply with the recommendations of the AFEP and MEDEF included in their corporate governance code, as amended in April 2010 (www.medef.fr, Corporate Governance section). The Company has not set aside any provision of that code.

On April 30, 2003, following the corporate governance report by a work group chaired by Daniel Bouton, the Company's Board of Directors adapted its internal regulations and created an Accounts and Audit Committee and a Nominations and Compensation Committee with their own internal regulations (see Section 16.2, Operation and Work of the Committees of the Board of Directors below).

16.1.2 Composition of the Board of Directors

Members of the Board of Directors

As of the date of filing of this registration document, the Board of Directors has seventeen directors and one non-voting member ("*censeur*"). The list of their names and the expiration dates of their terms of office, a brief curriculum vitae and the table of other appointments that they may hold, including outside the Group, are featured in Chapter 14 (section 14.1 above), and their shareholdings in the Company are shown in Section 17.5 below.

Board members are appointed by the ordinary general meeting at the proposal of the Board of Directors which, in turn, receives the proposals of the Nominations and Compensation Committee. The Board members may be removed at any time by decision of the general meeting. Each director must own at least 750 registered shares in the Company.

The Board of Directors may appoint one or more *censeurs* under Article 18 of the bylaws as adopted by the combined general meeting of May 7, 2010. On that date, Thierry Dassault was appointed to the office of *censeur* by the Board of Directors for a four-year term expiring at the close of the general meeting convened to vote on the 2013 financial statements. The *censeur*'s mission is to attend the Board of Directors' meetings in a non-voting advisory capacity, and the Board may freely ask the *censeur* for advice.

The Company's Board of Directors has no employee-elected members, but two members of the Company's Works Council attend the Board of Directors' meetings in a non-voting advisory capacity.

Renewal of the Board Members' terms of office

In accordance with the AFEP-MEDEF Code, Article 11 of the Company's bylaws provides for a four-year term of office for directors and annual renewal of the terms of one quarter of the Board members[(1)].

The combined general meeting of May 16, 2012:

- approved the appointments of Jacques Aschenbroich, Maryse Aulagnon, Nathalie Rachou and Groupama SA, represented by Georges Ralli;
- renewed the appointment of Serge Michel as director;
- confirmed the co-optation of the Caisse des Dépôts et Consignations, represented by Olivier Mareuse as a new director, replacing Mr. Augustin de Romanet de Beaune, who had resigned.

Henri Proglio tendered his resignation as director on October 10, 2012. The Company's Board of Directors decided on December 12, 2012 to co-opt Marion Guillou as a director, replacing Mr. Proglio. Subject to the approval of this appointment by the next combined general meeting, to be held on May 14, 2013, the term of office of Marion Guillou will expire at the end of the remaining initial term of office of Henri Proglio, i.e. at the close of the combined general meeting convened in 2013 to approve the financial statements for the year ended on December 31, 2012. The terms of four directors, the Caisse des Depots et Consignations, represented by Olivier Mareuse, Marion Guillou, Philippe Kourilsky and Paolo Scaroni, will expire at the end of the general meeting of May 14, 2013.

On March 14, 2013, in accordance with the recommendations of the Nominations and Compensation Committee, the Board of Directors decided to propose to the combined general meeting to be held on May 14, 2013, the approval of the co-optation of Marion Guillou and her reappointment for a four-year term expiring at the end of the ordinary general meeting to be held in 2017 to approve the financial statements for the year ending December 31, 2016, the renewal of the appointments of Caisse des dépôts et consignations, represented by Olivier Mareuse, and Paolo Scaroni for the same duration, and the non-renewal of the appointment of Philippe Kourilsky.

Following this approval and these changes, the Board of Directors would now composed of sixteen directors including three women and one *censeur*.

Applying the principal of equal representation of men and women

The Nominations and Compensation Committee has taken note of the provisions of the Law of January 27, 2011 providing for equal representation of women and men on Boards of Directors. In accordance with that law and the AFEP-MEDEF Code as amended in April 2010, the Nominations and Compensation Committee made recommendations to the Board on March 15, 2012 to propose the appointment of an increased number of women to the Board on the occasion of future annual general shareholders' meetings. As of the date of filing of this registration document, the Board has one woman among the directors, accounting for 17.64% of the total Board members. If the changes to the composition of the Board of Directors proposed to the General Assembly of May 14, 2013 are approved, this percentage would increase to 18.75%.

Selection criteria for directors

The Board of Directors' Nominations and Compensation Committee advises the Board on the selection of candidates for the purpose of renewing the composition of the Board of Directors based on the following criteria, in particular: management skills acquired in major French and foreign international corporations, familiarity with its sector of activity, professional experience, financial and accounting expertise and sufficient availability. The Board is striving to diversify the profiles of its members, of both French and foreign nationality, particularly by increasing the number of women over the coming years, while making sure to bring about a balance among the various stakeholders in the Company. As of the date of filing of this registration document, the Board had two directors of foreign nationality, representing 11.8% of the total (Paolo Scaroni is Italian and Dr. Mohd Alhamadi is Qatari).

Training and integration of new directors

At the request of the Board of Directors, the Company organises training for new directors on the specifics of the Group's businesses to facilitate their integration, particularly through site visits.

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(1) In order to comply with the provisions of our bylaws that provide for the annual renewal of one quarter of our Board of Directors, before the 2015 General Shareholders' Meeting, one director will need to be randomly selected from among the directors who were either appointed or had their term of office renewed during the 2012 General Shareholders' Meeting. The term of office of the person selected in this way will be reduced to three years (i.e., his or her term of office will expire at the close of the 2015 ordinary General Shareholders' Meeting).

16.1.3 Independence of the Directors

Criteria of independence of the directors

According to the terms of the internal regulations of the Board of Directors, members are considered independent if they have no relationship with the Company, its Group or its management that might compromise their ability to exercise their judgment objectively. According to the internal regulations, which adopt the criteria stipulated by the AFEP-MEDEF Code, an independent director must:

1) not be an employee or have been a member of the Company's Management Board, director or member of the executive management of its former parent corporation or of any of the companies that it consolidates, nor have held any such position within the past five years;

2) not be a director or executive officer of any company in which the Company directly or indirectly holds a directorship or in which an employee appointed as such, or a director or executive officer of the Company (now or within the past five years) holds or held a directorship;

3) not be a customer, supplier, investment banker or commercial banker that is material for the Company or its group or for which the Company or its group represents a significant part of the activity (nor be directly or indirectly linked with such a person);

4) not have any close family ties with a director or executive officer;

5) not have been an auditor of the Company within the past five years;

6) not have been a member of the Supervisory Board or director of the Company within 12 years before the date on which his current term of office was conferred.

In the case of directors holding 10% or more of the Company's capital or voting rights or representing a legal entity with such shareholdings, the Board, based on a report from the Nominations and Compensation Committee, shall decide whether or not they are independent, taking into account the composition of the Company's capital and the existence of any potential conflicts of interest.

Those criteria are to be evaluated and weighed by the Board of Directors because it may decide that a director who does not meet the criteria defined in the internal regulations may nevertheless be characterised as independent in light of his particular situation or that of the Company, in light of its shareholding structure or any other reason, or vice versa.

The internal regulations also stipulate that the Board of Directors shall proceed each year, before publishing the registration document, to the evaluation of the independence of each of its members based on the criteria set by said regulations, special circumstances, the situation of the person in question, of the Company and of the Group and the opinion of the Nominations and Compensation Committee.

Evaluation of the independence of the directors

The Board of Directors, in its meeting held on Thursday, March 14, 2013, performed the annual review of the independence of the directors after hearing the opinion of the Nominations and Compensation Committee. The Board has qualified as independent Maryse Aulagnon, Jacques Aschenbroich, Daniel Bouton, Pierre-André de Chalendar, Paul-Louis Girardot, Groupama SA represented by Georges Ralli, Groupe Industriel Marcel Dassault represented by Olivier Costa de Beauregard, Marion Guillou, Baudouin Prot, Qatari Diar Real Estate Investment Company represented by Mohd Alhamadi, Nathalie Rachou, Paolo Scaroni and Louis Schweitzer.

The Board of Directors has decided to uphold for 2013, the qualification of independence of Baudouin Prot given the limited financing agreed with BNP Paribas, and the general independence of Veolia Environnement in relation to bank financing, as well as the limited weight of the commitments of Veolia Environnement in relation to the activities of this bank. The Board also held the independent status of Qatari Diar Real Estate Investment Company, represented by Dr. Mohd Alhamadi, due to the absence of any significant business relationship between the Company and this director. This situation will be revalued in 2013.

The Board has qualified Paul-Louis Girardot as an independent director because of the time that has elapsed since he ceased to exercise his duties as Chief Executive Officer of the former lead company of the Water Division.

Other directors qualified as independent do not have business relations with the Company or any significant business relationship likely to compromise their freedom of judgment.

As of the date of filing of this registration document, the Company's Board of Directors therefore has thirteen independent members, representing 76.47% of the total members, which is more than the recommendation of the AFEP-MEDEF Code.

16.1.4 Powers and work of the Board of Directors

Powers of the Board of Directors

In accordance with the law, the Board of Directors establishes the policies concerning the Company's business and supervises the implementation thereof. Subject to the powers expressly granted by law to shareholders' meetings and within the limits of the corporate purpose, the Board of Directors has the authority to consider all issues concerning the proper operation of the Company and, by its deliberations, resolves matters that concern the Board.

In addition to the powers conferred on the Board of Directors by the law, its internal regulations impose an internal requirement that certain major decisions of the Chairman and Chief Executive Officer be submitted for the Board of Directors' prior approval. These limitations of internal authority are described below (see Section 16.3.2).

Meeting frequency, duration and participation

According to its internal regulations, the Company's Board of Directors must meet at least four times a year. During fiscal 2012, the Board met eleven times (versus twelve times in 2011), and board meetings lasted an average of three hours (as in 2011). The average attendance rate at Board of Directors' meetings in 2012 was 82% (versus 84.2% in 2011). The option to participate through distance communication options was used in three out of eleven meetings in 2012 (versus nine out of twelve meetings in 2011).

Work of the Board of Directors in 2012

The activities of the Board of Directors in 2012 were mainly divided among the following subject areas: strategy, long-term plan and 2013 budget, review of the 2011 annual financial statements and 2012 first-half financial statements, accounting information for the first and third quarters of 2012 and draft of the corresponding financial disclosures. In the context of the 2011 financial statements, special attention was given to the dividend policy, the proposed allocation of income and payment of a scrip dividend. The Board also issued the notice of meeting for the annual combined general meeting and approved the reports and draft resolutions to be submitted to the shareholders. It reviewed the Company's policy on employee savings (PEG), the 2011 registration document and the report of the Chairman of the Board pursuant to Article 225-37 of the French Commercial Code. It also examined the summaries and reports by their respective chairs of the work performed by the Accounts and Audit and Nominations and Compensation Committees, and the policy on gender equality in employment and pay. It approved the divestment of the regulated water operations in the United Kingdom and solid waste operations in the United States, as well as several major transactions and reviewed the financing policy. The Board renewed the financial and legal authorisations granted to the Chairman and Chief Executive Officer, particularly for financing activities and off-balance sheet commitments, and agreed to the Group's material guarantee authorisations.

On issues of corporate governance, in 2012 the Board's work focused on the policy and setting of the amount of the Chief Executive Officer's compensation and the examination of the policy applicable to the Executive Committee, formally evaluating the Board of Directors and its committees and examining the criteria for selecting directors during the change in its composition, particularly with regard to appointing women to the Board, evaluating the independence of the directors and internal controls and approving the Chairman's report; renewing part of the Board by the general meeting and distributing directors fees. In addition to co-opting Marion Guillou as director to replace Henri Proglio (see Chapter 16, Section 16.1.2 above) at its meeting of December 12, 2012, the Board of Directors adjusted the composition of its "Accounts and Audit" and "Research, Innovation and Sustainable Development" committees (see Chapter 16, paragraph 16.2.1 below).

The Board met for a strategic seminar to discuss in depth the key policy objectives put forth by the management. The Board then discussed and approved the 2013 long-term plan outlining this strategy. In 2012, the Board of Directors was regularly informed of key commercial developments and the initiatives planned by the Executive Management. The Board also received reports from the Executive Management on road shows. The Board of Directors, mainly through a system of reporting to the Board and the reports from the Accounts and Audit Committee, was periodically informed of

the changes in the body of shareholders, the Group's financial and cash position, the off-balance sheet commitments of the Company and the Group, and changes in significant litigation. The Group's Chief Financial Officer, Secretary General and General Counsel attended the Board meetings in 2012. The directors receive a monthly report regarding stock prices and the follow-up on analyst recommendations. Every six months, the Executive Management provides the directors with detailed documentation regarding business activities, internal matters (appointments, social policy) and the Group's corporate activities (actions with various institutions in France, Europe and abroad) during the period in question.

Evaluation of the Board and of the actions of the Executive Management

Once a year, the Board is required to include a matter of business on its agenda providing for an evaluation of its operations prepared by the Nominations and Compensation Committee and a discussion of its operations for the purpose of improving its efficiency, ensuring that important issues are adequately prepared and discussed during Board meetings and assessing the actual contributions of each member to the Board's work. In addition, the Board's internal regulations provide that a formal assessment must be carried out every three years by an outside organisation, under the direction of the Nominations and Compensation Committee for the purpose of ensuring that the Board complies with the principles governing its operations and studying proposals intended to improve its operations and efficiency. Each year, the Nominations and Compensation Committee provides the Board of Directors with a report assessing the performances of the Chairman and of the directors, as well as the actions of executive management, which the Board then discusses.

In accordance with internal regulations, the conclusions of a formal assessment conducted by an independent body were presented to the Board on March 24, 2011 by the Chairman of the Nominations and Compensation Committee. Pursuant to the decisions taken at this meeting, the Chairman and Chief Executive Officer convened the Board in November 2011 to attend a strategic seminar at which the Executive Committee was present, and which allowed ample time for discussion and exchange; prior to this meeting, directors were sent detailed documentation, including information about the competitive environment in which the Group operates. In addition, on March 15, 2012 the Nominations and Compensation Committee provided the Board with its recommendations on the Board's change in composition; the Executive Management reported periodically to the Board in 2012 on the key questions asked during road shows; and lastly, the Accounts and Audit Committee was given a review in 2011 of the risk management system as well as of the status of actions undertaken, and the Board received its committees' annual schedule of tasks.

The annual assessment began at the start of 2012 under the impetus of the Chairman of the Nominations and Compensation Committee. During the Board meeting on March 15, 2012, the Chairman of the Nominations and Compensation Committee communicated the results of this assessment:

In general, the Board members were happy with the organisation of the Board. The responses were mainly positive in relation to the improvements made to the way it operates following the formal assessment in 2011; in particular, the organisation of a strategic seminar in November 2011 was widely appreciated. Some directors requested the following improvements: meetings to present the business divisions to be held more frequently with the presence of the relevant managers; information to be produced on risks and competitors; more time to be devoted to internal debates; and the Board's authorisation levels to be reassessed in terms of its internal regulations. Regarding the composition of the Board, recommendations were made in terms of its size and number of female members. The operation of the committees was considered as satisfactory overall. After discussions, the Board made the following conclusions: one day a year dedicated to strategy; the Executive Management will inform the Accounts and Audit committee of Group transactions reaching a threshold between €150 million and €300 million; steps will be taken to ensure that draft financial reports are submitted to the Board at an earlier date.

16.1.5 Role of the Chairman of the Board of Directors

The internal regulations of the Board clarify the role of the Chairman of the Board of Directors.

The Chairman of the Board of Directors organises and directs the work of the Board and reports thereon to general shareholders' meetings. He is responsible for preparing reports on the organisation of the Board's work, internal controls and risk management. He chairs general shareholders' meetings.

In general, the Chairman of the Board of Directors ensures the proper operation of the Company's corporate bodies and compliance with good governance principles and practices, in particular regarding the committees created within the Board. He ensures that the directors are in a position to perform their duties and that they are adequately informed. He devotes the time necessary to issues concerning the Group's future and, in particular, issues concerning the Group's strategy.

In accordance with the internal regulations, directors and the Chief Executive Officer are required to promptly inform the Chairman and the Board of all conflicts of interest, even if only potential, and of all proposed agreements that may be made by the Company in which they may have a direct or indirect interest.

The Chairman of the Board chairs Board meetings and prepares and coordinates the Board's work. In this regard, he:

- convenes Board meetings in accordance with the schedule of meetings agreed upon with the directors and decides if it is necessary to convene Board meetings at any other time;
- prepares the agenda for meetings, supervises the preparation of documentation to be provided to the directors and ensures that the information therein is complete;
- ensures that certain subjects are discussed by the committees in preparation for Board meetings and ensures that the committees perform their duties of making recommendations to the Board;
- leads and directs the Board's discussions;
- ensures the directors' compliance with the provisions of the internal regulations of the Board and of the committees;
- monitors implementation of the Board's decisions;
- in conjunction with the Nominations and Compensation Committee, prepares and organises the Board's periodic assessment work.

The Chairman has the means necessary to perform his duties.

16.1.6 Senior Independent Director

Appointment of a Senior Independent Director

On October 21, 2009, the Board of Directors decided to create the position of Vice-Chairman to assist the Chairman with his duties to ensure proper operation of the Company's governing bodies, on the British model of the "Senior Independent Director". In accordance with the internal regulations of the Board, the Senior Independent Director is chosen from among the directors characterised as independent for the duration of his term of office of independent director. The Board appointed the independent director Louis Schweitzer to assume this position of Vice-Chairman, effective November 27, 2009.

At its meeting of March 15, 2012, the Board noted that Louis Schweitzer would be 70 years old in 2012 and that, pursuant to Article 12 of the Company's bylaws, his term as Vice-Chairman of the Company could not continue beyond the general meeting of May 16, 2012. On the recommendation of the Nominations and Compensation Committee, the Board decided to appoint him, with effect from the annual general meeting of May 16, 2012, as Senior Independent Director responsible for performing functions relating to the smooth running of the Company's governance bodies for the duration of his term of office, insofar as he remains an independent director as determined by the Board.

Role of the Senior Independent Director

The Senior Independent Director's duties include helping the Chairman ensure that the Company's governing bodies are running smoothly. In this regard, the Senior Independent Director examines, in particular, conflicts of interest, including potential conflicts of interest that may involve the Board members or the Chairman of the Board with regard to the interests of the Company, whether they arise in connection with operational projects, strategic policies or specific agreements. The Vice-Chairman submits his recommendations to the Chairman and the Board after any necessary consultation with the other independent directors.

The Senior Independent Director is informed of the concerns of major shareholders not represented on the Board regarding governance issues and ensures that such concerns are addressed. If necessary, and in agreement with the Chairman of the Board, the Senior Independent Director may also himself respond to questions of major shareholders or meet with them if the ordinary avenues for doing so (i.e., the Chairman and Chief Executive Officer or the Chief Financial Officer) have been unable to handle such concern or if the nature itself of the matter renders these ordinary avenues inadequate or inappropriate.

In connection with the evaluation of the Board's operations pursuant to its internal regulations, the Senior Independent Director assists the Nominations and Compensation Committee in its work of evaluating the performance of the Chairman of the Board.

16.1.7 Securities Trading by Directors and Executive Officers

Reporting obligations and prohibition of securities trading

According to the Board's internal regulations, every director or *censeur* must report all transactions performed with regard to the Company's securities to the AMF and to the Company and comply, in particular, with the provisions of Article L. 621-18-2 of the French Monetary and Financial Code and Article 223-22 of the general regulations of the AMF. The members of the Board of Directors and the Company's management personnel or "senior management", and their close personal relations, shall report all acquisitions, sales, subscriptions or trades in the Company's securities and financial instruments to the AMF, within five trading days after completion.

In addition, directors and executive officers are also subject to French and U.S. laws and regulations on breach of duty and insider trading, which sanction the use or disclosure of privileged information. In accordance with Article L. 621-18-4 of the French Monetary and Financial Code, the Company draws up, and keeps up to date, a list of permanent insiders, which is available to the AMF, and which includes in particular the members of the Board of Directors and of the Company's Executive Committee.

The Company's directors and executive officers are required to comply with the provisions of the Company's Code of Conduct with respect to securities transactions (see Section 4.2.2.2.4 above). In that respect, the members of the Board of Directors and of the Executive Committee are deemed by the Company to be permanent insiders and may not buy or sell the Company's securities, directly or through a third-party intermediary, during certain periods: during the six-week period up to and including the date of publication of the annual financial statements, the four-week period up to and including the publication of the interim financial statements, and the two-week period up to and including the date of publication of quarterly financial information, or even outside of those periods so long as they possess insider information. In order to prevent any difficulties related to applying the code of conduct, the individuals in question should consult with the Company's Secretary General.

Shareholding obligation of Directors and Executive Officers

In accordance with Article L. 225-185 of the French Commercial Code, the Company's Board of Directors decided on March 29, 2007, at the proposal of the Nominations and Compensation Committee, to apply a rule to require its Chairman and Chief Executive Officer to set up a Veolia Environnement share portfolio equal to 50% of the balance of the shares that result from exercising options after payment of tax (capital gains tax and mandatory social security contributions) and the cost of financing (number of options that it is necessary to exercise by combined exercise and sale in order to finance the exercise price of the portfolio and the tax). That rule has not been applied in practice, as the performance criterion set in the 2007 stock options plan has not been met and considering that no options or performance shares have been awarded to the Company's directors and executive officers since that date. The rule may be reassessed by the Board in the future.

16.1.8 Other Information about the Operation of the Board

This section sums up the corresponding sections of the internal regulations of the Board of Directors.

Directors' duties and obligations

According to the Board's internal regulations, its members are subject to the following obligations: acting in the Company's best interests; informing the Board of any conflict of interest, even potential, and abstaining from votes on any decisions in which they may have a conflict of interest; performing their duties in accordance with the statutory provisions, notably those concerning the limits on terms of office, and regularly attending Board and committee meetings; being informed in order to be able to deal effectively with the agenda items; considering themselves bound by professional secrecy and by a duty of loyalty; complying with the Company's code of conduct with respect to corporate actions. The members of the Board of Directors and, where applicable, the Chief Executive Officer are required to promptly report to the Chairman of the Board any agreement signed by the Company in which they are directly or indirectly interested or which were concluded through an intermediary on their behalf.

Each director receives a periodically updated “Director’s Guidebook” which includes the following primary documents: the Company's Articles of Association, a summary of the Chief Executive Officer's powers, the internal regulations of the Board of Directors, Accounts and Audit Committee, and Nominations and Compensation Committee, the Company's code of conduct with respect to securities transactions, with a reminder of the rules applicable to the reporting obligations of directors and executive officers for transactions performed with regard to the Company's securities, and the "Ethics, Commitment and Responsibility" Charter.

Information provided to directors

The Chairman provides directors, in a timely manner, with the necessary information for them to fully perform their duties. In addition, the Chairman constantly provides the members of the Board with all significant information concerning the Company. Each director receives and has the right to request all necessary information to perform his duties, and may also request additional training concerning the specificities of the Company and the Group.

In order to fulfil their duties, the directors may meet with the key management personnel of the Company and Group, subject to giving prior notice to the Chairman of the Board.

In the event that the Chairman's duties are separated from those of the Chief Executive Officer, the internal regulations of the Board of Directors provide that the non-director Chief Executive Officer is automatically invited to all Board meetings, unless the Chairman or the Board decides otherwise. At the request of the Chairman or of a director, the heads of the Group’s divisions may be invited to any Board meeting devoted to the prospects and strategies of their business sector.

Participation by means of telecommunications

Directors may participate in the Board votes by videoconference or other means of telecommunications, under the conditions set out in Articles L. 225-37 and R. 225-21 of the French Commercial Code and as provided by the internal regulations of the Board of Directors. In such case, directors are deemed to be present for the purpose of calculating the quorum and majority, except with regard to the vote on certain major decisions as provided by law and by the Board’s internal rules (in particular, the year-end closing of accounts and preparation of the management report and the consolidated financial statements).

16.1.9 Compensation of Board members

The rules governing directors' fees and the amounts paid in 2012 are stated in Chapter 15, Section 15.1.2 above.

16.2 Operations and Work of the Committees of the Board of Directors

Since April 30, 2003, when the Company adopted a mode of governance as a joint stock company with a Board of Directors (*société anonyme à conseil d'administration*), the Company's Board of Directors has been assisted by an Accounts and Audit Committee, a Nominations and Compensation Committee, and, since September 14, 2006, a Committee for Research, Innovation and Sustainable Development.

16.2.1 Accounts and Audit Committee

Operations and composition of the committee

The Accounts and Audit Committee meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors at least five times a year to review the periodic and annual financial statements before their submission to the Board of Directors. In 2012, the Accounts and Audit Committee met eight times (seven times in 2011). The average attendance rate in 2012 was 87.5% (versus 96.4% in 2011).

The Accounts and Audit Committee has three to five members appointed by the Board of Directors from among the directors (excluding those directors in management positions) pursuant to a recommendation made by the Nominations and Compensation Committee. The committee chairman is appointed by the Board.

At its meeting of December 12, 2012, the Board made changes to the composition of the Accounts and Audit Committee. It decided to appoint Jacques Aschenbroich, replacing Pierre-André de Chalendar, and one additional member, Nathalie Rachou. As of the date of filing of this registration document, this committee has five independent members, as required by the internal regulations of the Board of Directors: Daniel Bouton (Chairman), Jacques Aschenbroich, Paul-Louis Girardot, Groupe Industriel Marcel Dassault, represented by Olivier Costa de Beauregard, and Nathalie Rachou.

According to the internal regulations of the Accounts and Audit Committee, its members are required to be chosen on the basis of their financial or accounting expertise, and at least one committee member must have specific financial or accounting expertise and be independent under the criteria specified in the internal regulations of the Board of Directors. On March 14, 2013, the Board of Directors classified all members of the committee as "financial experts", within the meaning of the U.S. Sarbanes-Oxley Act and French law, having determined that they had the necessary qualifications and experience. All of the committee's members are considered to be independent according to the criteria set forth in the *New York Stock Exchange Manual*.

Duties of the committee

The duties of the Accounts and Audit Committee, according to its internal regulations adopted by the Board, take into account U.S. laws and regulations concerning the assessment of internal controls of financial and accounting information, and the Order of December 8, 2008 which transposes into French law the Eighth Directive on Statutory Audits of Corporate Financial Statements (Directive 2006/43/EC), and the AMF recommendations of July 2010.

In general, the Accounts and Audit Committee is responsible for monitoring issues concerning the preparation and control of accounting and financial information and, in particular, for monitoring (i) the integrity of the Group's financial statements and the process for preparing financial information; (ii) the effectiveness of internal control systems concerning financial and accounting information and the Group's risk management systems that are expressed in the accounting system, or identified by executive management, and that may affect the financial statements; (iii) the Group's compliance with statutory and regulatory requirements where these are relevant to financial reporting or internal control; (iv) evaluation of the auditors' skills and independence; and (v) the performance of their duties by the Group's internal audit department and the auditors with respect to auditing the separate and consolidated financial statements. In this regard, the duties of the committee are:

a) **Process of preparing accounting and financial information:** (i) together with the auditors, reviewing the relevance and consistency of the accounting methods used to prepare the individual or consolidated financial statements, examining whether major transactions are adequately processed on a Group-wide level; (ii) reviewing the scope of the consolidated companies and the procedures of collecting financial and accounting information and interviews and seeking the explanations and comments of the auditors in this respect, where necessary; (iii) giving an opinion on the draft interim and annual individual and consolidated financial statements prepared by executive management before those statements are presented to the Board; (iv) interviewing the auditors, the members of the Executive Management and financial officers, particularly on the off-balance-sheet commitments, depreciation/amortisation, provisions, goodwill and principles of consolidation; such interviews may be conducted without the presence of the Company's executive management; (v) taking cognizance of, and expressing an opinion on the process of preparing press releases on the occasion of publication of the annual or interim financial statements and the quarterly information; and in the context of the Board's examination of the press releases concerning, in particular, the annual and interim financial statements, making sure that the presentation of this financial information to the market is consistent with the information in the financial statements, according to the information in its possession.

b) **Internal audit:** (i) taking cognizance of the Company's audit charter; (ii) examining once a year the Group's annual internal audit programme; (iii) periodically receiving information from the Company with regard to the progress in the programme to audit and assess the internal control system (see Section 404 of the Sarbanes-Oxley Act) and risk management system, summaries of the auditing assignments carried out and, once a year, an overall analysis of the main lessons learned from the auditing year; and (iv) interviewing the head of the internal audit department and giving the committee's opinion on the organisation of the work of his department.

c) **Effectiveness of internal control and risk management systems,** particularly in the context of the provisions of Section 404 of the Sarbanes-Oxley Act (assessment of the effectiveness of internal control procedures relating to financial and accounting information) and Article L. 823-19 of the French Commercial Code (see Order of December 8, 2008 which transposed the Directive on the statutory audit of financial statements):

- *Concerning the monitoring of the effectiveness of internal control systems:* (i) periodically receiving information from the Company about the organisation and procedures of internal control relating to financial and accounting information; (ii) interviewing the head of the internal control department and giving the committee's opinion on the organisation of the work of his department; (iii) hearing an annual report from the Ethics Committee on the whistleblowing system available to employees with respect to accounting, finance, management audits and control; having significant matters referred to it by the Ethics Committee in said fields and ensuring the follow-up of those cases with said committee;

- *Concerning monitoring of the effectiveness of the system of managing the risks expressed in the accounting statements or those identified by executive management that may have an effect on the financial statements:* (iv) periodically examining the mapping of the main risks identified by executive management that may affect the financial statements; (v) taking cognizance of the main characteristics of the systems for managing those risks and the results of their operation, based in particular on the work of the risk management department, the internal audit department and the auditors in relation to internal control procedures; and (vi) following up implementation of corrective actions in relation to any identified weaknesses that might have an impact on the financial statements.

(d) Auditors: (i) reviewing the auditors' planned work on an annual basis; (ii) interviewing the auditors and the officers in charge of finances, accounting and treasury, in certain cases without the presence of members of the Company's executive management; (iii) supervising the procedure for choosing auditors and making recommendations thereon; (iv) giving its opinion regarding the amount of fees requested by the auditors; (v) giving its prior approval to auditor activities that are strictly ancillary or directly complementary to the audit of the financial statements; and (vi) being informed of the fees that the Company and the Group pay to the audit firm and network, ensuring that the amount of these payments or the share of these payments in the firm's and the network's revenue does not call into question the independence of the auditors, and reviewing together with the auditors any risks threatening their independence and the precautionary measures to be taken to reduce such risks.

Activities of the committee in 2012

In 2012, the Accounts and Audit Committee organised its activities, as before, within the framework of a programme drawn up by the committee for the year under review. The meetings are covered by minutes and by a report from the committee chairman to the Board of Directors.

The Accounts and Audit Committee proceeded to review the annual and interim financial statements and the associated business report. It reviewed the main accounting decisions, impairment testing of assets and at-risk contracts. The committee also reviewed the financial information and business reports for the first and third quarters of 2012. Pursuant to the provisions of Section 404 of the Sarbanes-Oxley Act, the committee read the summary of the internal control activities and evaluation for the 2011 fiscal year, certified by the auditors, and examined the 20-F report for 2011. It examined reports on fraud, and reviewed the action plans for fraud prevention, as well as the report on the activities of the Ethics Committee. The Committee examined summaries of internal audits conducted in 2011 and the first half of 2012, and approved the internal audit programme for 2013.

Together with the Company's managers, the committee also reviewed the key processes in its duties: review of the financial policy and planned financing transactions, review of the investment process and divestment transactions, tax review and review of legal reporting on major disputes, financial review of the Energy Services Divisions, review of the risk management system and update on the implementation of action plans, and review of the environmental risk management system. The Committee was informed in particular about: the planned transfer of SNCM (the Marseille ferry operator) from Veolia Transdev to the Company, the divestment of the regulated water operations in the United Kingdom and solid waste operations in the United States; and changes in IFRS.

The committee approved the auditors' assignments for 2012 and fee budget for 2013. It reviewed the status of their appointments as well as their independence, and how they organised their tasks and recommendations. It was also involved in the process to reappoint an auditor.

The committee may interview persons outside the Company if it deems such interviews useful to the performance of its duties. In addition, the committee may consult with outside experts. It may also interview the Company's financial officers or the auditors without the presence of the Chief Executive Officer. Thus, during the past year, the Chairman of the Accounts and Audit Committee and/or the committee members interviewed and met with the chief financial officer, the financial services director, the Group internal audit director, the internal control director, the secretary general, the general counsel, the senior tax director, the risk management director, the Group insurance director, the human resources director, the cash-flow financing director, the development director, the executive vice-president and the finance director of the Energy division, the chairman of the Ethics committee and the Company's auditors. The committee did not call upon outside consultants in 2012.

16.2.2 Nominations and Compensation Committee

Operations and composition of the committee

The Nominations and Compensation Committee meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors, and it meets at least twice a year. In 2012, the Nominations and Compensation Committee met three times (three times in 2011). The average attendance rate was 100% (100% in 2011).

In accordance with its internal regulations, the Nominations and Compensation Committee has between three and five members, who are appointed by the Board of Directors pursuant to a proposal of the Nominations and Compensation Committee. The committee members are selected from among the directors who do not hold management positions. The committee chairman is appointed by the Board.

On the date of the filing of this registration document, this committee has four members, three of whom are independent according to the criteria set forth in the Board's internal regulations: Serge Michel (Chairman), Daniel Bouton(1), Louis Schweitzer(1) and Groupe Industriel Marcel Dassault, represented by Olivier Costa de Beauregard(1). There were no changes to this committee in 2012.

Duties of the committee

The main duties of the Nominations and Compensation Committee are as follows:

a) **Compensation:** (i) to study and make proposals regarding the overall compensation of the Company's directors and executive officers, in particular with regard to the rules and criteria governing the variable portion of compensation consistent with the annual assessment of their performances and the medium-term strategy and performance of the Company and the Group, and with regard to the granting of in-kind corporate benefits, stock purchase or subscription options and allocation of bonus shares, pension plans, termination compensation and any other benefits, ensuring that all such components are taken into account in evaluating and setting their overall compensation; (ii) to propose to the Board of Directors an overall amount of directors' fees to be paid to the directors, as well as the rules for the distribution of these; (iii) to give the Board of Directors its opinion regarding the general policy and terms and conditions for granting stock purchase or subscription options, allocation of bonus shares and setting up employee stock ownership plans, as well as the provisions for sharing the performances of the Company or Group with employees; (iv) to make proposals to the Board concerning the granting of stock options and, if applicable, bonus shares to the Company's directors and executive officers, as well as with respect to the performance conditions applicable thereto; (v) to make proposals to the Board concerning the obligation of the Company's directors and executive officers to keep shares obtained by exercising stock purchase or subscription options or, if applicable, the allocation of bonus shares; and (vi) to give its opinion concerning the compensation policy with regard to the Company's key managers who are not also directors or executive officers of the Company or of other companies of the Group.

b) **Nominations:** the committee is charged with making recommendations regarding the future composition of the Company's management bodies and, most importantly, is responsible for selecting the Company's directors and executive officers and a succession plan; it also recommends the appointment of directors, as well as the members and Chairman of each committee of the Board, striving to ensure diversity in experience and points of view, while making certain that the Board of Directors retains the necessary objectivity and independence vis-à-vis any specific shareholder or group of shareholders. The committee gives its opinion on the succession plan for the Company's key managers who are not also directors or executive officers of the Company. The Nominations and Compensation Committee strives to ensure that at least (i) one-half of the directors on the Board of Directors, (ii) two-thirds of the

(1) Independent members.

members of the Accounts and Audit Committee and (iii) one-half of the members of the Nominations and Compensation Committee are independent directors. Each year, the Nominations and Compensation Committee conducts a case-by-case assessment of each of the directors with regard to the independence criteria as set forth in the internal regulations of the Board of Directors and makes proposals to the Board of Directors for the Board's review of the situation of each director in question.

c) **Assessment:** The Nominations and Compensation Committee assists the Board in its periodic assessments. It prepares the Board's annual assessment of its organisation and operations and leads the formal assessment of the Board that is carried out every three years by an outside organisation. Each year, the committee provides the Board of Directors with a report evaluating the performances of the Chairman and of the directors, as well as the actions of executive management. The Board then discusses this report. Lastly, each year, the key managers who are not also directors or executive officers of the Company have a meeting and an interview with each member of the committee.

Activities of the committee in 2012

In 2012, the activities of the Nominations and Compensation Committee focused on changes in the Board's composition, reappointing existing members or selecting new ones; preparing proposals and recommendations for the Board concerning the compensation of the Chairman and Chief Executive Officer (setting the variable portion for 2011 and the fixed portion for 2012 as well as criteria for calculating the variable portion for 2012); stating its opinion on the compensation of the Executive Committee members; stating its opinion on the employee savings policy (PEG); issuing conclusions and following up on the formal evaluation of the operation of the Board of Directors and its committees; assessing the independence of directors; reviewing the budget for directors' fees and recommending their allocation between the directors.

16.2.3 Research, Innovation and Sustainable Development Committee

Operations and composition of the committee

In accordance with its internal regulations, the committee for Research, Innovation and Sustainable Development meets at the initiative of its chairman or at the request of the Chairman of the Board of Directors. It is required to hold at least three meetings per year. In fiscal 2012, the committee met three times (versus six times in 2011). The attendance rate was 66.67% (100% in 2011).

The Research, Innovation and Sustainable Development Committee has three to five members, who are appointed by the Board of Directors pursuant to recommendations made by the Nominations and Compensation Committee. The committee chairman is appointed by the Board of Directors based on the recommendation of the Chairman of the Board.

At its meeting of December 12, 2012, the Board of Directors of decided to appoint Jacques Aschenbroich as a member and chairman of this committee, replacing Philippe Kourilsky, who resigned, as well as two additional members, Marion Guillou and Thierry Dassault. On the date of the filing of this registration document, this committee has five members, four of whom are independent: Jacques Aschenbroich(1) (chairman), Paul-Louis Girardot(1), Pierre-André de Chalendar(1), Marion Guillou(1) and Thierry Dassault.

Duties of the committee

The duties of the Research, Innovation and Sustainable Development Committee are to assess the research and development and sustainable development strategies and policies proposed by Company and Group departments and to state its opinion to the Board of Directors.

The committee is informed of programmes and priority actions undertaken and it evaluates the results thereof. In particular, it keeps abreast of the budgets and staff levels and gives its opinion regarding the allocation of means and resources and whether they are appropriate in light of strategic choices made.

(1) Independent members.

The committee's main contacts are the Company's Chairman of the Board of Directors, Executive Management and Executive Committee, the Group's research, innovation and development and sustainable development departments, as well as any other manager within the Company who has information or opinions that may be of use to the committee.

The committee may also interview persons outside the Company if it deems such interviews of use to the performance of its duties. In addition, the committee may consult outside experts.

Activities of the committee in 2012

In 2012, the Research, Innovation and Sustainable Development Committee met with the management of the Company's R&D subsidiary, Veolia Environnement Research and Innovation (VERI), and with the executive management and technical and/or development directors of the Divisions. In 2012 the committee monitored changes within the Group in the following areas: the Group's digital strategy, human resources and budgets devoted to innovation and sustainable development; organisation of R&D based on a matrix structure; interface between VERI and the Divisions and/or operational units; definition and consolidation of the R&D scope structuring and follow-up of the R&D project pipeline; identification and roll-out of field innovations; industrialisation of innovations; protection of competitive advantages; R&D watch and start-ups (VIA, "Veolia Innovation Accelerator"); benchmark for innovation set by the Divisions; sizing of the sustainable development department relative to the Group; international orientation and cross-over of innovation between Divisions; innovative business models; positioning of innovation at the highest level.

16.3 Executive Management RFA

16.3.1 Method of Exercise of Executive Management

As a French joint stock company (*société anonyme*) with a Board of Directors, the Company is legally entitled to opt for either a separation of the duties of the Chairman and of the Chief Executive Officer or to have a single person hold those positions. As mentioned in the AFEP-MEDEF corporate governance code, the law indicates no preference between those two options, and it is the Board of Directors' prerogative to choose between the two methods of executive management in accordance with their specific requirements.

The Company's Board of Directors decided to entrust the executive management of the Company to Antoine Frérot (see Section 14.1 above), whose term of office began on November 27, 2009 and was extended on December 12, 2010 to the close of the general meeting convened to vote on the financial statements of 2013. At the same Board meeting of December 12, 2010, the Board recorded the resignation of Henri Proglio from the chairmanship and decided, on the recommendation of the Nominations and Compensation Committee, to change the mode of exercise of the Company's executive management and voted in favour of combining the duties of Chairman of the Board with those of the Chief Executive Officer, for the following reasons:

- Henri Proglio held the combined duties of Chairman and Chief Executive Officer from 2003 to the end of 2009, and that mode of management proved to be perfectly effective at Veolia Environnement during that period;
- the changes in the Company's governance resulting from the appointment of Henri Proglio as Chairman and Chief Executive Officer of EDF had been the subject of an in-depth review by the Board in 2009. The Board had decided that it was in the interest of the Company and its shareholders to separate the duties of Chief Executive Officer from those of the Chairman of the Board of the Company in order to maintain the Company's continuity and stability vis-à-vis its customers and employees during a transition period;
- this combined mode of governance ensures unified management that is more suitable and effective within a decentralised group such as Veolia Environnement. It is also more tightly knit and responsive, since it simplifies the processes of decision-making and responsibility;
- the internal regulations of the Board of Directors and the presence of independent directors on the Board offer all the guarantees necessary for the exercise of the combined mode of management in accordance with the practices of good governance;
- finally, regarding the practices of CAC 40 companies, it is the preferred management system since most companies with a Board of Directors opted for that combined mode of management.

16.3.2 Limits on the Powers of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer, who assumes the duties of executive management, is fully empowered to act in the name of the Company under any circumstances. He is required to act within the limits of the corporate purpose, subject to those powers that the law expressly confers on shareholders' meetings and the Board of Directors. He represents the Company in its relations with third parties.

The powers exercised by the Chairman and Chief Executive Officer are limited by the internal regulations of the Board of Directors as an internal rule. Thus, according to the internal regulations of the Board of Directors, the following actions of the Chief Executive Officer require prior approval from the Board:

- Establishing the Group's strategic policies;
- Group operations representing an amount of over €300 million per transaction, with the exception of financing transactions.
- After the opinion and consultation of the Accounts and Audit Committee, investment or divestment transactions that include commitments of between €150 million and €300 million per transaction, with the exception of financing transactions[(1)];
- Financing transactions, whatever their terms, amounting to more than €1.5 billion per transaction if carried out in a single tranche and €2.5 billion if the transaction is carried out in several tranches;
- Transactions in the Company shares representing an overall number in excess of 1% of the Company's total shares.

16.4 Executive Committee

In accordance with the Company's principles of corporate governance and practices since April 30, 2003, the Chairman and Chief Executive Officer (previously the Chief Executive Officer) is supported by an Executive Committee which includes representatives of each of the Company's operating Divisions.

Under the chairmanship of Antoine Frérot, the Executive Committee is convened whenever the Group's major policies are established for the purposes of reflection, consultation and decision-making. In addition, it authorises major Group projects, such as sales contracts and proposed investments, divestments or sales for amounts above certain thresholds. The Executive Committee meets approximately every two weeks.

In order to further enhance the Company's capabilities to assess and oversee projects, in 2008 an undertakings subcommittee of the Veolia Environnement Executive Committee was created under the chairmanship of the Chairman and Chief Executive Officer. This subcommittee conducts an in-depth review of major Group projects that must be submitted to the Executive Committee for final decision, before submission to the Board of Directors for authorisation depending on the amounts involved. The subcommittee includes the head of the Group division for a particular project, the Chief Financial Officer and the Company's Secretary General.

In 2012, the composition of the Executive Committee was modified following the departures of Denis Gasquet, Olivier Orsini, Jean-Pierre Frémont and Jérôme Gallot. In addition, François Bertreau and Helman le Pas de Sécheval joined the Committee in December and September 2012, respectively.

(1) On August 1, 2012 the Board of Directors amended the internal regulations of the Board of Directors and the Accounts and Audit Committee.

On the date of the filing of this registration document, the Company's Executive Committee consists of nine members:

- Antoine Frérot, Chairman and Chief Executive Officer of Veolia Environnement
- François Bertreau, Chief Operating Officer, who took up office at the end of 2012
- Sylvain Boucher, Delegate France
- Jean-Michel Herrewyn, Executive Vice-President, Water Division
- Franck Lacroix, Executive Vice-President, Energy Services Division
- Jean-Marie Lambert, Executive Vice-President, Human Resources
- Jérôme Le Conte, Executive Vice-President, Environmental Services Division
- Helman le Pas de Sécheval, Executive Vice-President and General Counsel, who took up office on September 1, 2012
- Pierre-Francois Riolacci, Chief Financial Officer

17

Employees and Human Resources RFA

17.1 Human Resources

The Veolia Group is undergoing a major transformation in which Human Resources plays a key role in executing organisational plans, asset disposals and change management. Its aim is clear: to be proactive at every stage in order to adapt Veolia's organisation to the changes in its businesses.

To bring about this New Veolia, the Executive Management is taking steps to more powerfully motivate and support its managers – key players in the transformation – through more frequent communications and through a code of conduct that reaffirms its values and standards of behaviour.

As this transformation takes place, Veolia Environnement is, as always, focusing on its employees to ensure the Group's success, because their effectiveness and the quality of their services constitute a competitive advantage.

To keep pace with these changes, Human Resources is stepping up its efforts in key areas of its policy: ensuring a safe and healthy working environment, training its employees to meet the challenges of tomorrow, promoting diversity and transparent dialogue, and ensuring solidarity within the company for all employees.

17.1.1 Support: a key element in transformation

This period of constructing the "New Veolia" requires consistency and cohesion above all. Accordingly, the Group's Executive Management is strongly supporting the various stages of the transformation by reaching out directly to the Group's managers and employees to explain the strategy, and more particularly to share it in such a way that everyone makes it their own and, in turn, shares it with their co-workers.

The Convergence Plan was presented to 100 key managers in February 2012. Throughout the first half of the year, members of the Executive Committee conducted *road shows* to present the plan and answer questions from managers in country and French regional offices.

The Manager's Code of Conduct
The Veolia Environnement Managers' Code of Conduct was signed by the Executive Committee on December 7, 2012.

It will be deployed in all Group subsidiaries and locations worldwide before the end of 2013.

It is based on the Group's **five fundamental values**:

- Respect
- Solidarity
- Responsibility
- Innovation
- Customer focus

The Code reflects the Group's shared commitment to each of these values, and will now be used in evaluating managers' collective and individual conduct.

The Code of Conduct mainly governs our internal relations, just as the "Ethics, Commitment and Responsibility" program (detailed in Section 4.4.1) governs the relations between the Company and its stakeholders. These two documents, though separate, are consistent and built on common values.

Setting management objectives

To align managers' objectives with the Group's strategy, a process was initiated to standardize and set objectives for managers as a whole.

Their performance will be evaluated based on financial, safety and qualitative objectives, taking into account their hierarchical positions and functions.

Executives

To strengthen the managerial culture, the "management of executive managers" program focuses in particular on leadership potential, openness to a changing world, and the ability to promote the values of corporate social responsibility. The Group offers its employees specific training and development courses that focus on the challenges and businesses of the Group.

In addition, the management of executive managers has for two years been subject to **targets for diversity and internationalization** of their profiles, all validated by the Executive Committee. The Group is keenly aware that women are a talent pool for the leaders of tomorrow.

17.1.2 Employment, Mobility and Training Policies

Veolia Environnement's responses to environmental challenges and to the growing demands of public sector authorities and industrial entities depend on its know-how and, more generally, the performance of its employment policies.

That's why Veolia Environnement strives to attract, train, develop and retain its staff at all skill levels and in all employment areas in which it operates. As it builds the "New Veolia", with its geographical consolidation and divestment of the transportation business, the Department of Human Resources is placing a high priority on internal mobility and training, with the dual aim of satisfying customer needs and offering career paths to employees.

17.1.2.1 Employment-Mobility

The Group Human Resources Division, working through its Employment department, coordinates the overall employment policy for all of Veolia Environnement's businesses. The Company has tasked the Group Executive Committee with monitoring the implementation of this policy.

In the more constrained environment of the Group's reorganisation, the employment policy reaffirms the priority placed on mobility and controlled hiring which makes solidarity within the Group essential. Accordingly, the headquarters' voluntary departure plan will rely on internal mobility and reclassification within Veolia Environnement's various organisations.

Mobility

To implement its policies, Veolia Environnement's Employment Director depends on the Human Resources coordinators of every country where Veolia Environnement operates, as well as on shared processes and tools, such as:

- the Group's Careers portal, where all of the Group's job openings are listed;
- annual performance appraisal interviews used to define skills development needs and outline prospective career paths for each employee;
- collective manager evaluations, for which Veolia Environnement uses a peer-review based method called "ECHOS" (*Evaluation Collégiale des Hommes, des organisations et des Structures – [Peer Review of People, Organisations and Structures]*). These tools and methods incorporate the recommendations of the equal opportunities policy;
- a central repository of job descriptions for all Group support functions;
- A "GPEC" agreement for France, discussed in greater detail in Section 17-1-3.

Work/Study

The Group's Executive Management has reaffirmed its commitment to make work/study a centrepiece of its hiring policy, considering it an excellent way to equip employees with the necessary skills to work in our businesses.

This policy is implemented in particular through Veolia Environnement's **Campus network** and training centres, and through a growing number of partnerships with local employment and training entities. The "Veolia Skills" initiative reaches out to the general public and local employment and training partners to raise awareness of environmental activities and services and to facilitate the recruitment of candidates for local jobs, including those with no prior experience.

Relations with schools and partnerships

Despite a difficult economic context, mobilizing the resources the Company needs today and tomorrow, in terms of both quantity and quality, is still a priority: Veolia Environnement remains very active in environment-related events, job and work/study fairs and forums in schools and universities.

The Group continues to develop and expand its many academic, educational, institutional and research partnerships with professionals in training, counseling, employment and higher education.

17.1.2.2 Training

Veolia Environnement's multiple training challenges include:

- continuously adapting skills to increasingly complex activities;
- anticipating change through training in new technologies;
- promoting career development.

To address these challenges, the Group's training policy focuses on three objectives

- developing employee skills in all businesses;
- supporting the Group's commercial development and performance;
- contributing to the development of the corporate culture;

…embodied by four guiding principles:

Training for all

The training policy is open to all employees from the time they are hired and throughout their career with the Company. In 2012, more than 630,000 training activities were offered. Their purpose is to develop individual skills through recognized courses that lead to certifications and accreditations, job mobility and career development. Over 88% of training efforts are aimed at operators and technicians to promote the development of the less-qualified staff as well.

Recognized training

The Group offers recognized degree courses to accord full importance to skills recognition. The aim is to motivate employees, increase their employability and enable them to acquire measurable skills and develop an understanding of the task, which is a key competitive asset in a service business. For 20 years, this aim has been embodied by the creation of diploma programs dedicated to our activities and all levels of training in the Campus network. The French network offers 11 CAP-level (certificate of professional aptitude) certificates and diplomas, 9 BAC-level (Baccalaureat) certificates and diplomas, three BTS (advanced vocational) diplomas, two *Licences Professionnelles* (vocational bachelor degrees) and one master's degree.

Veolia trains Veolia

The Group is both the main actor and the director of its training policy. Two-thirds of training hours provided by the Campus network and Veolia Environnement training centres are led by Group employees. Striking a balance between permanent trainers and ad hoc contributors from within the Group's companies ensures the content's relevance and enhances cohesion.

The Campus network and partnerships

Through an active partnership policy, Veolia Environnement has created a skills development platform with a global reach. Veolia Environnement's Campus network and training centres are located in 11 countries. Established in 1994, this network now totals 20 centres – including six in France – covering two-thirds of Veolia's operating territories and offering 2,496 training programs. The range of programs was developed through input by the corporate and business training departments and the local operational units. This ensures that the training offered is always in line with the reality of our businesses and what is happening in the field. **In 2012,** this training was delivered by 158 permanent trainers and 611 contributors.

Methodology dedicated to skills development

Veolia's training policy is based on a methodology which focuses on skills development. **Professional committees** are set up in each division which analyze the technical, technological, organisational and functional developments for each business, projected over three years**.** Based on their work, multi-annual training priorities are defined and the training programs offered by the Campus network are developed.

In 2004, Veolia Environnement **in France** signed an agreement with all labour and management partners on skills development and professionalization of employees. Under this agreement, **skills development contracts** have been offered to employees to enable them to create professional development plans supported by degree or certificate training programs funded by the company. Contracts signed by both parties (company and employee) ensure everyone's commitment to the approved plan.

In France, a portion of training funds representing 0.3% of payroll is set aside each year to fund skills development contracts and all projects aimed at employee professionalization.

17.1.3 A Socially Responsible Employer

17.1.3.1 Employee relations and dialogue

Constructive dialogue with its employees has always been a central element of Veolia Environnement's human resources policy. The Group has made it a key element of its employee relations and a major factor in the Group's business performance and social commitments.

Strengthening employee representative bodies and expanding dialogue

Veolia Environnement ensures that dialogue with employee representatives is properly carried out at all levels:

- at company and establishment level – a natural place for negotiations on many issues that impact employees' daily lives;
- at country level, which includes the formal structures for consultation and dialogue that handle all national issues;
- at European level with the trade unions and in other business-related forums;
- at Group level in the corporate offices and with the Group's French and European Works Councils.

In October 2010, Veolia Environnement renegotiated the agreement of October 2005 which established the Group European Works Council. The aim was to modernize and strengthen this council's procedures and operation and to improve dialogue with employee representatives in Europe. This update focused mainly on:

- aligning the initial agreement with new European employment directives;
- developing a dialogue with European unions through new provisions on the composition, training and informing of the Group European Works Council;
- strengthening dialogue with employee representatives in each country, in addition to the Group European Works Council, in order to facilitate discussions and information-sharing on employment policies in each country.

The Group European Works Council represents two-thirds of Veolia Environnement employees.

Veolia Environnement's model for employee dialogue seeks to create and maintain trusting relationships with employees and their representatives. That requires a fair and consistent compensation policy, opportunities for advancement and training, and the management of jobs and skills so as to promote professional development. Furthermore, the Group is continuously strengthening its policy on health, safety and preventing occupational hazards.

The Group has formalized these commitments in Group-wide agreements signed with employee unions:

An agreement on the pro-active management of jobs and skills (GPEC) was signed on February 3, 2011 in order to anticipate changes in Veolia's business related to its strategy, to facilitate and support professional development, and to offer the most relevant training programs. In late 2011, in a challenging economy, the Group, along with labour and management partners, decided by common accord to redefine the agreement's priorities for 2012, refocusing on the changes in the Group's business that come with its transformation.

In addition, the French agreement on the "prevention of occupational hazards, workplace health and safety", signed in 2008 for a three-year term, was amended and renewed by labour and management partners. The amendment formalizes the commitment shared by all to prioritize employee health and safety and prevent accidents within the Group.(1)

A letter of commitment was also signed with the Group European Works Council on "Prevention, Health and Safety" (see Section 17.1.3.2 below)

In France, the Works Council focused on the prevention of skills gaps, with the support of the French National Agency for Improved Working Conditions (ANACT), by launching occupational studies within each Division.

The Group also signed an agreement in December 2012 setting up a group retirement savings plan (PERCO).

These agreements are structured around and supplemented by over 2,000 collective bargaining agreements signed at the division and operating levels of our Group.

An agreement to strengthen the quality of employee dialogue

The collective bargaining agreement on the quality of employee dialogue, signed in February 2010 by the Executive Management and all French employee representatives, covers nearly one-third of Veolia Environnement's employees. This agreement very clearly defines and strengthens the roles and responsibilities of all partners recognized and valued in this way.

The **certification training** program launched in May 2011 for labour and management partners at the corporate level, developed in partnership with IEP Paris and the Dialogues association, reflects the Group's strong interest in maintaining high-quality relations with those bodies. This was part of a study led jointly with the unions on union careers. The training provides for the skills development of trade union representatives who are thus recognized and supported in their work.

Under the 2010 agreement, union seminars were set up by each organisation in order to improve their structure and define their priorities. By systematically participating in these union seminars, which are held each year, the Group's management actively listens to its partners and maintains a dialogue on the major themes of its employment policy.

Discussions on **corporate social responsibility,** initiated in 2011 by the Group European Works Council and management, were continued in 2012. They led to a study on the practices and challenges shared with the European labour and management partners and the affirmation of a shared desire to continue the discussion. As a first step, a special training program was set up for the officers of the Group European Works Council.

Finally, in the spirit of **training specially for French representatives**, a program was implemented for officers, and then members, of the Group European Works Council, confirming the Group's desire to strengthen employee dialogue at the European level. Designed with the officers of the Group European Works Council and Astrée, a non-profit labour advocacy group, this program focuses on the issues of employee dialogue and interculturalism within the European Group Works Council.

(1) Amendment to the French agreement on the prevention of occupational hazards, workplace health and safety.

Employee dialogue, central to the Group's transformation

In this time of transformation, developing and structuring employee dialogue is all the more crucial as it strengthens employee relations and ensures that the Group's employer and social responsibility commitments are upheld in a difficult economic context. Supporting employees during this change underlines the Group's desire to ensure their employability and promote internal mobility.

In line with the Group's commitments and to ensure the transparency and fluidity of communications with labour and management partners as changes occur in the Group, the representative bodies at all levels have been regularly informed at Group European and French Works Council meetings about plans that could impact the employees' future. These mainly relates to the Convergence plans and proposed divestments.

Having completed a portion of its asset disposal program in 2012, the Group has paid particularly careful attention to the quality of the buyers' plans and to specific commitments concerning the conditions for transferring and managing personnel.

In 2012, as in 2011, the Group French and European Works Councils were heavily involved in the construction of the new Veolia Transdev entity, and were regularly consulted in the process of defining and developing its articles of association.

Promoting social initiatives:

The Group Human Resources Division is committed to developing innovative field practices with regard to local contexts. The revival of a policy aimed at promoting social solidarity initiatives brings the Group's divisions together to recognize and reward local teams. In 2012, this led to the "**Social Innovation Awards**", handed out to highlight initiatives that promote solidarity, social equity, employability, and prevention, health and safety. The Executive Management plans to stage these awards on a regular basis in the Group to drive forward an active policy of sharing human resources practices among all entities of Veolia Environnement.

17.1.3.2 Prevention, health and safety in the workplace

Given the nature of its operations and aware that strong performance in workplace health and safety is synonymous with increased performance for the company, Veolia Environnement has made Prevention, Health and Safety a daily concern in all its activities. Our approach to these issues is essentially shaped by the desire to protect the physical and mental well-being of our employees. A linchpin of transformation, Prevention, Health and Safety is the focus of a heightened commitment and continuous efforts to improve. More than a strategy, it is part of the Group's DNA.

Veolia Environnement's approach to the prevention of occupational hazards relies on the involvement of the entire line management and a **system of continuous improvement** to meet the commitments, achieve the objectives and implement the ideas of the general policy statement on Prevention, Health and Safety in the workplace.[(1)] Suppliers are also expected to take the necessary measures to ensure the health, safety and well-being of their employees

Prevention, Health and Safety management system

Implementation of Veolia Environnement's Prevention, Health and Safety management system provides for the effective management of health and safety issues across all of the Group's entities. This system focuses on six areas:

1. ***Commitment and motivation:*** these should be visible at all levels of the organisation and are essential to the success of the system, so that everyone is involved in creating the desired corporate culture.

2. ***Policy:*** the definition of intentions, targets and ideas at Veolia Environnement level and within the operational units establishes the cornerstones of the prevention, health and safety policy.

3. ***Planning:*** the improvement and monitoring of initiatives is designed to ensure compliance with the statutory provisions in force and the targets and results expected at Group level and within the operational units, particularly through the definition of internal standards and procedures.

4. ***Implementation and execution:*** the organisation of human and material resources and systems contributes to optimal performance in terms of health and safety. The implementation of programs means that the targets and the expected results can be achieved.

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(1) Memorandum of May 7, 2010: Prevention, Health and Safety commitment of Antoine Frérot

5. ***Monitoring and corrective measures:*** the monitoring and assessment of performance, particularly through the implementation and monitoring of the audit program, means that corrective measures can be defined and integrated into a continuous improvement approach.

6. ***Management review:*** this regular assessment of each element of the health and safety management system is analyzed by the Executive Committee. The aim is to adjust the system in order to ensure it is relevant and effective.

All of these areas underpin Veolia Environnement's policy on the prevention of occupational hazards, so as to develop a strong and coherent safety culture, a key aspect of the approach.

Group Prevention, Health and Safety Steering Committee

In 2012, in the context of building the "New Veolia", the Group reinforced its Prevention, Health and Safety policy by implementing several structured and formative projects for the organisation, shared across all Group activities. These projects - either already in progress or future projects, validated at the highest level - are developed and led by the Veolia Environnement Prevention, Health and Safety Steering Committee. This committee recommends and implements the Prevention, Health and Safety policy, coordinates cross-cutting projects, creates synergies between businesses by encouraging the sharing of best practices, and evaluates the results with the help of performance indicators.

Its efforts focus mainly on increasing the involvement of line managers in Prevention, Health and Safety efforts and raising awareness about the risks faced by operators in the businesses through: managerial safety visits, implementation of processes for immediately reporting occupational accidents and serious incidents, involving operational management in accident analysis, employee training and awareness (in 2012, nearly **48% of employees participated in safety training**), internal communications actions, managing psychosocial risks, structuring regulatory compliance and audit processes, management of major risks and monitoring results.

Letter of Commitment with the Group European Works Council

In addition, strengthening the involvement of European labour and management partners in the Group's Prevention, Health and Safety policy led to the signing of a "Letter of Commitment" between management and employee representatives. This commitment ensures the consistency of field initiatives in each country in Europe where Veolia Environnement operates. The structural themes of this joint commitment include systematic accident analysis, reinforcement of prevention in occupational health and increased employee dialogue on health and safety topics.

A reinforced international security policy

The Group is especially concerned with monitoring employees who are on temporary or permanent international assignment anywhere in the world, and especially in areas that present a high level of security risk.

For the earliest detection of any deterioration in security, the Security department monitors and analyzes the situation in "at-risk" regions and countries on a daily basis. This monitoring process also includes a monthly mapping of at-risk regions which is distributed to all employees.

In the most sensitive countries where the Group operates, the Security department ensures that protection plans for crisis management are in place. Partnerships with global specialists in prevention, medical and security evacuation supplement this approach. In 2011, based on lessons learned from the "Arab Spring", the Security department worked closely with the Legal and Risk Management departments to redesign these protection plans, especially to clarify the decision-making chain in the event of a crisis. This framework is being rolled out to all "at-risk" countries where the Group's expatriates are located.

With regard to short-term assignments, Veolia Environnement's Security department evaluates requests for travel to the countries considered most sensitive on a case-by-case basis and, when the security situation requires it, gives personalized recommendations to employees, based on their position in the Group and their destination. **In 2012**, more than 1,600 assignments in two-thirds of the Group's countries were monitored in this way.

Supporting employees also involves training on security issues in at-risk countries. In order to reach the greatest number, such courses are taught through both e-learning and live sessions. The Corporate International Volunteers (VIE) guided by the division HR departments, are systematically briefed on security issues. The Security department also supports the Veolia Environnement Foundation in training voluntary staff for emergency assignments.

17.1.3.3 Diversity, equal opportunity and combating discrimination

Commitment to Diversity - Equal Opportunity

Since June 12, 2003, when it joined the United Nations Global Compact, the Group has supported and promoted the Compact's principles in its sphere of influence, particularly the protection of international law on human rights, the recognition of collective bargaining rights, and eliminating discrimination in employment and occupations.

Respect for these fundamental rights fits naturally into Veolia Environnement's overall Human Resources policy, which promotes diversity of experience and backgrounds as a source of innovation and performance for customers, employees and for the territories where the Group conducts its activities.

An instrument of corporate culture and social cohesion

Fully engaged in its transformation plan and in improving its performance, the Group is, more than ever before, asserting its commitment to diversity and equal opportunity as an instrument of corporate culture and social cohesion.

Four global priorities have been identified in this context:

- encouraging diversity in jobs: promoting access for women to jobs which were historically "male" occupations and to leadership positions;
- optimizing the continued employment of older workers and the transfer of knowledge through tutoring and mentoring;
- making it easier for people with disabilities to perform their daily duties;
- promoting integration through a work/study policy.

To tangibly measure the progress of this policy, **seven global indicators** have been defined for the next three years by the Group Human Resources Division, with targets established for each entity:

Professional equality: commit to rates for women's employment and access to leadership posts; target of 15% women executives and 20% women board members by the end of 2014.

Older workers: commit to an employment rate for workers over 55.

Persons with disabilities: commit to an employment rate; target of 6% in France by late 2013.

Efforts to integrate youth: commit to an integration rate; target of 4% in France by late 2013.

Management of foreign employees: objective of 100% compliance with the labour laws of each country.

Training: target of 60% of managers educated or trained in the fight against discrimination by late 2013 and 100% by 2015.

To implement these commitments, a **global action plan**, "Diversity and Equal Opportunity 2012-2015" has been developed, based **on three pillars**:

- equal treatment to ensure non-discriminatory access to employment, career development and skills management;
- everyday management of diversity, which is respectful of differences to improve management practices;
- corporate standards specific to Veolia Environnement by implementing the principles of the UN Global Compact, signed in 2003, to ensure equal opportunity.

Veolia Environnement's commitments have already resulted in the award of Diversity certification, the signing of the Diversity Charter in France, the consolidation of human resources processes, and the involvement of employee representatives.

In **France**, agreements on older workers and professional equality between men and women were signed in decentralized entities. The agreement on the development and quality of labour-management dialogue defined the process of strengthening union careers and the fight against union discrimination.

Internationally, such agreements incorporate the legal and regulatory framework of each country relating to equal opportunity and the fight against discrimination. Veolia Environnement signed an agreement to renew the Group European Works Council, with the aim of promoting diversity, and particularly the representation of women in the forum for European dialogue.

Policy control and management

The overall policy is managed by a committee chaired by the Executive Vice President, Human Resources, the divisions' HR Directors, the Diversity Director, representatives of corporate departments involved in the processes and diversity officers. Meeting twice a year, the Committee implements the policy set by the Veolia Environnement Executive Committee, defines the communications plan, analyzes indicators and monitors results and reports to the Chairman on the areas for improvement.

The Committee may be addressed directly through the **helpline** or by a third party in the event of discrimination. It will then notify the relevant general management to recommend corrective measures and/or penalties.

In order to directly involve all decision-makers in the success of the diversity policy, an annual diversity review is submitted respectively to the Human Resources Committee, the Group French Works Council and the Group Executive Committee. This report is presented to the labour and management partners.

In addition, once a year, in compliance with the law of January 27, 2011, the Board of Directors prepares a report on professional equality between men and women. This document allows the Group's directors to review the policy and performance indicators on equal opportunity.

A commitment recognized in France and internationally

As part of the certification process started in 2007, the auditors of AFNOR Certification confirmed, in a follow-up audit in January 2012, the overall maturity and improvement of the Group's approach.

Having earned the Diversity certification for 133 entities in France, the Group relies on a network of 70 diversity officers in the divisions and the Campus to carefully monitor the execution of action plans.

Internationally, other certifications have also been achieved. In the Czech Republic, Dalkia received the "Investor in People" label; in China, Veolia Water rolled out its Charter on Gender Equality; in the United Kingdom, Veolia Propreté was included in the *Financial Times*' list of "responsible businesses"; and, in Germany, OEWA recently had its certification renewed on work/life balance.

Long-term partnerships

The Group is also a **partner and/or member** of various organisations that promote diversity and equal opportunity. A partner of the Observatory on Corporate Social Responsibility, Veolia Environnement collaborated in 2012 on the guide, "How to develop an international diversity policy", and the report on "CSR and social protection".

As a member of the French Association of Diversity Managers (AFMD) Committee on "Job retention and career management for people with disabilities", the Group contributed to the development of the guide, "How to manage the employment of people with disabilities".

The Group is an active member of the Club of Certified Companies within the French National Association of Human Resources (ANDRH), and as such participates in working groups on this certification.

Supporting the most vulnerable employees

In 2009, an Active Solidarity Plan was launched in France in consultation with the Group French Works Council to support the most vulnerable employees in a difficult economic context. This led to the launch of "*Allô Solidarité*", an employee counseling and support system in France set up with the help of an external partner.

Today, thousands of Group employees have access to a telephone platform that allows them to speak with professionals about the social challenges they face.

In 2012, over one hundred calls were received each month, mainly about housing and financial issues.

The partnership with the "Vivons Solidaires" association, which has been in place since September 2010, helps to tackle social emergencies. The association receives many requests for assistance with emergency housing and food donations. Union organisations are involved with the board of directors and management of this association.

These actions reflect the commitment of the company's executive management and employees to be proponents in the field of respecting fundamental rights and local regulations, and especially of diversity and equal opportunity in all businesses and across all territories.

17.1.3.4 A consistent and competitive compensation policy

Veolia Environnement applies a global compensation policy, which is consistent with the Company's results and accounts for the following components: wages, social security and employee savings. This policy is based on the following principles:

- guaranteeing competitive fixed and variable compensation;
- offering fair compensation in line with the practices of the local markets on which the Group is present, which incorporates and recognizes the efforts made by each individual;
- optimizing coverage of healthcare and insurance costs in the main countries where the Group operates, in an effort to manage risks separately, and to improve consistency in the choice of local partners (brokers, insurers, etc.);
- minimizing the risk associated with the existing systems for paying entitlements or pensions in the various countries in which we do business;
- In France, harmonizing existing local employee savings plans by gradually moving them toward Group-level plans (overhaul of the Group savings plan and negotiation of a Group retirement savings plan).

Longer life expectancies, rising medical costs and increasing retirements make managing the solvency of social security schemes increasingly strategic. In some countries, following the abandonment of public social security systems, economic stakeholders seek to provide health, benefit and pension cover for their employees. Due to its international scope, the Company must take these factors into account and ensure that it:

- complies with local legislation and, wherever possible, implements complementary social security systems in order to guarantee fair coverage for all its employees;
- ensures the appropriate management of the Company by seeking to manage the costs associated with benefit obligations that fall within the scope of IAS 19;
- funds its plans through employer and employee co-investment, so that each party assumes responsibility.

The benefit obligations of Veolia Environnement represented €1.9 billion as of December 31, 2012 (excluding the Transportation Division but including the Group's share in SNCM), i.e., a reduction of €223 million year-on-year.

This sharp decline was mainly attributable to the divestment of the regulated water operations in the United Kingdom (a decrease of €399 million), offset by large actuarial losses generated by the significant decrease in discount rates. Other variables include the normal cost of plans (cost of benefits + cost of discounting - benefits paid), currency effects, offset by reductions and other changes in scope (including the equity accounting of the Berlin water business).

These obligations consist mainly of defined-benefits retirement plans (64%) and retirement bonuses (27%). Other liabilities consist primarily of long-service awards, healthcare coverage for retirees and other long-term benefits (time deposit accounts, early retirement benefits in Germany [ATZ]).

17.2 Human resources information

Details of social reporting methodology

The human resources information below has been taken from the international database that Veolia Environnement has been developing since 2001 for its social reporting. This database includes all companies that are fully consolidated in the Group's financial statements and companies consolidated in the financial statements, which the Veolia Environnement Group manages operationally and which are located in all the countries where the Group has employees. Within this scope, the human resources information is fully consolidated regardless of the proportion of consolidation.

To present 2012 data consistent with the Group's strategy and disposal projects, Veolia Environnement data (excluding Veolia Transdev) was consolidated whenever this proved to be relevant.
The data presented under the section, "Holding companies and specialised subsidiaries" comprise: *Veolia Environnement SA, VERI, VETech, Centre d'Analyses Environnementales, Veolia Environnement Campus, Défense Environnement Services, Seureca, OFIS, VE CSP Lyon, VEIS, Veolia Environnement Management des Services aux Industries, VEIC, Eco Environnement Ingenierie, Setude, the SNCM scope and PROACTIVA.*

The 2011 data are therefore consistent with the 2012 scope.

Indicators

New recruits, departures, compensation, training, health, safety, social dialogue, diversity: these represent a total of nearly 200 indicators collected on the basis of a common definition reference document shared by all the Divisions. Given the international dimension of the Group, this reference document has been translated into five languages: French, English, German, Spanish and Portuguese.

The indicators were chosen to monitor the following as a priority:

- performance relating to the Group's principal Human Resources challenges,
- effects of the Group's Human Resources policy,
- regulatory obligations (Article R225-105-1 of the French Commercial Code).

In the absence of a recognised and relevant external reporting reference document, the Group has defined its own procedures for reporting human resources information drawn from best practices and international standards and establishes a comprehensive human resources reporting procedure that describes the methodology used for the compiling, checking, analysis and consolidation of data.

Consolidations and checks

The Group uses a software package to conduct automated checks on entities. The human resources data are consolidated and checked by the Group's divisions and the Corporate Human Resources Department.

Since fiscal 2007, the most relevant human resources indicators determined by the Group have been subjected to a specific external review by KPMG. The report of this review is found in the preceding pages.

It is important to note that there may be methodological limits to human resources indicators due to the following:

- lack of harmonised national and international legislation;
- heterogeneous nature of the data managed and tools in the Group's many subsidiaries;
- changes in definition that may affect the comparison of indicators;
- specific characteristics of labor laws in certain countries;
- practicalities of data collection;
- availability of source data on the reporting date.

The main indicators are presented below under different subheadings. Some figures should be interpreted with caution, in particular averages, since the figures below comprise worldwide data that require a more detailed analysis at the level of the geographical area, country or business area concerned.

Total workforce

As at December 31, 2012, the total workforce was 318,376 employees, compared with 331,266 as at December 31, 2011. The table below shows the breakdown of the workforce managed by Veolia Environnement by geographical area.

Area	Water	Environmental Services	Energy Services	Holding companies and specialised subsidiaries	**Total excluding Transportation**	Transportation	**2012 Total**	%
Total Europe	54,563	52,174	36,361	4,790	**147,888**	73,485	**221,373**	69.5%
of which France	26,809	23,486	13,762	4,759	**68,816**	36,737	**105,553**	33.2%
Total North America	3,707	5,490	814	0	**10,011**	17,355	**27,366**	8.6%
Total South America	1,535	297	8,262	11,702	**21,796**	2,395	**24,191**	7.6%
Total Africa/Middle East	10,042	1,070	2,070	0	**13,182**	888	**14,070**	4.4%
Total Asia/Pacific	19,247	5,260	2,317	38	**26,862**	4,514	**31,376**	9.9%
Total World	89,094	64 291	49,824	16,530	**219,739****	98,637	**318,376****	100%
%	28.0%	20.2%	15.6%	5.2%	**69.0%**	31.0%	100%	

** *Data audited by KPMG Audit (see Note 5 below)*

Breakdown of employees by age bracket and gender				
Age	**Men (%)**	**Women (%)**	**2012 Total**	**% 2012**
Under 20 years	**0.63%**	**0.56%**	**1 951**	**0.61%**
20 to 24 years	**4.27%**	**4.66%**	**13 840**	**4.35%**
25 to 29 years	**8.85%**	**10.62%**	**29 350**	**9.22%**
30 to 34 years	**10.98%**	**13.16%**	**36 395**	**11.43%**
35 to 39 years	**12.31%**	**13.82%**	**40 194**	**12.62%**
40 to 44 years	**13.97%**	**15.73%**	**45 658**	**14.34%**
45 to 49 years	**15.02%**	**15.64%**	**48 219**	**15.15%**
50 to 54 years	**14.65%**	**12.48%**	**45 204**	**14.20%**
55 to 59 years	**12.13%**	**9.29%**	**36 746**	**11.54%**
60+ years	**7.20%**	**4.05%**	**20 819**	**6.54%**
Total	**251,992**	**66 384**	**318,376**	**100.00%**

Breakdown of total workforce by type of contract and by category

	Total 2011 excluding Veolia Transdev		Total 2012 excluding Veolia Transdev		2011 Total		2012 Total	
	World	France	**World**	France	**World**	France	**World**	France
Total workforce as at December 31	**231,477**	69,158	**219,739**	68,816	**331,266**	105,756	**318,376**	105,553
Employees with indefinite-term contracts	**92.2%**	94.6%	**92.1%**	94.8%	**92.0%**	94.8%	**92.0%**	94.8%
Employees with fixed-term contracts	**7.8%**	5.4%	**7.9%**	5.2%	**8.0%**	5.2%	**8.0%**	5.2%
Total managerial staff	**11.6%**	17.4%	**11.7%**	17.3%	**9.1%**	13.1%	**9.1%**	13.0%
Total non-managerial staff	**88.4%**	82.6%	**88.3%**	82.7%	**90.9%**	86.9%	**90.9%**	87.0%

Weighted average annual workforce

	Total 2011 excluding Veolia Transdev	Total 2012 excluding Veolia Transdev	2011 Total	2012 Total
Annual full-time equivalent workforce	**230,079.60**	**215,253.84****	**320,105.99**	**305,977.83****
Full-time equivalent workforce with indefinite-term contracts	**212,763.92**	**199,293.95****	**296,936.24**	**284,803.58****
%	**92.5%**	**92.6%**	**92.8%**	**93.1%**

** *Data audited by KPMG Audit (see Note 5 below)*

This workforce corresponds to the equivalent number of employees Veolia Environnement would have if these employees had all worked full time throughout the year. It is calculated by weighting the total workforce against both the employment rate and the amount of time worked by each employee.

In France, there were 102,681 full-time equivalent employees in 2012, of which 97,483 (95%) were employees on indefinite-term contracts.

Consolidated weighted average annual workforce

This figure is calculated by weighting the average annual workforce of the consolidated companies against their financial consolidation rate. The consolidated weighted average annual workforce in 2012 was 248,805 employees.

Staff hired

	2011 Total excluding Transportation	2012 Total excluding Transportation	2011 Total	2012 Total
External recruitments with indefinite-term contracts	**24,167**	**20,012**	**33,943**	**29,289**
External recruitments with fixed-term contracts	**17,050**	**15,822**	**26,345**	**25,055**
Employees recruited after a market recovery	**1,470**	**962**	**3,764**	**1,777**
Total	**42,687**	**36,796**	**64,052**	**56,121**

In 2012, the total number of staff hired was 56,121. In addition to new contracts, which represented 1,777 employees, the Group recruited 29,289 people with indefinite-term contracts on the job market (52% of total hires) and 25,055 people with fixed-term contracts. Of the employees with fixed-term contracts hired, 6,671 (27%) were transformed into indefinite-term contracts during the year. The percentage of the full-time equivalent workforce on fixed-term contracts represented 7% of the average full-time equivalent workforce of all employees. Furthermore, 2,610 employees changed jobs through internal mobility between divisions.

In France, the total number of recruitments in 2012 was 17,299, made up of 5,413 external recruitments with indefinite-term contracts and 10,675 recruitments with fixed-term contracts.1,745 fixed-term contracts were transformed into indefinite-term contracts during the year Moreover, of this external recruitment, 786 were executives. The percentage of the full-time equivalent workforce of all employees on fixed-term contracts corresponded to 5% of the average full-time equivalent workforce in France.

Departures

The total number of departures in 2012 was 59,683, representing 14.32% of individual dismissals (14% excluding Veolia Transdev) and 2.2% as part of layoffs (3% excluding Veolia Transdev).

In France, the total number of departures in 2012 was 17,531 representing 10.7% of individual dismissals (11.7% excluding Veolia Transdev) and 33 employees (0.18%) as part of layoffs (0.26% excluding Veolia Transdev).

Changes in scope are taken into account on the date on which they become effective. It is however tolerated that acquisitions, creation of new companies or new contracts be accounted for only after a full year of operation.

For 2012, there was a total drop in workforce of 3.89%. This is the result of:

- **Veolia Eau:** 2,596 fewer employees than in 2011, representing a 2.83% drop in the division's workforce;
- **Veolia Énergie:** 2,847 fewer employees than in 2011, representing a 5.41 % drop in the division's workforce;
- **Veolia Propreté:** 6,061 fewer employees than in 2011, representing an 8.62% drop in the division's workforce;
- **Veolia Transdev:** 1,152 fewer employees than in 2011, representing a 1.15% drop in the division's workforce;
- **Holding companies and specialised subsidiaries:** 234 fewer employees, representing a 1.40% drop, the scope of which is described above.

Overtime[(1)]

The total number of overtime hours worked was 24,567,504.6**, i.e., an average per employee of 77 hours of overtime per year. The definition of overtime, however, varies from country to country, which sometimes makes it difficult to evaluate such an indicator. Moreover, in a services business, a large number of overtime hours are due to emergency work performed by on-call or on-site personnel, to restore water supplies or heating within a reasonable timeframe, for example.

In France, the total number of overtime hours worked was 4,035,433, which corresponds to an average of 38.23 overtime hours per employee, per year.

Labour from outside the Group

The workforce of temporary workers (full-time equivalent) in 2012 was 13,051, representing 4.3% of the total full-time equivalent workforce.

In France, the workforce of temporary workers (full-time equivalent) was 6,054 (5.9% of the total full-time equivalent workforce).

(1) With respect to the number of overtime hours paid, the definition used includes the total number of hours worked beyond the legal base which results in the payment of an overtime premium and/or time off in lieu. There may be differences in method in some entities that take only paid overtime hours into account.

Information on planned reductions in workforce and job protection schemes, redeployment efforts, rehires and support measures

Changes in the scope of Veolia Environnement have led to employees being transferred, without their contracts being terminated. The restructuring plans that were implemented in 2012 most often corresponded to the loss of markets, or to reorganisation that was vital for certain business units. These operations were always carried out in compliance with the legislation and in consultation with labour and management representatives, and for the most part by giving priority to internal redeployment within the Group.

Organisation and duration of working time

The ways in which working time is organized depend on the companies concerned, the nature of their business and where they are located, and are defined in order to best meet the requirements of the department to which the employees are assigned and the employees' preferences. Although working time is most often based on daily equivalent working time, work schedules may vary considerably (for example, the work may be spread over four, five or six days a week, punch-in and punch-out times may be shifted, flextime may be used, as well as alternate short and long work weeks, and working time may be calculated over the year).

The average work-week is 38.7** hours as in 2011.

The total number of calendar days of absence was 4,843,042** during 2012, of which 3,399,461 were days of absence for sickness (70% of the total). Other reasons for absence were mainly industrial accidents, family events and maternity leave.

In France, the average working week is 35.4 hours. The total number of calendar days of absence was 2,193,630 in 2012, of which 1,476,779 were days of absence for sickness (67% of the total).

	Total 2011 excluding Veolia Transdev		Total 2012 excluding Veolia Transdev		2011 Total		2012 Total	
	World	France	**World**	France	**World**	France	**World**	France
Absenteeism rate	3.63%	5.57%	3.84%	5.58%	4.16%	6.24%	4.49%	6.32%

** *Data audited by KPMG Audit (see Note 5 below).*

Compensation, social security charges and gender equality

Average annual gross compensation paid to all employees of the Group was €29,864 in 2012.

These averages are only indicative, however, and should be interpreted with an element of caution. They correspond to a wide diversity of situations due to the nature of the professions and jobs carried out and their geographical location.

Average gross compensation paid to male employees was €30,770 (€29,122 in 2011) and that paid to female employees was €26,220 (€25,161 in 2011), i.e. a difference of €4,550 (representing a pay gap of 14.8%). This difference is mainly due to the nature of the jobs carried out and the demands of this work, as well as differences in age, seniority and qualifications that are often observed between the two populations. Veolia Environnement's policy is to respect equality between men and women who have the same employment conditions and qualifications.

In France, average annual gross compensation paid to all employees was €33,813 in 2012 (€32,799 in 2011). Average gross compensation paid to male employees was €34,197 (€33,198 in 2011) and that paid to female employees was €32,212 (€31,138 in 2011), *i.e.*, a difference of €1,985 (representing a 5.8% pay gap).

Optional and mandatory profit-sharing

The total amount representing optional and mandatory profit-sharing paid by the Group represented €139.9 million (excluding Veolia Transdev), which is 2.3% of total payroll before taxes (excluding Veolia Transdev) worldwide.

In France, the total amount of optional and mandatory profit-sharing represented €108.7 million, which is 4.3% of total payroll before taxes (excluding Veolia Transdev) in France.

Business relations and overview of collective bargaining agreements

Number of collective bargaining agreements signed in 2012 in the Group: 2,135 collective bargaining agreements were signed, including 1,128 agreements on compensation, 317 agreements on health, safety and working conditions, 203 agreements on social dialogue and 487 agreements on other subjects or comprising several subjects. There were 17,238 employee representatives.

Number of collective bargaining agreements signed in 2012 in France: 990 collective bargaining agreements were signed, including 529 agreements on compensation, 111 agreements on health, safety and working conditions, 82 agreements on social dialogue and 268 agreements on other subjects or comprising several subjects. There were 10,189 employee representatives in France in 2012.

Health and safety conditions

Details of methodology: With respect to the workplace accident severity rate, the definition used by the Group in calculating the number of work days lost due to workplace accidents includes the work days lost in the year as a result of workplace accidents that occurred during previous years. There may be differences in calculation method in some entities as to the application of these principles. Since 2012, accidentology data from the Environmental Services Division have been collected using the "Acciline" consolidation tool and are then consolidated into the Group with the social reporting tool ADS Enablon.

	2011 Total excluding Transportation	2012 Total excluding Transportation	2011 Total	2012 Total
Workplace accidents leading to absence from work (excluding commuting)	**6,298**	**5,659****	**9,848**	**9,017****
Calendar work days lost due to workplace accidents (excluding commuting) (indefinite and fixed-term contracts)	**249,186**	**219,951****	**438,694**	**409,020****
Workplace accident frequency rate	**15.02**	**14.53****	**17.13**	**16.49****
Workplace accident severity rate	**0.59**	**0.56****	**0.72**	**0.75****
Number of employees trained in safety	**117,272**	**110,114**	**154,286**	**145,621**
Number of units dedicated to the study of health and safety issues	**2,561**	**2,540**	**3,198**	**3,145**

** *Data audited by KPMG Audit (see Note 5 below)*

The Group has chosen a common definition of workplace accidents for all countries and subsidiaries, i.e., all workplace accidents, not involving commutes, which resulted in at least one day of absence from work.

In 2012, the number of workplace accidents, not involving commutes, resulting in at least one day of absence from work was 9,017 (-8% compared with 2011) and the number of calendar days of work lost due to workplace accidents was 409,020.

The number of workplace accidents per million hours worked (or "frequency rate") in one year went from 17.13 to 16.49 and the number of calendar days lost due to workplace accidents per thousand hours worked (or the "rate of severity") was 0.75. In the course of 2012, 145,621 people participated in safety training initiatives. As evidence of the importance placed on health and safety, 3,145 units throughout the world are dedicated to dealing with occupational health and safety issues.

In France, the frequency and severity of accidents are often higher than those recorded on average throughout the world in light of specific statutory provisions. In 2012, 4,203 workplace accidents which resulted in at least one day's absence were recorded, and the number of calendar days lost due to workplace accidents was 255,385. This year, the number of workplace accidents per million hours worked (or "frequency rate") was 26.71 (compared with 30.82 in 2011) and the number of calendar days lost due to workplace accidents per thousand hours worked (or the "rate of severity") was 1.62 (compared with 1.84 in 2011). Furthermore, 224 employees worldwide were recognized as suffering from work-related illnesses while 570 employees were declared unfit by the occupational doctor.

In 2012, 39,865 people took part in safety training, accounting for 36% of the total training hours and there were 651 units dedicated to occupational health and safety issues.

Training

Veolia Environnement also sets great store on skills development, maintaining staff employability and supporting staff through training, mobility and building motivational career paths.

	2011 Total excluding Transportation		2012 Total excluding Transportation		2011 Total		2012 Total	
Training	**World**	France	**World**	France	**World**	France	**World**	France
Total number of people taking part in training programs	541,020	102,213	**487,810**	**93,416**	691,312	132,744	**633,237**	**121,991**
Of which managerial staff	13.4%	16.9%	**14.1%**	**17.2%**	11.4%	14.3%	**11.8%**	**14.3%**
Of which non-managerial staff	86.6%	83.1%	**85.9%**	**82.8%**	88.6%	85.7%	**88.2%**	**85.7%**
Men	75.9%	82.6%	**78.4%**	**84.7%**	75.8%	81.3%	**77.6%**	**83.3%**
Women	24.1%	17.4%	**21.6%**	**15.3%**	24.2%	18.7%	**22.4%**	**16.7%**
Number of employees having followed at least one training programme	74.2%	73.3%	**73.3%**	**67.9%**	74.3%	66.0%	**71.1%**	**63.0%**
Average duration of training programmes	8.54	12.36	**7.77**	**12.17**	9.55	13.62	**8.63**	**13.72**
Number of hours of training effectively given	4,621,443	1,263,590	**3,791,844****	**1,136,458**	6,603,960	1,807,541	**5,466,113****	**1,673,985**
Amount of expenses per employee	662	1,165	**648**	**1,127**	647	1,049	**616**	**1,016**

** *Data audited by KPMG Audit (see Note 5 below)*

Employment and integration of disabled employees

There were 6,907 disabled employees as at December 31, 2012 (4,233 excluding Veolia Transdev).

In France, the number of disabled employees was 3,761 as of December 31, 2012 (2,240 excluding Veolia Transdev), up 2% compared with 2011.

Service activities

The consolidated amount of grants for service and cultural activities organized for employees was €75,726,156 in 2012. This figure does not include all of the service or solidarity-oriented work carried out by Group companies.

In France, the consolidated amount of grants for service activities was €50,756,065.

Respect for fundamental rights

Promotion and compliance with the provisions of the fundamental conventions of the ILO relating to respect for freedom of association and the right to collective bargaining

Veolia Environnement sets great store by respect for fundamental international conventions, in particular those relating to employee relations and working conditions, such as those adopted under the aegis of the International Labor Organisation ("ILO"). This commitment is reinforced by the Group's decision to join the United Nations Global Compact in 2003. Principles 1 to 6 of this platform reflect the ILO's objectives.

With respect to collective bargaining, Veolia Environnement draws both on direct relationships with all the social partners as well as joint organisations created according to the rules of each country.

For example, in 2012, 92% of the Group's employees were covered by a Social Dialogue system.

Promotion and compliance with the provisions of the fundamental conventions of the ILO relating to the elimination of discrimination in respect of employment and occupation

In line with the commitments made in relation to the ILO (see above), the commitments made by Veolia Environnement are set out in detail in Section 17.1.3.3 Diversity, equal opportunity and combating discrimination.

Promotion and compliance with the provisions of the fundamental conventions of the ILO relating to the elimination of forced or compulsory labour

In accordance with the commitments made to the ILO (see above), Veolia Environnement recalled its commitments in the "Ethics, Commitment and Responsibility" programme, in particular concerning compliance with international fundamental labour standards and the prohibition of the use of forced labour in all its operations, both in France and abroad.

Promotion and compliance with the provisions of the fundamental conventions of the ILO relating to the effective abolition of child labour

In accordance with the commitments made to the ILO (see above), Veolia Environnement recalled its commitments in the "Ethics, Commitment and Responsibility" programme, in particular concerning compliance with international fundamental labour standards and the prohibition of the use of child labour.

17.3 Stock subscription and purchase options, free shares

17.3.1 Company policy on the allocation of stock options and free shares

Company policy for the 2012 fiscal year

The Company did not allocate any stock options or free shares in 2012.

Company policy for the 2013 fiscal year

The Board of Directors at its meeting on March 14, 2013, and following recommendations made by the Nominations and Compensation Committee, laid down the Company's general policy with regard to incentive arrangements for executives and managers of the Group in 2013.

Within this context, the Board of Directors decided against allocating stock options or free shares in 2013.

In view of these recommendations, the authorization given by the General Shareholders' Meeting on May 7, 2010 with a view to allocating to employees of the Company and its affiliated companies stock subscription or purchase options, without discount, for a period of 26 months, representing up to 1% of the share capital as at the allocation decision date (half of which was used during the last issue – stock options plan decided by the Board of Director's meeting on September 28, 2010), ended on July 7, 2012. After this, the General Shareholders' Meeting to be held on May 14, 2013 will not be asked to vote on a new resolution for allocating stock options.

Performance conditions

Stock option plan No. 8 of September 28, 2010

The vesting of options granted to beneficiaries was subject to the condition that the return on capital employed (ROCE) at December, 31 2012 was equal to or greater than 8.4%, to be applied in differing ways depending on the group:

- For Group 1 (the Group's key executives, including Executive Committee) and Group 2 (other Group senior managers), SOs awarded would vest up to 50% if the ROCE was at least 8.4% and, beyond that, vesting of the balance would be prorated based on the increase in ROCE between 8.4% and 9%;
- For Group 3 (high-performing employees), the stock options would vest at 100% if ROCE was at least 8.4%.

ROCE at 12/31/2012	< 8.4%	≥ 8.4% and < 9%	≥ 9%
Percentage allocated to Group 1 members Including Exec. Comm.	0%	Between 50% and 99% prorated to increase in ROCE	100%
Percentage allocated to Group 2 members	0%	Between 50% and 99% prorated to increase in ROCE	100%
Percentage allocated to Group 3 members	0%	100%	100%

Since the performance condition was not achieved (as noted by the Board of Directors at its meeting on 14 March 2013), the beneficiaries of stock option plan No. 8 of September 28, 2010 cannot exercise their rights (except in the case of a public tender offer on the Company), in which case 2,127,400 options would become exercisable.

Table outlining stock subscription or purchase option plans as of December 31, 2012

As a result of the capital increase recorded on July 10, 2007 (see Chapter 21, Section 21.1.6 below), and in order to preserve the rights of the holders of stock subscription or purchase options, the exercise parity of the options was adjusted pursuant to Article L. 225-181 of the French Commercial Code. These adjustments entered into force on July 11, 2007.

	SUBSCRIPTION OPTIONS	SUBSCRIPTION OPTIONS	SUBSCRIPTION OPTIONS
	PLAN NO. 8	PLAN NO. 7	PLAN NO. 6
Date of Shareholders' Meeting	**05/07/2010**	**05/11/2006**	**05/12/2005**
Date of Management Board or Board of Directors' meeting	**09/28/2010**	**07/17/2007**	**03/28/2006**
Total number of options initially allocated	**2,462,800**	**2,490,400**	**4,044,900**
• Of which total number of options granted to corporate officers	**0**	**110,000**	**150,000**
Number of corporate officers initially concerned	**0**	**1**	**1**
Number of employees initially concerned	**1,221**	**557**	**1,378**
Exercise start date	**09/29/2014**	**07/18/2011**	**03/29/2010**
Expiration date	**09/28/2018**	**07/17/2015**	**03/28/2014**
Exercise price*	**€22.50**	**€57.05**	**€44.03**
Number of options exercised as of December 31, 2012	**0**	**0**	**1,300**
Total number of shares that could be subscribed or purchased as of December 31, 2012**	**0*****	**548,600**	**3,032,495**

* *Adjusted, where necessary, to take into account transactions affecting the Company's share capital.*

** *After application of legal adjustments and the plan performance conditions, after taking into account options exercised and any changes in the situation of the beneficiaries since each plan was set up.*

*** *Except in the case of a public offer on the Company's shares, in which case the 2,127,400 stock options of Plan No. 8 would become exercisable.*

A stock purchase option plan No. 1 was implemented pursuant to a Management Board decision on June 23, 2000. This plan expired on June 23, 2008. At the maturity date, a total of 457,962 shares had been vested by Group executives and employees under this plan.

A stock subscription option plan No. 2 was set up on February 8, 2001, also pursuant to a Management Board decision. This plan expired on February 8, 2009. At the maturity date, 1,989,853 shares had been subscribed by Group executives and employees under the plan.

A stock subscription option plan No. 3 was set up on January 28, 2002, also pursuant to a Management Board decision. This plan expired on January 28, 2010. At the maturity date, 2,385,941 shares had been subscribed by Group executives and employees under the plan.

A stock subscription option plan No. 4 was set up on March 24, 2003, also pursuant to a Management Board decision. This plan expired on March 24, 2011. At the maturity date, 3,253,370 shares had been subscribed by Group executives and employees under this plan.

A stock subscription option plan No. 5 was set up on December 24, 2004, also pursuant to a Management Board decision. This plan expired on December 24, 2012. At the maturity date, 244,491 shares had been subscribed by Group executives and employees under this plan.

With regard to potential dilution relating to the stock subscription options and free shares, see Chapter 21, Section 21.1.5 below.

17.3.2 Options and free shares allocated to corporate officers and exercised thereby in 2012

Stock subscription or purchase options allocated over the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officer	Plan number and date	Type of option	Number of options allocated over the fiscal year	Valuation of the options	Exercise price *(in €)*	Exercise period
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	N/A	none	N/A	N/A	N/A

N/A: not applicable

Free shares allocated over the fiscal year to corporate officers by Veolia Environnement and by any Group company

Name of corporate officer	Plan number and date	Number of options allocated over the fiscal year	Valuation of the shares	Availability date	Performance conditions
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A	N/A	N/A

N/A: not applicable

Stock subscription or purchase options exercised over the fiscal year by corporate officers

Name of corporate officer	Plan number and date	Number of options exercised over the fiscal year	Type of option	Exercise price *(in €)*
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A	N/A

N/A: not applicable

Free shares that became available over the fiscal year for corporate officers

Name of corporate officer	Plan number and date	Number of shares that became available over the fiscal year	Vesting conditions
Antoine Frérot (Chairman and Chief Executive Officer)	N/A	none	N/A

N/A: not applicable

Stock subscription options held by Mr. Antoine Frérot, the Company Chairman and Chief Executive Officer, as of December 31, 2012

Plan number and date	Exercise price *(in €)*	Plan expiration date	Number of options initially allocated	Number of shares remaining under option
Plan No. 1 – 2000	31.41	expired (06/24/2008)	40,000	0
Plan No. 2 – 2001	40.59	expired (02/08/2009)	41,600	0
Plan No. 3 – 2002	36.65	expired (01/28/2009)	45,000	0
Plan No. 4 – 2003	22.14	expired (03/24/2011)	70,000	0
Plan No. 5 – 2004	24.32	expired (12/24/2012)	40,000	0
Plan No. 6 – 2006	44.03	03/28/2014	60,000	60,982
Plan No. 7 – 2007	57.05	07/17/2015	40,000	0
TOTAL			**336,600**	**60,982**

Mr. Frérot's options in force as of December 31, 2012 represented 0.01% of the Company's potential share capital at this date. The exercise prices at this same date for these options were all higher than the stock market price for Veolia Environnement shares.

No free shares were allocated to Mr. Frérot.

17.3.3 Options granted to the top ten employees who are not corporate officers over the 2012 fiscal year and options exercised by them over the fiscal year

Stock subscription or purchase options granted to the top ten employees who are not corporate officers and options exercised by them	Total number of options allocated / shares subscribed or purchased	Average weighted price**	Plan number
Options granted over the 2012 fiscal year by Veolia Environnement and any company within the scope of the option award, to the ten employees of Veolia Environnement and of any other company included within this scope, who were granted the highest number of shares in this way	none	N/A	N/A
Options held on Veolia Environnement and the companies referred to above, which were exercised during the 2012 fiscal year by the ten employees of Veolia Environnement and of the aforementioned companies, who exercised the highest number of options in this way*	none	N/A	N/A

N/A: not applicable.

* *This does not include options exercised by employees who have left the Group.*

** *Exercise price after legal adjustments.*

17.4 Group Employee Savings Plans

17.4.1 Optional and mandatory profit-sharing agreements

Given the nature of its business, the parent company, VE SA, is unable to allocate funds to the mandatory profit-sharing reserve, and has not therefore entered into any mandatory profit-sharing agreement. An optional profit-sharing agreement, on the other hand, applies to all employees of the Company. The terms of this agreement aim to give employees a vested interest in the performance of the Group and the Company. Four indicators were therefore defined for the 2011-2013 period: a financial indicator; an indicator related to the overall performance of the Group in terms of occupational health and safety levels; an indicator accounting for the Group's progress in its environmental results; and a local indicator linked to changes in energy use at the headquarters.

In general, the Group favours expanding optional profit-sharing schemes in order to give employees a vested interest in the performance of the Division to which they are assigned, on the basis of criteria tailored specifically to the business in question.

The establishment on December 20, 2012 of a Group retirement savings plan (*Plan d'Epargne Retraite Collectif de Groupe* or "PERCO G", see Section 17.5) and the 2012 plan to harmonize Group employee savings plans also made it necessary to renegotiate all profit-sharing agreements locally to introduce these two mechanisms. This work was started in late 2012 and continued in early 2013 for operational implementation with the first 2012 profit-sharing payments in March 2013.

17.4.2 Company savings plans and employee shareholding policy

17.4.4.1 Employee Savings

In 2012, the plan to harmonize Veolia Environnement's Group employee savings plans achieved several consecutive milestones:

- Overhaul of the range of company mutual funds (*Fonds Communs de Placement Entreprise*, or "FCPE") offered under the Group savings plan (*plan d'épargne group*, or "PEG") to create four dedicated funds, excluding Employee Shareholding;
- Signing of an amendment to the PEG on the nomenclature of these funds and organizing the collective transfer of assets from multi-company funds to these new funds;
- Organisation of transfer of the Dalkia employee savings plan to the Veolia Environnement Group plan, representing a volume of €32 million at the end of 2012.

This project continues in 2013 with the completion of collective transfers of assets from local employee savings plans to the Group savings plan and the setting up of an employer matching mechanism for both plans in time for the first 2012 profit-sharing payments in March 2013.

17.4.2.2 Employee Shareholding

Since 2002, Veolia Environnement employees have been able to invest in various instruments in the Group savings plan (PEG), including diversified funds and funds invested in Veolia Environnement shares.

Following a first capital increase in 2002 reserved exclusively for French employees, Veolia Environnement decided in 2004 to offer its employees domiciled abroad the possibility of acquiring shares in the Company during reserved capital increases. The plan was progressively rolled out internationally (it has covered up to 29 countries, including France, all mechanisms combined).

Two share ownership plans have been proposed to date: a 'classic' plan, in which the employee is exposed to changes in listed share prices, and a 'low-risk' plan (with or without leverage), which protects employees from a fall in the share price while giving them the possibility of benefiting from its increase.

Depending on local particularities, the shares in these two plans are subscribed either directly or through the FCPE (company mutual fund). Additionally, ad hoc plans were put in place in the United Kingdom (Share Incentive Plan) and in China (synthetic plan that replicates the economic conditions of the low-risk shareholder plan) in order to take account of certain constraints such as tax and foreign exchange regulations.

The last transaction took place in late 2010 and resulted in the issuance of 1,692,862 new shares, representing 0.34% of share capital upon the plan's implementation. This capital increase reserved for employees was offered to 185,000 employees in 24 countries (excluding the United Kingdom).

As of December 31, 2012, some 42,600 Group employees[(1)] now hold shares in Veolia Environnement and, as of the filing date of this registration document, hold 1.30% of the Company's share capital.

In all, there are 75,265 accounts opened to date in Veolia Environnement's Group France and International savings plans, not including holders of profit-sharing investment accounts.

17.4.3 Group retirement savings plan

To supplement its employee savings plan and as part of an agreement with its social partners, Veolia Environnement now offers a Group retirement savings plan ("PERCO G") to allow any employee who so wishes to prepare for retirement under advantageous terms regarding taxes and social security contributions. This plan includes employer matching, now combined with the Group savings plan, which aims to encourage even the smallest employee contributions.

17.5 Shares held by corporate officers and executives and transactions involving Company securities

Pursuant to Article L. 621-18-2 of the French Monetary and Financial Code and Article 223-22 of the AMF General Regulations, members of the Board of Directors and Company executives or 'senior managers', or any person with close links to them, are required to notify the AMF of any acquisitions, sales, subscriptions or exchanges of Company securities or financial instruments, within five days of completing the transaction.

In addition, directors and officers are also subject to French and U.S. regulations on breach of duty and insider trading, which sanction the use or disclosure of privileged information.[(2)]

Finally, directors and officers are required to comply with the Company's code of conduct governing trading in its securities (see Sections 4.2.3.1. and 16.1.7 above). Under the provisions of this Code, the Company considers members of the Board of Directors and Executive Committee to be permanent insiders, who can only purchase or sell Company securities, directly or through an intermediary, under certain conditions and during specific, time-limited periods, in particular after the publication of the Company's annual and interim results.

(1) figures excluding Veolia Transdev.

(2) Pursuant to Article L. 621-18-4 of the French Monetary and Financial Code, a list of permanent insiders has been drawn up which includes the members of the Veolia Environnement Board of Directors and the Executive Committee. This list has been made available to the AMF.

17.5.1 Shares held by directors and the *censeur* and transactions involving Veolia Environnement securities

To the best of the Company's knowledge, directors and the *censeur* held a total of 109,818,458 Veolia Environnement shares as of December 31, 2012, representing approximately 21% of the Company's share capital at that date. The table below details the numbers of Veolia Environnement shares held individually by each of the Company's directors and the *censeur*:

	Number of shares held at 12/31/2012	Number of shares held at 12/31/2011
Antoine Frérot	11,449	10,793
Louis Schweitzer	5,828	5,828
Jacques Aschenbroich[(1)]	2,000	N/A
Maryse Aulagnon[(1)]	1,000	N/A
Daniel Bouton	3,065	3,065
Caisse des Dépôts et Consignations[(2)]	48,570,712	N/A
Pierre-André de Chalendar	750	750
Augustin de Romanet de Beaune[(3)]	N/A	908
Jean-Francois Dehecq[(4)]	N/A	939
Marion Guillou[(5)]	0*	N/A
Paul-Louis Girardot	1,110	1,110
Groupama SA[(1)]	28,322,858	N/A
Groupe Industriel Marcel Dassault, represented by Olivier Costa de Beauregard	32,888,732	32,888,732
Esther Koplowitz[(4)]	N/A	16,449
Philippe Kourilsky	750	750
Serge Michel	3,094	3,094
Henri Proglio[(6)]	N/A	248,077
Baudouin Prot	1,687	1,687
Oatari Diar Real Estate Investment Company, represented by Dr. Mohd Alhamadi	750	750
Nathalie Rachou[(1)]	750	N/A
Georges Ralli[(4)]	N/A	1,049
Paolo Scaroni	866	866
Thierry Dassault (*censeur*)	3,057	3,057
TOTAL	**109,818,458**	**33,187,904**

N/A: not applicable

(1) Jacques Aschenbroich, Maryse Aulagnon, Groupama SA, represented by Georges Ralli, and Nathalie Rachou were appointed as Directors by the General Meeting of May 16, 2012.

(2) Caisse des Dépôts et Consignations, represented by Olivier Mareuse, was co-opted by the Board of Directors on March 1, 2012 as director to replace Mr. Augustin de Romanet de Beaune, who resigned on February 29, 2012 with effect from March15, 2012.

(3) Augustin de Romanet de Beaune tendered his resignation as director, effective as of March 1, 2012.

(4) The terms of office of Jean-François Dehecq, Esther Koplowitz and Georges Ralli expired and were not renewed by the General Meeting of May 16, 2012.

(5) Marion Guillou was co-opted by the Board of Directors on March 15, 2012 as director to replace Henri Proglio.

(6) Henri Proglio tendered his resignation as director on October 10, 2012.

* *On 8 March 2013, Marion Guillou acquired 750 shares in the Company in line with the provisions of Article 11 of the Company's articles of association.*

The table below details transactions involving Veolia Environnement securities made over the 2012 fiscal year by the directors of the Company[1]. To the best of the Company's knowledge, no other declaration has been made of transactions involving the purchase or sale of Veolia Environnement securities by directors or any person with close personal links to them over the 2012 fiscal year:

Name of director	Financial instrument	Type of transaction	Transaction date	Unit price *(in €)*	Total transaction amount *(in €)*
Nathalie Rachou	Shares	Purchase	March 19, 2012	12.88	9,713.75
Antoine Frérot	Shares	Subscription*	June 18, 2012	9.95	6,527.20
Maryse Aulagnon	Shares	Purchase	September 5, 2012	8.517	8,517.00

* *Dividend received in the form of new shares.*

17.5.2 Transactions involving Veolia Environnement securities made by members of the Executive Committee

The table below details transactions involving Veolia Environnement securities made over the 2012 fiscal year by members of the Company Executive Committee (see Section 16.4.1 above)[2]. To the best of the Company's knowledge, no other declaration has been made of transactions involving the purchase or sale of Veolia Environnement securities by these people or any person with close personal links to them over the 2012 fiscal year:

Name of member*	Financial instrument	Type of transaction	Transaction date	Unit price *(in €)*	Total transaction amount *(in €)*
Jérôme Le Conte	Other types of financial instruments**	Sale	May 9, 2012	5.69505	23,218.15

* *List excludes Antoine Frérot (see Section 17.5.1 above).*

** *Units of the Sequoia Classic company mutual fund (FCPE)*

(1) This table, which has been drawn up pursuant to Article 223-26 of the AMF General Regulations, details the transactions reported to the AMF over the 2012 fiscal year by the directors of the Company.

(2) This table, which has been drawn up pursuant to Article 223-26 of the AMF General Regulations, details the transactions reported to the AMF over the 2012 fiscal year by the "senior managers" of the Company referred to in Article L. 621-18-2 of the French Code Monétaire et Financier.

18

Principal Shareholders RFA

18.1 Shareholders of Veolia Environnement as of December 31, 2012

The table below shows the number of shares and the corresponding percentages of share capital and voting rights held as of December 31, 2012 by Veolia Environnement's principal known shareholders.

Each Veolia Environnement share entitles its holder to one vote. There are no shares with double voting rights or non-voting shares (however, the voting rights of treasury shares are not exercised).

To the Company's knowledge, as of the filing date of this registration document, no shareholder other than those listed in the table below directly or indirectly held 4% or more of the Company's shares or voting rights.

Shareholders on December 31, 2012	Number of shares	Percentage of share capital	Number of voting rights	Percentage of voting rights ***
Caisse des Dépôts(1)	48,570,712	9.30	48,570,712	9.56
Groupe Industriel Marcel Dassault – GIMD(2)	32,888,732	6.30	32,888,732	6.48
Groupe Groupama(3)	28,322,858	5.42	28,322,858	5.58
Velo Investissement (Qatari Diar)(4)	24,681,519	4.73	24,681,519	4.86
EDF(5)	22,024,918	4.22	22,024,918	4.34
Veolia Environnement(6)	14,237,927	2.73	0**	0
Public and other investors	351,360,183	67.30	351,360,183	69.19
Total	**522,086,849***	**100.00**	**507,848,922***	**100.00**

* *It must be specified that the share capital may change over the fiscal year depending on exercise of stock options.*

** *As of December 31, 2012 and the date this registration document was filed, Veolia Environnement held 14,237,927 treasury shares.*

*** *Percentage of voting rights as a share of actual voting rights (Veolia Environnement treasury shares do not exercise voting rights).*

(1) According to the analysis of the Company's shareholders as of December 31, 2012. To the Company's knowledge, the most recent declaration of threshold crossing of Caisse des dépôts et consignations was filed on June 15, 2009 (AMF Decision and Information no. 209C0862 dated June 15, 2009).

(2) According to the statement of registered shareholders as of December 31, 2012 prepared by Société Générale (the account manager), and according to the analysis of the Company's shareholders as of December 31, 2012. To the Company's knowledge, the most recent declaration of threshold crossing of Groupe Industriel Marcel Dassault (GIMD) was filed on March 11, 2010 (AMF Decision and Information no. 210C0246 dated March 15, 2010).

(3) According to the analysis of the Company's shareholders as of December 31, 2012. To the Company's knowledge, the most recent declaration of threshold crossing of Groupama was filed on December 30, 2004 (AMF Decision and Information no. 205C0030 dated January 7, 2005).

(4) According to the analysis of the Company's shareholders as of December 31, 2012. To the Company's knowledge, the most recent declaration of threshold crossing of Velo Investissement (Qatari Diar) was filed on April 15, 2010 (AMF Decision and Information no. 210C0335 dated April 16, 2010).

(5) According to the analysis of the Company's shareholders as of December 31, 2012. To the Company's knowledge, EDF's most recent declaration of threshold crossing was filed on December 30, 2002 (Euronext notice no. 2002-4424 dated December 31, 2002). In that declaration, EDF reported that on such date it held 16,155,492 Veolia Environnement shares. Furthermore, in the amendment dated November 24, 2002 to the agreement dated June 24, 2002 described in Chapter 18, §18.2 of this registration document, EDF stated that it would hold shares acquired in the Company as a financial investment, that it did not seek to influence the Company's management and that it would exercise its voting rights solely for the purpose of enhancing the value of its investment.

(6) Treasury shares without voting rights. This figure is included in the monthly report of transactions carried out by Veolia Environnement with respect to its own shares that was filed with the French Regulatory Authority (AMF) on March 4, 2013.

On March 12, 2010, Groupe Industriel Marcel Dassault (GIMD) reported it had acquired shares in excess of the 5% threshold of share capital and voting rights in Veolia Environnement and undertook to retain this holding for a period of five years. The General Shareholders' Meeting of May 7, 2010 approved the appointment of Mr. Olivier Costa de Beauregard, representing Groupe Industriel Marcel Dassault as director, for a term of four years ending on the date of the General Shareholders' Meeting held to adopt the financial statements for the year ended December 31, 2013.

On April 16, 2010, Veolia Environnement and the Qatari Diar fund announced the signature of an agreement aimed at setting up a long-term strategic partnership, including the acquisition by Qatari Diar of a 5% share capital in Veolia Environnement with full voting rights. This acquisition reflects the groups' mutual ambition to work together on infrastructure and utilities projects in the Middle East and North Africa. The Qatari Diar fund gave an undertaking to the Group to hold its share capital and voting rights for a period of three years. The appointment of the Qatari Diar fund to the Board of Directors was approved by the Annual General Meeting of Shareholders of May 7, 2010 for a term of four years ending the Annual General Meeting of Shareholders held to adopt the financial statements for the year ended December 31, 2013.

To the Company's knowledge, there is no agreement between one or more of the Company's other shareholders or any provision in a shareholders' agreement or agreement to which the Company is a party that could have a material impact on the Company's share price, and there is no shareholders' agreement or other agreement of such nature to which any significant non-listed subsidiary of the Company is a party, other than the agreements with (i) EDF described in Chapter 20, § 20.1 (notes 35 and 38.3 to the 2011 consolidated financial statements), and in Chapter 18 and 22 of this registration document and (ii) la Caisse des dépôts et consignations, described in Chapter 20, §20.1 (notes 35 and 38.3 to the 2011 consolidated financial statements) of this registration document.

No third party controls Veolia Environnement and, to the Company's knowledge, there is no agreement in existence that, if implemented, could at a subsequent date result in a change of control or takeover of the Company.

Table summarizing changes in the Company's principal shareholders (that directly or indirectly have held more than 4% of the Company's shares) over the last three fiscal years*

	Situation on December 31, 2012			Situation on December 31, 2011			Situation on December 31, 2010		
Shareholder	**Number of shares**	**% of share capital**	**% of voting rights**	**Number of shares**	**% of share capital**	**% of voting rights**	**Number of shares**	**% of share capital**	**% of voting rights**
Caisse des Dépôts	48,570,712	9.30	9.56	47,873,873	9.21	9.47	47,273,114	9.47	9.75
Groupe Industriel Marcel Dassault - GIMD	32,888,732	6.30	6.48	32,888,732	6.33	6.51	29,150,851	5.84	6.01
Groupe Groupama	28,322,858	5.42	5.58	29,366,758	5.65	5.81	28,396,438	5.69	5.86
Velo Investissement (Qatari Diar)	24,681,519	4.73	4.86	24,681,519	4.75	4.88	24,681,519	4.95	5.09
EDF	22,024,918	4.22	4.34	20,577,271	3.96	4.07	19,329,226	3.87	3.99

* *Figures are taken from the 2012, 2011 and 2010 registration documents. Figures for Capital Group Companies have been combined to take into account the percentages of the Company's share capital and voting rights held by all companies of that group.*

18.2 Changes in the Company's Shareholders

- SNEGE, a wholly-owned subsidiary of Vivendi Universal, owned 99.99% of the Company's share capital from its incorporation until March 31, 1999. Between April 1 and April 9, 1999, Vivendi Universal acquired 100% of the Company's share capital at its par value.
- In July 2000, the Company's shares began trading on the Euronext Paris First Market, which led Vivendi Universal's equity stake in the Company to fall from 100% to 72.3%.
- In December 2001, Vivendi Universal made an over-the-counter block sale of 32.4 million of the Company's shares, representing 9.3% of the Company's total share capital, further reducing its stake in the Company to 63%.
- In July 2002, the Company carried out a capital increase without suspending preemptive subscription rights. This capital increase was completed on August 2, 2002. Pursuant to the terms of an agreement dated June 24, 2002, several financial investors, including Caisse des dépôts et consignations, Groupama, BNP Paribas, AGF, Société Générale, Dexia, Caisses d'Epargne, Crédit Lyonnais and Natexis Banques Populaires (the "Group of Declared Investors" or "GID 1"), acquired and exercised the preemptive subscription rights which had been granted to Vivendi Universal and subscribed for the remainder of the shares not subscribed by the public. Upon conclusion of the transaction, the GID 1 held 9.4% of the Company's share capital.
- On November 24, 2002, Vivendi Universal, the Company, the GID 1 and a group of new long-term investors including EDF, Caisse des dépôts et consignations, Groupama SA, AXA, Compagnie d'Investissement de Paris SAS, Eurazeo, Aurélec, Dexia Crédit Local, Caisse Nationale des Caisses d'Epargne, Assurances Générales de France Holding, CNP-Assurances, Crédit Agricole Indosuez (Suisse) SA (on its own behalf and on behalf of a client), CIC, Generali, Crédit Lyonnais, Médéric Prévoyance and Wasserstein Family Trust LLC ("New Investors"), signed an amendment to the June 24, 2002 agreement, pursuant to which on December 24, 2002 Vivendi Universal sold to the New Investors and to Veolia Environnement a total of 82,486,072 of the Company's shares (of which 3,624,844 were sold to the Company, which represented approximately 0.9% of its share capital at the time of sale). For each share purchased, the Company and the New Investors also received an option to purchase the Company's shares at a price of €26.50 per share, exercisable at any time between December 24, 2002 and December 23, 2004 inclusive. As of the expiration date of these options, i.e., December 23, 2004, none had been exercised.
- On December 31, 2002, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved on June 27, 2002. The Sequoia employee investment fund subscribed for these shares in the name and on behalf of its beneficiaries. Upon conclusion of this transaction, 1,183,158 new shares with a par value of €13.50 each had been subscribed at a price of €26.50 per share, thereby increasing share capital by €15,972,633, which represented approximately 1.28% of the Company's share capital.
- On December 6, 2004, the Company certified completion of a share capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 16, 2004. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,351,468 new shares with a par value of €5 each had been subscribed for at a price of €18.71 per share, thereby increasing share capital by €6,757,340, which represented approximately 0.33% of the Company's share capital.
- On December 8 and December 9, 2004, Vivendi Universal disposed of 15% of the 20.36% stake it held in the Company's capital through (i) a private placement for investors involving 10% of the Company's capital; (ii) the conclusion of a derivative transaction with Société Générale involving 3% of the Company's capital; and (iii) a redemption by Veolia Environnement of its shares, involving 2% of the share capital, which was completed on December 29, 2004.
- On December 6, 2005, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 15, 2005. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,281,928 new shares with a par value of €5 per share had been subscribed at a price of €28.11 per share, thereby increasing share capital by €6,409,640, which represented approximately 0.3% of the Company's capital on the date completion was certified.
- On July 6, 2006, Vivendi (formerly Vivendi Universal) announced the completion of the sale of the 5.3% share of Veolia Environnement capital it still held, representing a total of 21,523,527 shares, under an accelerated book building procedure. As a result of this transaction, Vivendi no longer holds any shares in the Company[(1)].

(1) Following the transfer, Vivendi reported that as of July 11, 2006 it held less than 5% of the capital and voting rights of Veolia Environnement and that it no longer held any securities of the Company (AMF Decision and Information no. 206C1511 of July 24, 2006).

- On December 15, 2006, the Company certified completion of a capital increase reserved to employees of the Company and the Group, which had been approved by the Board of Directors on September 14, 2006. Several employee investment funds acting in the name and on behalf of their beneficiaries subscribed for this capital increase. Upon conclusion of this transaction, 1,931,340 new shares with a par value of €5 each had been subscribed for at a price of €37.52 each, thereby increasing capital by €9,656,700, which represented approximately 0.47% of the Company's capital on the date completion was certified.
- On July 10, 2007, the Company certified completion of a capital increase for cash with maintenance of preemptive subscription rights, which had been approved by the Board of Directors on June 10, 2007. Upon conclusion of this transaction, 51,941,040 new shares with a par value of €5 each were issued, thereby increasing share capital by €259,705,200. The total amount of the capital increase, including the issue premium, was €2,581,469,688.
- On December 12, 2007, the Company certified completion of a capital increase consisting of (i) a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds; and (ii) a capital increase reserved for Sequoia Souscription International – SAR, a subsidiary of Calyon, acting pursuant to a structured share offer for employees from countries unable to participate in traditional employee shareholder plans. Upon completion of this transaction, 3,250,446 new shares with a par value of €5 each, which were subscribed for at a price of €48.18 and €60.23 (depending on the plan), were issued, thereby increasing share capital by €16,252,230, which represented approximately 0.7% of the Company's share capital on the date completion was certified.
- On June 4, 2009, the Company certified completion of a capital increase for cash for a total amount of €322,993,629, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2009. This transaction resulted in the issuance of 20,111,683 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €100,558,415. Upon completion of this transaction, the Company's share capital had been increased to €2,463,441,745, divided into 492,688,349 shares with a par value of €5 each.
- On August 5, 2009, the Company recorded completion of a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds. Upon completion of this transaction, 911,014 new shares with a par value of €5 each had been issued, which were subscribed for at a price of €21.28, and which increased the Company's capital by €4,555,070, which represented approximately 0.18% of the Company's capital on the date completion was recorded.
- On March 4, 2010, the Company recorded completion of a capital increase pursuant to options exercised during the 2009 fiscal year. After these options were exercised, 31,011 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €155,055. Upon conclusion of this transaction, the Company's capital had been increased to €2,468,151,870, divided into 493,630,374 shares with a par value of €5 each.
- On June 7, 2010, the Company certified completion of a capital increase for cash for a total amount of €79,268,062.32, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 7, 2010. This transaction resulted in the issuance of 3,732,018 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €18,660,090. Upon completion of this transaction, the Company's share capital had been increased to €2,486,811,960 divided into 497,362,392 shares with a par value of €5 each.
- On December 15, 2010, the Company recorded completion of a capital increase reserved to current and retired employees of the Company and the Group, in France and abroad, the subscription for which was carried out directly and through several employee investment funds. This transaction resulted in the issuance of 1,692,862 new shares with a par value of €5 each, which were subscribed for at a price of €17.74, and which increased the Company's nominal share capital by €8,464,310, which represented approximately 0.34% of the Company's capital on the date completion was recorded. Upon completion of this transaction, the Company's share capital had been increased to €2,495,276,270 divided into 499,055,254 shares with a par value of €5 each.

Following this transaction, the share of the Company's capital held by employees was, on that date, approximatively 2%[1].

- On January 26, 2011, the Company recorded completion of a capital increase pursuant to options exercised during the 2010 fiscal year. After these options were exercised, 71,113 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €355,565. Upon conclusion of this transaction, the Company's capital had been increased to €2,495,631,835, divided into 499,126,367 shares with a par value of €5 each.
- On June 15, 2011, the Company certified completion of a capital increase for cash for a total amount of €383,465,301.04, which was carried out in order to pay a share dividend in accordance with the fifth resolution adopted by the combined general shareholders' meeting held on May 17, 2011. This transaction resulted in the issuance of 20,462,396 new shares with a par value of €5 each, i.e., an increase in the Company's capital of €102,311,980. Upon completion of this transaction, the Company's share capital had been increased to €2,597,943,815, divided into 519,588,763 shares with a par value of €5 each.
- On August 3, 2011, the Company recorded completion of a capital increase pursuant to options exercised during the first half of 2011. After those options were exercised, 64,197 new shares with a par value of €5 each were issued, thereby increasing the Company's nominal share capital by €320,985. Upon conclusion of this transaction, the Company's capital had been increased from €2,598,264,800, divided into 519,652,960 shares with a par value of €5 each.
- On June 14, 2012, the Company recorded the completion of a capital increase in cash for a total of €24,217,195.55, carried out to ensure the payment of the dividend in shares in accordance with the fifth resolution adopted by the General Meeting of May 16, 2012. This transaction resulted in the issuance of 2,433,889 new shares with a par value of €5, a nominal increase in the share capital of €12,169,445. Upon completion of this transaction, the Company's share capital had been increased from €2,598,264,800, divided into 519,652,960 shares, to €2,610,434,245, divided into 522,086,849 shares with a par value of €5 each.

(1) As of December 31, 2010, the Company's employees held 1.91% of its share capital.

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Related-party transactions

Information concerning transactions with related parties in 2012 is included in the statutory auditors' special report concerning regulated agreements and commitments concluded in 2012 (Schedule 1 to this registration document, and in chapter 20, paragraph 20.1, note 38 to the consolidated financial statements.

See also the statutory auditors' reports concerning regulated agreements for the 2010 and 2011 fiscal years, which are included as Schedules to Veolia Environnement's 2010 and 2011 registration documents.

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Financial information concerning the assets, financial condition and results of the issuer

20.1 Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

(€ million)	Notes	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Goodwill	4	4,795.0	5,795.9	6,840.2
Concession intangible assets	5	4,518.6	4,629.1	4,164.6
Other intangible assets	6	1,142.9	1,280.8	1,505.8
Property, plant and equipment	7	6,837.9	8,488.3	9,703.3
Investments in associates	8	441.5	325.2	311.7
Non-consolidated investments	9	77.4	106.3	130.7
Non-current operating financial assets	10	2,650.7	5,088.3	5,255.3
Non–current derivative instruments - Assets	28	277.6	742.8	621.1
Other non-current financial assets	11	589.0	736.5	773.1
Deferred tax assets	12	1,243.1	1,263.9	1,749.6
Non-current assets		**22,573.7**	**28,457.1**	**31,055.4**
Inventories and work-in-progress	13	1,018.4	1,020.8	1,130.6
Operating receivables	13	10,305.9	11,427.6	12,488.7
Current operating financial assets	10	202.0	357.0	373.3
Other current financial assets	11	944.8	114.6	132.3
Current derivative instruments – Assets	28	45.2	48.1	34.6
Cash and cash equivalents	14	5,547.8	5,723.9	5,406.8
Assets classified as held for sale	23	3,974.3	3,256.5	805.6
Current assets		**22,038.4**	**21,948.5**	**20,371.9**
TOTAL ASSETS		**44,612.1**	**50,405.6**	**51,427.3**

Equity and Liabilities

(€ million)	Notes	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Share capital		2,610.4	2,598.2	2,495.6
Additional paid-in capital		8,466.3	9,796.2	9,514.9
Reserves and retained earnings attributable to owners of the Company		(3,924.6)	(5,324.7)	(4,134.6)
Total equity attributable to owners of the Company	15	**7,152.1**	**7,069.7**	**7,875.9**
Total equity attributable to non-controlling interests		1,973.6	2,765.4	2,928.5
Equity	15	**9,125.7**	**9,835.1**	**10,804.4**
Non-current provisions	16	2,092.7	2,077.1	2,313.9
Non-current borrowings	17	13,083.7	16,706.7	17,896.1
Non–current derivative instruments – Liabilities	27	235.1	215.4	195.1
Deferred tax liabilities	12	1,392.5	1,891.1	2,101.4
Non-current liabilities		**16,804.0**	**20,890.3**	**22,506.5**
Operating payables	13	11,598.7	12,598.6	13,773.9
Current provisions	16	543.0	604.8	689.9
Current borrowings	17	3,629.2	3,942.3	2,827.1
Current derivative instruments – Liabilities	28	71.8	81.5	51.7
Bank overdrafts and other cash position items	14	288.7	440.2	387.0
Liabilities directly associated with assets classified as held for sale	23	2,551.0	2,012.8	386.8
Current liabilities		**18,682.4**	**19,680.2**	**18,116.4**
TOTAL EQUITY AND LIABILITIES		**44,612.1**	**50,405.6**	**51,427.3**

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

Consolidated Income Statement

(€ million)	Notes	Year ended December 31, 2012[1]	2011[1]	2010[1]
Revenue	18	**29,438.5**	**28,576.5**	**27,851.6**
o/w Revenue from operating financial assets		329.4	383.7	380.8
Cost of sales		(24,795.4)	(24,143.0)	(22,644.2)
Selling costs		(607.7)	(582.7)	(572.8)
General and administrative expenses		(3,002.3)	(3,084.5)	(3,040.7)
Other operating revenue and expenses		61.9	62.8	182.2
Operating income	19	**1,095.0**	**829.1**	**1,776.1**
Finance costs	20	(838.9)	(823.0)	(816.2)
Income from cash and cash equivalents	20	80.1	112.9	93.2
Other financial income and expenses	21	(63.5)	(47.4)	(97.4)
Income tax expense	22	(159.0)	(520.9)	(272.4)
Share of net income of associates	8	30.0	11.7	19.3
Net income (loss) from continuing operations		**143.7**	**(437.6)**	**702.6**
Net income (loss) from discontinued operations	23	386.1	121.0	146.4
Net income (loss) for the year		**529.8**	**(316.6)**	**849.0**
Attributable to owners of the Company		**393.8**	**(489.8)**	**558.5**
Attributable to non-controlling interests	24	136.0	173.2	290.5
(in euros)				
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE[2]	25			
Diluted		0.78	(0.99)	1.16
Basic		0.78	(0.99)	1.16
NET INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE[2]	25			
Diluted		(0.06)	(1.27)	0.84
Basic		(0.06)	(1.27)	0.84
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE[2]	25			
Diluted		0.84	0.28	0.32
Basic		0.84	0.28	0.32

(1) Pursuant to IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the income statements of:

- *discontinued operations in the course of divestiture, i.e. the entire contribution of Veolia Transdev, excluding the activities of Société Nationale Maritime Corse Méditerranée (SNCM) Group, Water activities in Morocco, urban lighting activities (Citelum) in the Energy Services Division and European wind energy activities;*
- *discontinued operations divested, i.e. regulated activities in the United Kingdom in the Water Division, divested in June 2012, Solid Waste activities in the United States in the Environmental Services Division, divested in November 2012 and American wind energy activities, divested in December 2012;*

are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2012, 2011 and 2010.

(2) The weighted average number of shares outstanding at December 31, 2012, is 506.7 million (basic and diluted) - See Note 25, Earnings per share).

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

Consolidated Statement of Comprehensive Income

(€ million)	Year ended December 31, 2012 (1)	2011 (1)	2010 (1)
Net income (loss) for the year	**529.8**	**(316.6)**	**849.0**
Actuarial gains and losses on pension obligations	(128.4)	(32.7)	(72.9)
Related income tax expense	17.2	(26.8)	16.9
Amount net of tax	(111.2)	(59.5)	(56.0)
Other items of comprehensive income not subsequently released to net income	**(111.2)**	**(59.5)**	**(56.0)**
Fair value adjustments on available-for-sale assets	5.9	(1.7)	(1.8)
Related income tax expense	(0.9)	0.4	(0.1)
Amount net of tax	5.0	(1.3)	(1.9)
Fair value adjustments on cash flow hedge derivatives	6.2	(49.4)	27.3
Related income tax expense	(1.3)	14.6	(9.7)
Amount net of tax	4.9	(34.8)	17.6
Foreign exchange gains and losses			
• on the translation of the financial statements of subsidiaries drawn up in a foreign currency	118.3	79.2	587.0
Amount net of tax	118.3	79.2	587.0
• on the net financing of foreign operations	88.9	(4.2)	(165.2)
• related income tax expense	(2.5)	(82.3)	52.6
Amount net of tax	86.4	(86.5)	(112.6)
Other items of comprehensive income subsequently released to net income	**214.6**	**(43.4)**	**490.1**
Total Other comprehensive income	**103.4**	**(102.9)**	**434.1**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**633.2**	**(419.5)**	**1,283.1**
Attributable to owners of the Company	493.4	(564.3)	884.0
Attributable to non-controlling interests	139.8	144.8	399.1

(1) Other comprehensive income attributable to discontinued operations as defined in IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, is €128.6 million for the year ended December 31, 2012, -€57 million for the year ended December 31, 2011 and €66.3 million for the year ended December 31, 2010.

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

Consolidated Cash Flow Statement

(€ million)	Notes	Year ended December 31, 2012	2011	2010
Net income (loss) for the year		529.8	(316.6)	849.0
Operating depreciation, amortization, provisions and impairment losses	19	1,972.9	2,842.5	1,884.2
Financial amortization and impairment losses		8.4	5.6	18.6
Gains/losses on disposal and dilution	19	(682.1)	(592.4)	(277.2)
Share of net income of associates	8	(30.0)	(13.4)	(18.4)
Dividends received	21	(6.0)	(4.9)	(6.9)
Finance costs and finance income	20	834.7	796.1	811.2
Income tax expense	22	326.5	558.3	362.4
Other items		130.5	77.7	95.8
Operating cash flow before changes in working capital		**3,084.7**	**3,352.9**	**3,718.7**
Changes in working capital	13	102.8	(40.7)	105.8
Income taxes paid		(336.0)	(368.2)	(367.9)
Net cash from operating activities		**2,851.5**	**2,944.0**	**3,456.6**
Including Net cash from operating activities of discontinued operations		***285.7***	***467.7***	***665.1***
Industrial investments	40	(2,302.0)	(2,258.3)	(2,083.7)
Proceeds on disposal of intangible assets and property, plant and equipment		174.0	168.9	205.2
Purchases of investments		(168.6)	(372.1)	(426.3)
Proceeds on disposal of financial assets (*)		2,810.8	1,286.9	498.6
Operating financial assets				
New operating financial assets	10	(411.7)	(363.5)	(489.1)
Principal payments on operating financial assets	10	370.9	441.0	424.1
Dividends received (including dividends received from associates)	8 & 21	39.0	12.4	12.9
New non-current loans granted		(91.3)	(160.3)	(59.8)
Principal payments on non-current loans		32.3	110.5	31.8
Net decrease/increase in current loans		(25.5)	(3.1)	69.1
Net cash used in investing activities		**427.9**	**(1,137.6)**	**(1,817.2)**
Including Net cash used in investing activities of discontinued operations		***2,132.5***	***706.6***	***(309.3)***
Net increase/decrease in current borrowings	17	(1,268.9)	(534.5)	(938.2)
New non-current borrowings and other debts	17	1,326.1	745.1	537.6
Principal payments on non-current borrowings and other debts	17	(1,659.6)	(315.0)	(148.8)
Proceeds on issue of shares		3.4	2.5	128.8
Share capital reduction		-	-	-
Transactions with non-controlling interests: partial purchases and sales		(124.4)	24.4	91.8
Purchases of/proceeds from treasury shares		-	2.2	7.9
Dividends paid		(546.6)	(547.0)	(735.6)
Interest paid		(844.8)	(753.6)	(821.9)
Net cash used in financing activities		**(3,114.8)**	**(1,375.9)**	**(1,878.4)**
Including Net cash used in financing activities of discontinued operations		***(37.0)***	***(71.2)***	***(30.0)***
NET CASH AT THE BEGINNING OF THE YEAR		**5,283.7**	**5,019.8**	**5,159.5**
Effect of foreign exchange rate changes and other		(189.2)	(166.6)	99.3
NET CASH AT THE END OF THE YEAR		**5,259.1**	**5,283.7**	**5,019.8**
Cash and cash equivalents	14	5,547.8	5,723.9	5,406.8
Bank overdrafts and other cash position items	14	288.7	440.2	387.0
NET CASH AT THE END OF THE YEAR		**5,259.1**	**5,283.7**	**5,019.8**

(*) Proceeds on disposal of financial assets in the Consolidated Cash Flow Statement include financial disposals and cash and cash equivalents and bank overdrafts and other cash position items removed from the scope of consolidation.

This amount includes, in particular, the disposal of regulated Water activities in the United Kingdom (€1,230 million) and of solid waste activities in the United States in the Environmental Services Division (€1,461 million) in 2012. Impacts of these transactions on net financial debt are presented in Note 3.2.

Net cash flows attributable to discontinued operations as defined in IFRS 5 primarily concern:

- regulated Water activities in the United Kingdom divested in June 2012;
- solid waste activities in the United States in the Environmental Services Division, divested in November 2012;
- the Water activity in Morocco;
- wind energy activities, partially divested as of December 31, 2012, through the divestiture of Ridgeline on December 31, 2012;
- urban lighting activities (Citelum).

Discontinued operations are presented in Notes 3 and 23.

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

Statement of changes in equity

(€ million)	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of January 1, 2010	**493,630,374**	**2,468.2**	**9,433.2**	**(452.6)**	**(3,663.5)**	**(344.4)**	**(43.5)**	**7,397.4**	**2,670.1**	**10,067.5**
Issues of share capital of the parent company	5,495,993	27.4	81.7					109.1	-	109.1
Parent company dividend distribution					(579.5)			(579.5)	-	(579.5)
Elimination of treasury shares				7.9				7.9	-	7.9
Share purchase and subscription options					6.2			6.2	-	6.2
Third party share in share capital increases of subsidiaries								-	104.8	104.8
Third party share in dividend distributions of subsidiaries								-	(233.5)	(233.5)
Transactions with non-controlling interests					60.2			60.2	(9.9)	50.3
Total transactions with non-controlling interests	**5,495,993**	**27.4**	**81.7**	**7.9**	**(513.1)**	**-**	**-**	**(396.1)**	**(138.6)**	**(534.7)**
Foreign exchange translation						*478.0*		*478.0*	*109.0*	*587.0*
Net foreign investments						*(112.3)*		*(112.3)*	*(2.5)*	*(114.8)*
Actuarial gains and losses on pension obligations					*(52.0)*			*(52.0)*	*(4.0)*	*(56.0)*
Fair value adjustments on cash flow hedge derivatives						*2.5*	*13.6*	*16.1*	*3.7*	*19.8*
Fair value adjustments on AFS assets							*(4.3)*	*(4.3)*	*2.4*	*(1.9)*
Total Other comprehensive income					(52.0)	368.2	9.3	325.5	108.6	434.1
Net income for the year					558.5			558.5	290.5	849.0
Total comprehensive income for the year					**506.5**	**368.2**	**9.3**	**884.0**	**399.1**	**1,283.1**
Other changes		-	-	-	(9.4)	-	-	(9.4)	(2.1)	(11.5)
As of December 31, 2010	**499,126,367**	**2,495.6**	**9,514.9**	**(444.7)**	**(3,679.5)**	**23.8**	**(34.2)**	**7,875.9**	**2,928.5**	**10,804.4**

(€ million)	**Number of shares outstanding**	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Consolidated reserves and retained earnings**	**Foreign exchange translation reserves**	**Fair value reserves**	**Equity attributable to owners of the Company**	**Non-controlling interests**	**Total equity**
As of December 31, 2010	**499,126,367**	**2,495.6**	**9,514.9**	**(444.7)**	**(3,679.5)**	**23.8**	**(34.2)**	**7,875.9**	**2,928.5**	**10,804.4**
Issues of share capital of the parent company	20,462,396	102.3	280.4					382.7		382.7
Parent company dividend distribution					(586.8)			(586.8)	-	(586.8)
Elimination of treasury shares				2.2				2.2		2.2
Share purchase and subscription options	64,197	0.3	0.9		1.8			3.0		3.0
Third party share in share capital increases of subsidiaries									2.5	2.5
Third party share in dividend distributions of subsidiaries									(343.9)	(343.9)
Transactions with non-controlling interests					(43.7)			(43.7)	54.1	10.4
Total transactions with non-controlling interests	**20,526,593**	**102.6**	**281.3**	**2.2**	**(628.7)**	**-**	**-**	**(242.6)**	**(287.3)**	**(529.9)**
Foreign exchange translation						102.3		102.3	(23.2)	79.1
Net foreign investments						(10.1)		(10.1)	4.8	(5.3)
Actuarial gains and losses on pension obligations					(53.1)			(53.1)	(6.4)	(59.5)
Fair value adjustments on cash flow hedge derivatives						(81.1)	(31.9)	(113.0)	(2.9)	(115.9)
Fair value adjustments on AFS assets							(0.6)	(0.6)	(0.7)	(1.3)
Total Other comprehensive income					(53.1)	11.1	(32.5)	(74.5)	(28.4)	(102.9)
Net loss for the year					(489.8)			(489.8)	173.2	(316.6)
Total comprehensive income for the year					**(542.9)**	**11.1**	**(32.5)**	**(564.3)**	**144.8**	**(419.5)**
Other changes					0.7			0.7	(20.6)	(19.9)
As of December 31, 2011	**519,652,960**	**2,598.2**	**9,796.2**	**(442.5)**	**(4,850.4)**	**34.9**	**(66.7)**	**7,069.7**	**2,765.4**	**9,835.1**

(€ million)	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Consolidated reserves and retained earnings	Foreign exchange translation reserves	Fair value reserves	Equity attributable to owners of the Company	Non-controlling interests	Total equity
As of December 31, 2011	**519,652,960**	**2,598.2**	**9,796.2**	**(442.5)**	**(4,850.4)**	**34.9**	**(66.7)**	**7,069.7**	**2,765.4**	**9,835.1**
Issues of share capital of the parent company	2,433,889	12.2	11.7					23.9		23.9
Parent company dividend distribution			(1,341.6)		987.8			(353.8)		(353.8)
Elimination of treasury shares										
Share purchase and subscription options					(1.1)			(1.1)		(1.1)
Third party share in share capital increases of subsidiaries									3.3	3.3
Third party share in dividend distributions of subsidiaries									(216.7)	(216.7)
Transactions with non-controlling interests					(71.2)			(71.2)	(89.8)	(161.0)
Total transactions with non-controlling interests	**2,433,889**	**12.2**	**(1,329.9)**	**-**	**915.5**	**-**	**-**	**(402.2)**	**(303.2)**	**(705.4)**
Foreign exchange translation						102.3		102.3	16.0	118.3
Net foreign investments						114.8		114.8	(3.9)	110.9
Actuarial gains and losses on pension obligations					(99.6)			(99.6)	(11.6)	(111.2)
Fair value adjustments on cash flow hedge derivatives						(24.5)	1.6	(22.9)	3.3	(19.6)
Fair value adjustments on AFS assets							5.0	5.0		5.0
Total Other comprehensive income					(99.6)	192.6	6.6	99.6	3.8	103.4
Net income for the year					393.8			393.8	136.0	529.8
Total comprehensive income for the year					**294.2**	**192.6**	**6.6**	**493.4**	**139.8**	**633.2**
Other changes					(8.8)			(8.8)	(628.4)	(637.2)
As of December 31, 2012	**522,086,849**	**2,610.4**	**8,466.3**	**(442.5)**	**(3,649.5)**	**227.5**	**(60.1)**	**7,152.1**	**1,973.6**	**9,125.7**

The dividend distribution per share for fiscal year 2012 is €0.70, compared with €0.70 for fiscal year 2011 and €1.21 for fiscal year 2010.

A dividend distribution of €0.70 per share is proposed to the Annual General Meeting of Shareholders of May 14, 2013.

The total dividend paid recorded in the Consolidated Cash Flow Statement of €547 million, €547 million and €735 million for the years ended December 31, 2012, 2011 and 2010, respectively, breaks down as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Parent company dividend distribution	(354)	(587)	(580)
Third party share in dividend distributions of subsidiaries	(217)	(344)	(234)
Scrip dividend[(1)]	24	384	79
TOTAL DIVIDEND PAID	**(547)**	**(547)**	**(735)**

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

Notes to the Consolidated Financial Statements

Note 1 Accounting principles and methods

1.1 Accounting standards framework

1.1.1 Basis underlying the preparation of the financial information

Pursuant to Regulation no.1606/2002 of July 19, 2002, as amended by European Regulation no.297/2008 of March 11, 2008, the consolidated financial statements for the year ended December 31, 2012 are presented in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union and IFRS as published by the International Accounting Standards Board (IASB). These standards may be consulted at the following European Union website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm .

These financial statements are accompanied, for comparative purposes, by financial statements for fiscal years 2011 and 2010 drawn up in accordance with the same standards framework.

In the absence of IFRS standards or interpretations and in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Veolia Environnement refers to other IFRS dealing with similar or related issues and the conceptual framework. Where appropriate, the Group may use other standard references and in particular U.S. standards.

1.1.2 Standards, standard amendments and interpretations applicable from fiscal year 2012

The accounting principles and valuation rules applied by the Group in preparing the consolidated financial statements for the year ended December 31, 2012 are identical to those applied by the Group as of December 31, 2011, with the exception of the following standards, standard amendments and interpretations which came into mandatory effect as of January 1, 2012:

- Amendments to IFRS 7, *Disclosures – Transfers of Financial Assets.* The amendments to IFRS 7 supplement required disclosures on transactions involving the transfer of financial assets. Disclosures concerning the transfer of financial assets are presented in Note 13, Working Capital, to the notes to the financial statements. Pursuant to the transition procedures set-out for the entry into effect of these amendments, the additional disclosures required by these amendments are not presented for comparative periods.
- Amendments to IAS 12, *Deferred Taxes: recovery of underlying assets*

These amendments have no impact on the Group consolidated financial statements.

1.1.3 Texts which enter into mandatory effect after December 31, 2012

The following texts enter into mandatory effect after December 31, 2012 (adopted or in the course of adoption by the European Union):

- Amendments to IAS 19 mainly eliminating the possibility of deferring the recognition of actuarial gains and losses (the corridor approach);
- Amendments to IFRS 7, *Financial Instruments:* Offsetting financial assets and liabilities;
- Amendments to IAS 32, seeking to clarify the principles for offsetting financial assets and liabilities;
- IFRS 9, *Financial Instruments* and the amendment to IFRS 9, *Financial Instruments*, pushing back the mandatory effective date of application of the standard to fiscal years beginning on or after January 1, 2015;
- Amendments to IFRS 7 relating to disclosures on transition to IFRS 9;
- IFRS 10, *Consolidated financial statements;*

- IFRS 11, *Joint Arrangements;*
- IFRS 12, *Disclosure of Interests in Other Entities;*
- IFRS 13, *Fair value measurement;*
- Amendments to IAS 28, *Investments in associates and joint ventures;*
- Amendments to IFRS 10, IFRS 11 and IFRS 12 specifying transitional measures;
- Amendments resulting from the IFRS annual improvement process (cycle 2009-2011).

Subject to their definitive adoption by the European Union, these standards and standard amendments are of mandatory application from January 1, 2013 or later. The Group is currently assessing the potential impact of the first-time application of these texts.

New standards and revised standards on consolidation, joint arrangements, associates and disclosures

The consolidation standards detailed above (IFRS 10, IFRS 11 and IFRS 12), published in May 2011, provide for retrospective application from fiscal years beginning on or after January 1, 2013. On June 1, 2012, the European Accounting Regulation Committee (ARC) issued a favorable opinion on the adoption of these standards in Europe, with mandatory retrospective application from January 1, 2014 at the latest. Early adoption of these standards would however be authorized.

Following the definitive adoption of these standards by the European Union on December 29, 2012, they will be applied early by the Group from January 1, 2013.

IFRS 10

IFRS 10 replaces the provisions on consolidated financial statements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC 12, *Consolidation – Special Purpose Entities*. IFRS 10 introduces a new single control model based on three criteria: "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". Previously, control was defined in IAS 27 as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

With a view to the first-time application of this standard, the Group has undertaken an analysis of its investments to determine the level of control exercised over them pursuant to the new definition of control, covering all periods presented. In order to assess the three control criteria defined in IFRS 10, the Group developed an analysis framework encompassing specific situations involving several partners in a dense contractual environment.

IFRS 11

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and SIC 13, *Jointly Controlled Entities – Non- Monetary Contributions by Venturers*. This new standard defines the accounting treatment of joint arrangements through which at least two parties exercise joint control. Pursuant to this new standard, there are only two types of joint arrangement: joint ventures and joint operations. Classification is based on the rights and obligations of the parties to the arrangement, taking into consideration the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

A joint venture is a joint arrangement whereby the parties (joint venturers) that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties (joint operators) have rights to the assets and obligations for the liabilities, relating to the arrangement.

IAS 31 defines three types of joint arrangement, based primarily on the legal form thereof. Pursuant to IAS 31, the Group accounts for its joint arrangements, classified as joint ventures, using the proportionate consolidation method (see Note 1.4.).

Pursuant to IFRS 11, joint arrangements classified as joint ventures must be accounted for using the equity method (proportionate consolidation is no longer authorized). Each joint operator in a joint operation must account for the assets and liabilities (income and expenses) relating to its interest in the joint operation.

Given the changes concerning the form of joint arrangements and to accounting methods, the Group has undertaken a review of its joint arrangements, covering all periods presented.

The main arrangements under joint control within the Group qualify as joint ventures pursuant to IFRS 11 and must therefore be equity accounted in accordance with IFRS 11.

IFRS 12

IFRS 12 concerns the disclosure of interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. First-time application of this standard will lead to the provision of more detailed disclosures in the notes to the financial statements.

Analysis work on the first-time application of IFRS 10 and IFRS 11 is currently being finalized for all periods presented. However, based on work performed to date, the main impact of the first-time application of these standards concerns the implementation of IFRS 11 and more particularly the equity accounting of joint ventures held by the Group, currently consolidated on a proportionate basis. The total contribution of all proportionately consolidated companies (group share) is presented in Note 33.

The main entities concerned by the application of these new standards are Dalkia International (joint venture owned 75% by Dalkia and 25% by EDF, with an economic interest of 50%), Veolia Transdev (joint venture with Caisse des dépôts et consignations), Proactiva group (joint venture with FCC owned at 50%) will be accounted for using the equity method at 50%. Shenzen (joint venture owned at 45%, with 25% economic interest) will be accounted for using the equity method and Tianjin (joint venture owned at 49%) will be accounted for using the equity method at 49%.

The following tables present the contribution as of December 31, 2012 of the entities affected by a change in accounting method on the first time application of IFRS 10 and 11:

(€ million)	**Consolidated financial statements as of December 31, 2012**	**o/w entities affected by a change in consolidation method**
Goodwill	4,795.0	900.6
Intangible assets	5,661.5	2,361.7
Property, plant and equipment	6,837.9	2,124.6
Non-current operating financial assets	2,650.7	420.7
Other non-current assets	2,628.6	381.0
Non-current assets	22,573.7	6,188.6
Operating receivables	10,305.9	2,010.8
Cash and cash equivalents	5,547.8	546.8
Assets classified as held for sale	3,974.3	2,698.7
Other current assets	2,210.4	534.1
Current assets	22,038.4	5,790.4
ASSETS	**44,612.1**	**11,979.0**
Equity	**9,125.7**	**4,018.7**
Non-current borrowings	13,083.7	929.1
Other non-current liabilities	3,720.3	798.3
Non-current liabilities	**16,804.0**	**1,727.4**
Operating payables	11,598.7	2,174.8
Current borrowings	3,629.2	428.7
Liabilities directly associated with assets classified as held for sale	2,551.0	1,655.5
Other current liabilities	903.5	1,973.9
Current liabilities	**18,682.4**	**6,232.9**
TOTAL EQUITY AND LIABILITIES	**44,612.1**	**11,979.0**

(€ million)	Consolidated financial statements for the year ended December 31, 2012	o/w entities affected by a change in consolidation method
Revenue	29,438.5	6,313.0
Operating income	1,095.0	393.6
Net income (loss) from continuing operations	143.7	56.1
Net income (loss) for the year	529.8	48.6

The number of entities, whose consolidation method will change, pursuant to fist-time application if IFRS 10 and 11 standards, amounts to 1,079 entities.

Entities, whose consolidation method will change, pursuant to first-time application of IFRS 10 and 11 standards, contributed to:

- The Group adjusted operating cash flow up by €801 million, as of December 31, 2012 (see Note 40 which reconciles adjusted operating cash flow and operating income);
- €866 million in total gross investments.

Revised employee benefits standard

In June 2011, the IASB published a revised Employee Benefits standard, IAS 19R, subsequently approved by the European Parliament on June 5, 2012. This standard enters into effect for fiscal years commencing on or after January 1, 2013 and is of retrospective application.

The main changes introduced by this revised standard are as follows:

- Immediate recognition of actuarial gains and losses in Other Comprehensive Income, removing the "corridor" option contained in the current standard. As the Group historically elected to apply the "SORIE" option, consisting in the immediate recognition of actuarial gains and losses arising in Other Comprehensive Income, this amendment will not impact the consolidated financial statements;
- Immediate recognition in profit or loss of all past service costs; the recognition of past services costs relating to unvested post-employment benefits, through their deferral and recognition over the residual vesting period is therefore removed. Accordingly, all plan amendments and new plan introductions shall be recognized immediately and in full in profit or loss of the period;
- Introduction of a new concept: net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate used to calculate the defined benefit obligation. In practice, the expected return on plan assets in the current standard is replaced by the discount rate used to measure the defined benefit obligation.

First-time application of this revised standard should not have a material impact on the consolidated financial statements of the Group.

1.2 General principles underlying the preparation of the financial statements

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

The consolidated financial statements are presented on a historical cost basis, with the exception of assets and liabilities held for sale measured in accordance with IFRS 5 and assets and liabilities recognized at fair value: derivatives, financial instruments held for trading, financial instruments designated at fair value and available-for-sale financial instruments (in accordance with IAS 32 and IAS 39).

The Veolia Environnement consolidated financial statements for the year ended December 31, 2012 were adopted by the Board of Directors on February 27, 2013 and will be presented for approval at the General Shareholders' Meeting on May 14, 2013.

1.3 Basis of presentation as of December 31, 2012

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

The consolidated financial statements comprise the financial statements of Veolia Environnement SA and its subsidiaries. The financial statements of subsidiaries are drawn up for the same reference period as those of the parent company, from January 1, to December 31, 2012, in accordance with uniform accounting policies and methods.

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

Non-controlling interests represent the equity in a subsidiary that is not directly or indirectly attributable to the Group. These interests are presented separately in the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position.

1.4 Principles of Consolidation

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

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

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

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

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

1.5 Transactions impacting the consolidation scope

1.5.1 Business combinations and goodwill

Business combinations are recorded in accordance with the acquisition method as defined in IFRS 3.

Under this method, identifiable assets acquired and liabilities assumed of the acquiree are recorded at fair value at the acquisition date.

The goodwill arising from the business combination is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and, where applicable, the fair value of any previously held interest, over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

This goodwill is measured in the functional currency of the company acquired and recognized in assets in the Consolidated Statement of Financial Position.

The Group may elect, on an individual transaction basis, at the acquisition date, to measure non-controlling interests either at fair value (full goodwill) or at the share in the fair value of the identifiable net assets of the company acquired.

Pursuant to IFRS, goodwill is not amortized but is subject to impairment tests performed annually or more frequently where there is evidence calling into question the net carrying amount recorded in assets in the Statement of Financial Position (see Note 1.11, Impairment of intangible assets, property, plant and equipment and non–financial assets).

Where the terms and conditions of a business combination are advantageous, negative goodwill arises. The corresponding profit is recognized in net income at the acquisition date.

Acquisition-related costs are expensed in the period in which the costs are incurred and the services received.

Pursuant to the provisions of IFRS 3, the Group may finalize the recognition of the business combination during the measurement period. This period ends when all the necessary information has been obtained and no later than one year after the acquisition date.

In the absence of specific IFRS provisions on the creation of joint ventures, the Group applies the acquisition method set-out in IFRS 3, *Business combinations*, when accounting for acquisitions of joint ventures.

1.5.2 Transactions with non-controlling interests

Dilution and accretion transactions in entities controlled by the Group are recognized as transactions in equity, as they are transactions performed by the owners of the company acting in this capacity.

Pursuant to the provisions of IAS 27 and IAS 32, *Financial Instruments: Presentation*, these transactions are recognized in equity at their net-of-tax amount and do not therefore impact the Consolidated Income Statement of the Group.

These transactions are presented in financing activities in the Cash Flow Statement.

1.5.3 Assets/liabilities classified as held for sale, discontinued operations

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

The standard notably requires the separate presentation of assets held for sale in the Consolidated Statement of Financial Position at the lower of net carrying amount and fair value less costs to sell, where the criteria set-out in the standard are satisfied.

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

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- Is a subsidiary acquired exclusively with a view to resale.

Therefore, as of December 31, 2012, the results of operations sold or in the course of being sold in 2012 must also be adjusted in the comparative financial statements as of December 31, 2011 and 2010. The 2011 and 2010 comparative income statements therefore differ from those published previously.

The impact of these operations on cash flows from operating, investing and financing activities is presented in specific lines of the Consolidated Cash Flow Statement for the year ended December 31, 2012 and comparative periods.

The 2011 and 2010 Consolidated Statements of Financial Position are unchanged.

1.6 Translation of foreign subsidiaries' financial statements

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

Year-end exchange rate *(one foreign currency unit = €xx)*	**As of December 31, 2012**	**As of December 31, 2011**	**As of December 31, 2010**
U.S. Dollar	0.7579	0.7729	0.7484
Pound Sterling	1.2253	1.1972	1.1618
Chinese Renminbi yuan	0.1216	0.1226	0.1134
Australian Dollar	0.7867	0.7860	0.7613
Average annual exchange rate *(one foreign currency unit = €xx)*	**Average annual rate 2012**	**Average annual rate 2011**	**Average annual rate 2010**
U.S. Dollar	0.7778	0.7185	0.7537
Pound Sterling	1.2329	1.1523	1.1652
Chinese Renminbi yuan	0.1233	0.1112	0.1114
Australian Dollar	0.8056	0.7418	0.6924

1.7 Foreign currency transactions

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

Loans to a foreign subsidiary, the settlement of which is neither planned nor probable in the foreseeable future represent, in substance, a portion of the Group's net investment in this foreign operation. Foreign exchange gains and losses on monetary items forming part of a net investment are recognized directly in other comprehensive income in foreign exchange translation adjustments and are released to income on the disposal of the net investment.

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

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

1.8 Property, plant and equipment

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

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

Useful lives are as follows:

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

* *The range of useful lives is due to the diversity oftangible assets concerned.*

Property, plant and equipment are primarily depreciated on a straight-line basis, unless another systematic depreciation basis better reflects the rate of consumption of the asset.

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

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

Pursuant to IAS 17, assets financed by finance lease are initially recorded at the lower of fair value and the present value of future minimum lease payments. Subsequently, the Group does not apply the remeasurement model but the cost model as authorized by IAS 16 and IAS 38.

These assets are depreciated over the shorter of the expected useful life of the asset and the lease term, unless it is reasonably certain that the asset will become the property of the lessee at the end of the contract. This accounting policy complies with IAS 17 and Group accounting methods regarding the recognition and measurement of intangible assets and property, plant and equipment.

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

1.9 Government grants

1.9.1 Investment grants for property, plant and equipment

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

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

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

1.9.2 Investment grants relating to concession arrangements

Investment grants received in respect of concession arrangements (see Note 1.20) are generally definitively earned and, therefore, are not repayable.

In accordance with the option offered by IAS 20, these grants are presented as a deduction from intangible assets or financial assets depending on the applicable model following an analysis of each concession arrangement (IFRIC 12).

Under the intangible asset model, the grant reduces the amortization charge in respect of the concession intangible asset over the residual term of the concession arrangement.

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

1.9.3 Operating grants

Operating grants concern, by definition, operating items.

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

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

1.10 Intangible assets excluding goodwill

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

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

Intangible assets are amortized on a straight-line basis over their useful life, unless another systematic amortization basis better reflects the rate of consumption of the asset.

Useful lives are as follows:

	Range of useful lives in number of years*
Fees paid to local authorities	3 to 80
Purchased contractual rights	3 to 34
Purchased software	3 to 10
Other intangible assets	1 to 28

* *The range of useful lives is due to the diversity of intangible assets concerned.*

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

The net carrying amount of non-financial assets, other than inventory and deferred tax assets is reviewed at each period-end in order to assess the existence of any indication of loss in value. Where such indication exists, the recoverable amount of the asset or group of assets is estimated.

Goodwill and other assets with an indefinite useful life are subject to systematic annual impairment tests following the update of the long-term plan and more frequent tests where there is an indication of loss in value.

Where the resulting recoverable amount is less than the net carrying amount of the asset or group of assets, an impairment is recorded.

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

Goodwill and impairment tests

A Cash-Generating Unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Given the Group's activities, cash-generating units and groups of cash-generating units are below operating segments in the organizational structure and generally represent a country in each Division.

For the purpose of impairment tests, goodwill is allocated, from the acquisition date, to each of the cash-generating units or each of the groups of cash-generating units that are expected to benefit from the business combination.

A cash-generating unit to which goodwill has been allocated is subject to annual impairment tests and more frequent tests where there is an indication of impairment, by comparing the net carrying amount of the CGU, including the goodwill, to its recoverable amount.

Therefore, changes in the general economic and financial environment, or changes in the Group's economic performance or stock market capitalization represent, in particular, external indicators of impairment that are analyzed by the Group to determine whether it is appropriate to perform more frequent impairment tests.

Where appropriate, goodwill impairment is recognized in operating income and is definitive.

Measuring recoverable amount

The need to recognize an impairment is assessed by comparing the net carrying amount of the assets and liabilities of the CGU or group of CGUs with their recoverable amount.

The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined based on available information enabling the best estimate of the amount obtainable from the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The value in use determined by the Group is equal to the present value of the future cash flows expected to be derived from the CGU or group of CGUs, taking account of their residual value and based on the following:

- Forecast cash flows taken from the long-term plan prepared each year in June and validated by the Board of Directors in November. This plan covers the year in progress and the next six years. This period is representative of the average duration of the Group's long-term contract portfolio and its short-term activities. Exceptionally, the long–term plan was extended to 2025 for the "Water– China" CGU, in order to identify standard flows for the calculation of the terminal value, as Water activities in China follow a specific economic model, with extremely long contract terms (fifty years) and high investment flows during the initial contract years;

- Terminal values are calculated based on discounted forecast flows for the last year of the long-term plan (2018). These flows are determined for each CGU or group of CGUs based on a perpetual growth rate which takes account of factors such as inflation;

- A discount rate (weighted average cost of capital) is determined for each asset, CGU or group of CGUs: it is equal to the risk-free rate plus a risk premium weighted for country-specific risks (see Note 2). The discount rates estimated by management for each cash-generating unit therefore reflect current market assessments of the time value of money and the country specific risks to which the CGU or group of CGUs is exposed, with the other risks reflected in the expected future cash flows from the assets;

- Investments included in forecast future cash flows are those investments that enable the level of economic benefits expected to arise from the assets to be maintained in their current condition;

- Restructuring plans to which the Group is not committed are not included in forecast cash flows used to determine values in use.

1.12 Inventories

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

1.13 Provisions

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

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

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

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

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

1.14 Financial instruments

1.14.1 Financial assets and liabilities

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

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

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

1.14.2 Measurement, recognition and derecognition of financial assets

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

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

Held-to-maturity assets

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

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

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

Available-for-sale assets

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

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

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

Loans and receivables

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

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

The impairment of trade receivables is calculated using two methods:

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

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

Assets and liabilities at fair value through the Consolidated Income Statement

This category includes:

- Trading assets and liabilities acquired by the Group for the purpose of selling them in the near term and which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives not qualifying for hedge accounting are also considered trading assets and liabilities;
- Assets designated at fair value and primarily the portfolio of cash UCITS whose performance and management is based on fair value.

Changes in the value of these assets are recognized in the Consolidated Income Statement.

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

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

Derecognition of financial assets

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

1.14.3 Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments. In order to be considered a cash equivalent, an investment must be readily convertible to a known amount of cash and subject to a negligible risk of change in value, thereby satisfying the requirements of IAS 7.

Cash and cash equivalents include all cash balances, certain term deposit accounts, negotiable debt instruments and monetary UCITS.

Term deposit accounts and negotiable debt instruments present characteristics satisfying the requirements of IAS 7 when their yield is based on short-term money-market rates (such as Eonia) and their maturity is less than 3 months (contractually or due to an early exit option exercisable at least every 3 months and held at a low or nil cost, without loss of capital or remuneration received net of the early exit penalty of less than the yield on short-term investments).

UCITS classified in "cash equivalents" comply with Directive 2009/65/EC of the European Commission of July 13, 2009 and constitute short-term monetary UCITS (pursuant to the AMF classification no. 2005-12 of January 25, 2005 as amended on May 3, 2011). Pursuant to AMF Position no. 2011-13 of September 23, 2011, these UCITS are presumed to satisfy the cash equivalent criteria defined by IAS 7. These UCITS can be sold daily on demand, conferring on them the characteristics of short-term, highly liquid investments that are readily convertible to known amounts of cash. These instruments are not intended to be held more than three months and offer a yield similar to the EONIA (European Overnight Index Average) interbank rate, thereby limiting sensitivity to interest rates. The regularity of performance trends does not expose them to a material risk of change in value.

Cash and cash equivalents are valued at fair value through the Consolidated Income Statement. Note 1.26 sets out the method of determining fair value. Cash and cash equivalents belong to fair value levels 1 and 2:

- Instruments with a quoted price in an active market in level 1;
- Other instruments that are not quoted but the fair value of which is determined using valuation techniques involving standard mathematical calculation methods integrating observable market data, in level 2.

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

1.14.4 Measurement and recognition of financial liabilities

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

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

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

1.14.5 Non-controlling interest put options

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

Furthermore, in accordance with IAS 32, *Financial Instruments: Presentation*, non–controlling interest put options are recognized as liabilities.

1.14.6 Measurement and recognition of derivative instruments

The Group uses various derivative instruments to manage its exposure to interest rate and foreign exchange risks resulting from its operating, financial and investment activities. Certain transactions performed in accordance with the Group interest rate and foreign exchange risk management policy do not satisfy hedge accounting criteria and are recorded as trading instruments.

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

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

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

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

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

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

The use of hedge accounting has the following consequences:

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

1.14.7 Embedded derivatives

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

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

1.14.8 Treasury shares

Treasury shares are deducted from equity.

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

1.15 Pension plans and other post-employment benefits

Veolia Environnement and its subsidiaries have several pension plans.

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

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

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

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

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

The financing of defined benefit pension plans may lead the Group to make voluntary contributions to pension funds. Where applicable, these voluntary contributions are presented in Net cash from operating activities in the Consolidated Cash Flow Statement, in the same way as other employer contributions.

Employee obligations of the Group are calculated using the projected unit credit method. This method is based on the probability of personnel remaining with companies in the Group until retirement, the foreseeable changes in future compensation, and the appropriate discount rate. Specific discount rates are adopted for each monetary zone. They are determined based on the yield offered by bonds issued by top-quality companies (rated AA) or treasury bonds where the market is not liquid, with maturities equivalent to the average term of the plans valued in the relevant region. This results in the recognition of pension-related assets or provisions in the Consolidated Statement of Financial Position and the recognition of the related net expenses.

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

1.16 Share-based payments

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

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

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

1.17 Revenue

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

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

- The amount of revenue can be measured reliably;
- The significant risks and rewards of ownership of the goods have been transferred to the buyer, in the case of sales of goods;
- The stage of completion of the transaction at the year-end may be reasonably determined in the case of sales of services;
- The recovery of the counterparty is considered probable;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.17.1 Sales of goods

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

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

1.17.2 Sales of services

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

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

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

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

1.17.3 Construction contracts (excluding service concession arrangements)

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

The related revenue is recognized in accordance with IAS 11, *Construction Contracts* (see Note 1.22).

1.17.4 IFRIC 4 Contracts

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

Services include the design, construction and financing of the construction of a specific asset/installation on behalf of the customer and the operation of the asset concerned. In this context and in accordance with IFRIC 4, revenue is recognized in accordance with the accounting method applicable to construction contracts.

Construction revenue is recognized in accordance with the percentage completion method and, more generally, the principles set out in IAS 11. At the same time, the amount of built assets is recorded in "Operating financial assets".

The service invoiced to the client includes a component representing the operation of the specific asset/installation concerned and a second component representing the financing of the construction.

- Revenue relating to the operation of the asset is recognized on delivery of the goods or performance of the service, in accordance with IAS 18.
- The financing of construction work involves finance costs that are invoiced to the customer and recognized in Revenue, under Revenue from operating financial assets. This interest is recognized in Revenue from the start of construction work and represents remuneration received by the builder/lender.

1.17.5 Concession arrangements (IFRIC 12)

See Note 1.20 on service concession arrangements.

1.18 Financial items in the Consolidated Income Statement

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

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

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

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

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

1.19 Income taxes

The income tax expense (credit) includes the current tax charge (credit) and the deferred tax charge (credit).

Deferred tax assets are recognized on deductible timing differences and/or tax loss carry forward.

Deferred tax assets arising from timing differences are only recognized when it is probable that:

- There are sufficient taxable timing differences within the same tax group or tax entity that are expected to reverse in the same periods as the expected reversal of such deductible timing differences or in the periods when the deferred tax assets arising from tax losses can be carried back or forward;
- Or the Group is likely to generate sufficient future taxable profits against which the asset can be offset.

At each period end, the Group reviews the recoverable amount of deferred tax assets arising from material tax losses carried-forward.

Deferred tax assets arising from these tax losses are no longer recognized or are reduced when required by the specific facts and circumstances of each company or tax group concerned, and particularly when:

- The forecast period and uncertainties regarding the economic environment no longer enable the probability of utilization to be assessed;
- The companies have not started utilizing the losses;
- The forecast utilization period exceeds the carry forward period authorized by tax legislation;
- Offset against future taxable profits is uncertain due to the risk of different interpretations of the application of tax legislation.

Deferred tax assets and liabilities are adjusted for the effects of changes in prevailing tax laws and rates at the year end. Deferred tax balances are not discounted.

1.20 Description of Group concession activities

In the course of its business, Veolia Environnement provides collective services (distribution of drinking water and heating, passenger transport network, household waste collection, etc.) to local authorities in return for a remuneration based on services rendered.

These collective services (also known as services of general interest or general economic interest or public services) are generally managed by Veolia Environnement under contracts entered into at the request of public bodies which retain control thereof.

Concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated installations built by Veolia Environnement, or made available to it for a fee or nil consideration:

- These contracts define "public service obligations" in return for remuneration. The remuneration is based on operating conditions, continuity of service, price rules and obligations with respect to the maintenance/replacement of installations. The contract determines the conditions for the transfer of installations to the local authority or a successor at its term;

- Veolia Environnement can, in certain cases, be responsible for a given service as it holds the service support network (water/heat distribution network, water treatment network). Such situations are the result of full or partial privatizations. Provisions impose public service obligations and the means by which the local authority may recover control of the concession holder.

These contracts generally include price review clauses. These clauses are mainly based on cost trends, inflation, changes in tax and/or other legislation and occasionally on changes in volumes and/or the occurrence of specific events changing the profitability of the contract.

In addition, the Group generally assumes a contractual obligation to maintain and repair facilities managed under public service contracts. The resulting maintenance and repair costs are analyzed in accordance with IAS 37 on provisions and, where appropriate, a provision for contractual commitments is recorded in respect of commitments resulting from delays in the performance of work.

The nature and extent of the Group's rights and obligations under these different contracts differ according to the public services rendered by the different Group Divisions.

The accounting treatment is disclosed in Notes 5 and 10.

Water

Veolia Environnement manages municipal drinking water and/or waste water services. These services encompass all or part of the water cycle (extraction from natural sources, treatment, storage and distribution followed by collection and treatment of waste water and release into the environment).

In France, these services are primarily rendered under public service delegation "affermage" contracts with a term of 8 to 20 years. They concern the production and distribution of drinking water and/or the collection and treatment of waste water. They use specific assets, such as distribution or wastewater treatment networks and drinking water or wastewater treatment plants, which are generally provided by the concession grantor and returned to it at the end of the contract.

Abroad, Veolia Environnement renders its services under contracts which reflect local legislation, the economic situation of the country and the investment needs of each partner.

These contracts are generally concession arrangements, service contracts or O&M (Operate & Manage) and BOT contracts with an average term of between 7 and 40 years, and sometimes longer.

Contracts can also be entered into with public entities in which Veolia Environnement purchased an interest on their partial privatization. The profitability of these contracts is not fundamentally different from other contracts, but operations are based on a partnership agreement with the local authority.

Environmental Services

Both in France and abroad, the main concession arrangements entered into by Veolia Environnement concern the treatment and recovery of waste in sorting units, storage and incineration. These contracts have an average term of 18 to 30 years.

Energy Services

Veolia Environnement has developed a range of energy management activities: heating and cooling networks, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, and integration services for the comprehensive management of buildings and electrical services on public roadways.

The main contracts concern the management of heating and air-conditioning networks under urban concessions or on behalf of local authorities.

In Eastern Europe, Veolia Environnement's Energy Services Division provides services under mixed partial privatizations or through public-private partnerships with local authorities responsible for the production and distribution of thermal energy.

Transportation

Veolia Environnement's Transportation Division provides passenger transport services on behalf of local, regional and national public authorities.

Veolia Environnement primarily provides these services through its investment in Veolia Transdev, in partnership with the Caisse des dépôts et consignations, under service contracts comprising public service obligations (as per EU terminology), with terms of 7 to 15 years.

Accounting for service concession arrangements

Concession arrangements are recognized in accordance with IFRIC 12, *Service Concession Arrangements*.

A substantial portion of the Group's assets is used within the framework of concession or affermage contracts granted by public sector customers ("grantors") and/or by concession companies purchased by the Group on full or partial privatization. The characteristics of these contracts vary significantly depending on the country and activity concerned.

Nonetheless, they generally provide, directly or indirectly, for customer involvement in the determination of the service and its remuneration, and the return of the assets necessary to the performance of the service at the end of the contract.

IFRIC 12 is applicable to concession arrangements comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;
- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

Pursuant to IFRIC 12, such infrastructures are not recognized in assets of the operator as property, plant and equipment but in financial assets ("financial asset model") and/or intangible assets ("intangible asset model") depending on the remuneration commitments given by the grantor.

1.20.1 Financial asset model

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor in remuneration for concession services.

In the case of concession services, the operator has such an unconditional right if the grantor contractually guarantees the payment of:

- Amounts specified or determined in the contract or
- The shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract.

Financial assets resulting from the application of IFRIC 12 are recorded in the Consolidated Statement of Financial Position under the heading "Operating financial assets" and recognized at amortized cost.

Unless otherwise indicated in the contract, the effective interest rate is equal to the weighted average cost of capital of the entities carrying the assets concerned.

Cash flows relating to these operating financial assets are included in Net cash from (used in) investing activities in the Consolidated Cash Flow Statement.

Pursuant to IAS 39, an impairment loss is recognized if the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial EIR.

The portion falling due within less than one year is presented in "Current operating financial assets," while the portion falling due within more than one year is presented in the non-current heading.

Revenue associated with this financial model includes:

- Revenue recorded on a completion basis, in the case of construction operating financial assets (in accordance with IAS 11);
- The remuneration of the operating financial asset recorded in Revenue from operating financial assets (excluding principal payments);
- Service remuneration.

1.20.2 Intangible asset model

The intangible asset model applies where the operator is paid by the users or where the concession grantor has not provided a contractual guarantee in respect of the recoverable amount. The intangible asset corresponds to the right granted by the concession grantor to the operator to charge users of the public service in remuneration of concession services.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Consolidated Statement of Financial Position under the heading "Concession intangible assets" and are amortized, generally on a straight-line basis, over the contract term.

Cash outflows, that is disbursements, relating to the construction of infrastructures under concession arrangements accounted using the “intangible asset model” are presented in Net cash from (used in) investing activities in the Consolidated Cash Flow Statement, while cash inflows are presented in Net cash from operating activities.

Under the intangible asset model, Revenue includes:

- Revenue recorded on a completion basis for assets and infrastructure under construction (in accordance with IAS 11);
- Service remuneration.

1.20.3 Mixed or bifurcation model

The choice of the financial asset or intangible asset model depends on the existence of payment guarantees granted by the concession grantor.

However, certain contracts may include a payment commitment on the part of the concession grantor covering only part of the investment, with the balance covered by royalties charged to users.

Where this is the case, the investment amount guaranteed by the concession grantor is recognized under the financial asset model and the residual balance is recognized under the intangible asset model.

1.21 Finance leases

IFRIC 4 seeks to identify the contractual terms and conditions of agreements which, without taking the legal form of a lease, convey a right to use a group of assets in return for payments included in the overall contract remuneration. It identifies in such agreements a lease contract which is then analyzed and accounted for in accordance with the criteria laid down in IAS 17, based on the allocation of the risks and rewards of ownership.

The contract operator therefore becomes the lessor of its customers. Where the lease transfers the risks and rewards of ownership of the asset in accordance with IAS 17 criteria, the operator recognizes a financial asset to reflect the corresponding financing, rather than an item of property, plant and equipment.

These financial assets are recorded in the Consolidated Statement of Financial Position under the heading "Operating financial assets". They are initially recorded at the lower of fair value and total future flows and subsequently at amortized cost using the effective interest rate of the contract.

The portion falling due within less than one year is presented in "Current operating financial assets," while the portion falling due within more than one year is presented in the non-current heading.

Contracts falling within the scope of IFRIC 4 are either outsourcing contracts with industrial customers, BOT (Build, Operate and Transfer) contracts, or incineration or cogeneration contracts under which, notably, demand or volume risk is, in substance, transferred to the prime contractor.

During the construction phase, a financial receivable is recognized in the Consolidated Statement of Financial Position and revenue in the Consolidated Income Statement, in accordance with the percentage completion method laid down in IAS 11 on construction contracts.

The financial receivables resulting from this analysis are initially measured at the fair value of lease payments receivable and then amortized using the effective interest method.

After a review of the contract and its financing, the implied interest rate on the financial receivable is based on either the Group financing rate and /or the borrowing rate associated with the contract.

1.22 Construction contracts

Veolia Environnement recognizes income and expenses associated with construction contracts in accordance with the percentage of completion method defined in IAS 11.

These contracts are entered into with local authorities or private partners for the construction of infrastructures. They are generally fixed-price contracts as defined by IAS 11.

Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably.

The percentage of completion is determined by comparing costs incurred at the period-end with total estimated costs under the contract. Costs incurred comprise costs directly attributable to the contract and borrowing costs incurred up to completion of the work. However, prospection costs, costs incurred prior to contract signature, and administrative and selling costs are expensed in the period incurred and do not therefore contribute to contract completion.

Where total contract costs exceed total contract revenue, the Group recognizes a loss to completion as an expense of the period, irrespective of the stage of completion and based on a best estimate of forecast results including, where appropriate, rights to additional income or compensation, where they are probable and can be determined reliably. Provisions for losses to completion are recorded as liabilities in the Consolidated Statement of Financial Position.

The amount of costs incurred, plus profits and less losses recognized and intermediary billings is determined on an individual contract basis. In accordance with IAS 11, where positive, this amount is recognized in assets in "amounts due from customers for construction contract work" (in “Other operating receivables”). Where negative, it is recognized in liabilities in "amounts due to customers for construction contract work" (in “Other operating payables”).

Partial payments received under construction contracts before the corresponding work has been performed, are recognized in liabilities in the Consolidated Statement of Financial Position under advances and down-payments received.

1.23 Electricity purchase and sale contracts

Certain Veolia Environnement subsidiaries are required to purchase or sell electricity on the market, in order to manage supplies and optimize costs.

Revenue

After analysis of contractual terms and conditions, the net margin on trading activity transactions is recognized in "Revenue".

Financial instruments

Certain subsidiaries enter into electricity transactions (forward contracts, options) which are recognized as derivative instruments in accordance with IAS 39.

Application scope of IAS 39

Options and forward purchase and sale contracts with physical delivery are excluded from the application scope of IAS 39 if entered into for own use (exception for own-use).

This exception is applicable when the following conditions are satisfied:

- The volumes purchased or sold under the contracts reflect the operating requirements of the subsidiary;
- The contracts are not subject to net settlement as defined by IAS 39 and, in particular, physical delivery is systematic;
- The contracts are not equivalent to sales of options, as defined by IAS 39.

Recognition and measurement of instruments falling within the application scope of IAS 39

Instruments falling within the application scope of IAS 39 are derivative instruments and are measured at fair value, calculated using models mostly based on observable data (see Note 1.26). Fair value movements are recorded in operating income. The net impact of the unwinding of these transactions is recorded in revenue (see Note 26).

1.24 Greenhouse gas emission rights

Faced with increased greenhouse gas emissions into the atmosphere, the International Community introduced a regulatory system within the framework of the Kyoto protocol, aimed at reducing such emissions. This system was finalized in 1997 and came into effect in February 2005 and seeks to achieve a reduction in emission levels of at least 5% compared with 1990, over the commitment period 2008-2012 for industrialized countries. Emissions are capped through the allocation of emission rights (AAU: Assigned Amount Units) to each country, which must be surrendered in 2014 based on actual emissions during the period 2008-2012. Developing countries have no reduction objectives under the Kyoto protocol, but emission credits (CER: Certified Emission Reduction) may be presented to companies or States that contribute to investments enabling a reduction in greenhouse gas emissions in these countries.

At a European level, the European Union decided to implement, via Directive 2003/87/EC of October 13, 2003, an internal trading system for emission rights (EUA: EU Allowance). This system has been in effect since January 1, 2005. The "Project" Directive 2004/101/EC established a link between the Kyoto system and the European system, enabling the operators concerned to use CER, up to an agreed maximum, to satisfy their surrender obligations in the place of EUA.

Directive 2009/29/EC of April 26, 2009 amended the ETS Directive and extended the allowance trading system beyond the second period (2008-2012). It covers the period 2013-2020 and provides for a progressive reduction in allowances allocated and new allocation procedures.

The European Regulation of November 12, 2010 established a scheme for auctioning greenhouse gas allowances for the period 2013-2020. The European Commission decision of December 15, 2010 defined allocation rules for the free grant of allowances for the period 2013-2020. Allocation calculation guidance was published in the first and second quarters of 2011. Operators filed the necessary data with the national authorities and performed preliminary calculations. The preliminary free allocations, set out in the plans published by Member States in respect of phase III (2013/2020) will not be definitive until validated by the European Commission (not validated to date). The Group, and primarily the Energy Services Division, is currently assessing the potential effects of these allocation conditions on a site-by-site basis and is working on the implementation of monitoring plans.

The actual emissions position is determined each year and the corresponding rights surrendered. The Group then purchases or sells emission rights, depending on whether actual emissions are greater or lesser than emission rights allocated.

In the absence of specific IFRS provisions, the Group has adopted the "net liability approach," which involves the recognition of a liability at the period-end if actual emissions exceed allowances held, in accordance with IAS 37.

Allowances are managed as a production cost and, in this respect, are recognized in inventories at:

- Nil value, when they are received free of charge;
- Acquisition cost, if purchased for valuable consideration on the market.

Consumption of this inventory is recognized on a weighted-average unit cost basis.

Transactions in these allowances performed on the forward market are recorded at market value at the period-end. Fair value gains and losses on financial instruments relating to these forward transactions are recognized in other comprehensive income or net income depending on whether they qualify as cash flow hedges in accordance with IAS 39.

1.25 Segment reporting

The information presented for each operating segment is identical to that presented to the Group's Chief Operating Decision Maker (Chairman and Chief Executive Officer) for decision making purposes. This information is based on the internal organization of the Group's activities and corresponds to the different Group Divisions.

The Chief Operating Decision Maker receives summary information by Division, which he uses to measure the performance of each business.

Budget objectives set for each Division head comprise objectives based on revenue, operating net income, investment and other key ratios. These objectives are set for each Division as a whole.

The variable compensation of Executive Committee members is based on the performance of the Group or of each Division including, in particular, adjusted operating cash flow. A reconciliation between adjusted operating cash flow and operating income is presented in Note 40.

Financial information by operating segment is prepared in accordance with the same rules used to prepare the Consolidated Financial Statements.

Following the announcement at the end of 2011 of the Group's withdrawal from the Transportation business and changes to the Group's Executive Committee, the internal organizational structure of the Group was modified, with consequently a change in the preparation of the operating segments to be presented.

In accordance with the provisions of IFRS 8 on the identification of operating segments and after taking account of regrouping criteria, the following segments are now presented:

- Water,
- Environmental Services,
- Energy Services,
- Other Segments.

"Other Segments" primarily groups together the activities of SNCM, ProActiva MedioAmbiente (Water and Environmental Services) and the various Group holding companies.

Segmenting reporting for prior periods was restated accordingly.

1.26 Fair value determination principles

The fair value of all financial assets and liabilities is determined at the period-end; either for recognition in the accounts or disclosure in the notes to the financial statements (see Note 26).

Fair value is determined:

i. Based on quoted prices in an active market (level 1) or;

ii. Using internal valuation techniques involving standard mathematical calculation methods integrating observable market data (forward rates, interest rate curves, etc.). Valuations produced by these models are adjusted to take account of a reasonable change in the credit risk of Veolia Group or the counterparty (level 2) or;

iii. Using internal valuation techniques integrating parameters estimated by the Group in the absence of observable market data (level 3).

Quoted prices in an active market (level 1)

When quoted prices in an active market are available they are adopted in priority for the determination of the market value. Marketable securities and certain quoted bond issues are valued in this way.

Fair values determined using models integrating observable market data (level 2)

The majority of derivative instruments (swaps, caps, floors, etc.) are traded over the counter and, as such, there are no quoted prices. Valuations are therefore determined using models commonly used by market participants to value such financial instruments.

Valuations calculated internally in respect of derivative instruments are tested every six months for consistency with valuations issued by our counterparties.

The fair value of unquoted borrowings is calculated by discounting contractual flows at the market rate of interest.

The net carrying amount of receivables and payables falling due within less than one year and certain floating-rate receivables and payables is considered a reasonable estimate of their fair value, due to the short payment and settlement periods applied by the Veolia Group.

The fair value of fixed-rate loans and receivables depends on movements in interest rates and the credit risk of the counterparty.

Valuations produced by these models are adjusted to take account of changes in Veolia Group credit risk.

Fair values determined using models integrating certain non-observable data (level 3)

Derivative instruments valued using internal models integrating certain non-observable data include certain electricity derivative instruments for which there are no quoted prices in an active market (notably for electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials, interest-rate curves, etc.), in particular for distant maturities.

Note 2 Use of management estimates in the application of Group accounting standards

Veolia Environnement may be required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Future results may be different from these estimates.

Underlying estimates and assumptions are determined based on past experience and other factors considered as reasonable given the circumstances. They act as a basis for making judgments necessary to the determination of the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Future values could differ from these estimates.

Underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized in the period the change is made if it affects this period only and in the period the change is made and prior periods if they are also affected by the change.

Accounting estimates underlying the preparation of the accounts were made in an uncertain economic and financial environment (volatile financial markets, government austerity measures, etc.) making economic forecasting more difficult. In this context, the consolidated financial statements for the period were prepared based on the current environment, particularly with respect to the estimates presented below:

Notes 1.5.1 and 4 on goodwill and business combinations present the methods adopted for the fair value measurement of identifiable assets acquired and liabilities assumed in business combinations. Allocations are based on future cash flow assumptions and discount rates.

Notes 1.11, 4 and 19 concern goodwill and non-current asset impairment tests. Group management performed tests based on best forecasts of discounted future cash flows of the activities of the cash-generating units concerned. Sensitivity analyses were also performed on invested capital values and are presented in the aforementioned notes.

Note 1.14 describes the principles adopted for the determination of financial instrument fair values.

Notes 12 and 22 concern deferred tax asset and liability balances and the income tax expense. They present the tax position of the Group and are based, primarily in France and in the United States, on best estimates available to the Group of results of tax audits in progress and trends in future tax results.

Notes 16 and 29 on provisions and the employee benefit obligation detail the provisions recognized by Veolia Environnement. Veolia Environnement determined these provisions based on best estimates of these obligations.

Note 27 on derivative instruments describes the accounting treatment of derivative instruments. Veolia Environnement valued these derivative instruments, allocated them and tested their effectiveness where necessary.

All these estimates are based on organized procedures for the collection of forecast information on future flows, validated by operating management, and on expected market data based on external indicators and used in accordance with consistent and documented methodologies.

The following calculation method was adopted for discount rates:

- Application of IAS 36, *Impairment of assets*: in accordance with Group practice, the discount rates used correspond to the weighted-average cost of capital, calculated annually at the end of the first half-year. A specific risk premium is included in the calculation of the weighted average cost of capital of entities located in countries outside the euro zone and the following countries on the periphery of the euro zone: Belgium, Spain, Ireland, Italy, Portugal, Slovakia and Slovenia;
- Application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*: the discount rates used consist of a risk-free interest rate and a risk premium specific to the underlying assets and liabilities;
- Application of IAS 19, *Employee Benefits*: commitments were measured using a range of market indices and, in particular the Iboxx index, and data provided by actuaries. The same method was used year-on-year.

Note 3 Significant events

3.1 Economic and operating context

At the end of 2011, the Group launched a major transformation plan to adapt the Group to changes in its markets and a profoundly different economic environment. This plan encompasses the refocusing of the asset portfolio, a major divestiture program, debt reduction, optimization of the organizational structure and cost reduction.

Economic and operating context of the businesses

2012 activity levels were primarily marked by:

- a favorable price indexation environment in France which offset the impact of contractual erosion in the Water Division and business growth with industrial clients in the Technologies and Networks business;
- a challenging macro-economic environment in the Environmental Services Division, primarily reflected by a decline in recycled raw material prices from the second quarter and a fall in industrial production indices in Europe and the United States, in a context of business cessations particularly in Italy, North Africa and the Middle East;
- rising energy prices in the Energy Services Division in France and adverse regulatory developments in Europe.

Changes in governance

In the first half of 2012, four new directors joined the Veolia Environnement Board of Directors: Mrs. Nathalie Rachou, Mrs. Maryse Aulagnon, Mr. Jacques Aschenbroich and Groupama S.A. represented by Mr. George Ralli.

Mr. Philippe Kourilsky resigned as Chairman of the Research, Innovation and Sustainable Development Committee.

On October 22, 2012, the Board of Directors took due note of the resignation of Mr. Henri Proglio by letter dated October 10, 2012. During its meeting of December 12, 2012, the Board of Directors co-opted Mrs. Marion Guillou as director to replace Mr. Henri Proglio, who resigned. The appointment of Mrs. Marion Guillou will be presented for ratification at the next general shareholders' meeting, scheduled for May 14, 2013.

In addition, the Board of Directors adjusted the composition of its "Accounts and Audit" and "Research, Innovation and Sustainable Development" Committees. Mr. Jacques Aschenbroich (replacing Mr. Pierre André de Chalendar) and Mrs. Nathalie Rachou joined the Accounts and Audit Committee, chaired by Mr. Daniel Bouton. Mrs. Marion Guillou and Mr. Thierry Dassault joined the Research, Innovation and Sustainable Development Committee, now chaired by Mr. Jacques Aschenbroich (replacing Mr. Philippe Kourilsky).

As part of the accelerated implementation of Veolia Environnement's strategic plan, the composition of the Executive Committee was renewed around Antoine Frérot and now comprises:

- François Bertreau, Senior Executive Vice-President and Chief Operating Officer, who took office at the end of 2012;
- Sylvain Boucher, Country Delegate for France;
- Jean-Michel Herrewyn, Senior Executive Vice-President in charge of the Water Division;
- Franck Lacroix, Senior Executive Vice-President in charge of the Energy Division;
- Jean-Marie Lambert, Senior Executive Vice-President in charge of Human Resources;
- Jérôme Le Conte, Senior Executive Vice-President in charge of the Environmental Services Division;
- Helman Le Pas de Sécheval, Senior Executive Vice-President and Chief legal and administration Officer, who took office on September 1, 2012;
- Pierre-François Riolacci, Senior Executive Vice-President and Chief Finance Officer

On November 19, 2012, Mr. François Bertreau was appointed Chief Operating Officer of Veolia Environnement. He will be in charge of implementing the Group's new organizational structure, standardizing its processes and introducing costs-savings measures, in line with the strategy announced by Antoine Frérot in December 2011.

3.2 Changes in the Group structure

Withdrawal from the Transportation business

Together with its co-shareholder, the Caisse des dépôts et consignations, Veolia Environnement continues to prepare its withdrawal from Veolia Transdev: tailoring the industrial strategy, targeted balance sheet structure and refinancing strategy.

Accordingly, on March 30, 2012, Veolia Environnement and Caisse des dépôts et consignations signed an agreement for negotiation that envisions the transfer of Veolia Transdev's 66% shareholding in SNCM to Veolia Environnement, along with the rights and obligations attached to this shareholding. This agreement defines the main terms and conditions of the proposed transaction, including the repurchase, by Veolia Environnement, of the shares in SNCM for a consideration of €1.

On October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations signed a new agreement for negotiation aimed at strengthening the financial structure of Veolia Transdev and providing it with the necessary resources to pursue its strategic development. Under the definitive agreement to be concluded, the Caisse des dépôts et consignations and Veolia Environnement would subscribe to a €800 million share capital increase by conversion of existing shareholder loans. Following this transaction, the Caisse des dépôts et consignations would hold 60% of the share capital of Veolia Transdev and would take exclusive control of that company. Veolia Environnement would retain a 40% shareholding. The agreement also provides for asset disposals by Veolia Transdev in order to repay the Veolia Environnement shareholder loan.

Concomitant to the signature of the agreement for negotiation on October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations agreed to negotiate in good faith a decrease in Veolia Environnement's stake in Veolia Transdev to 20%, through the purchase by Caisse des dépôts et consignations of Veolia Transdev shares held by Veolia Environnement within a period of two years from the completion of the above transaction.

Consequently, progress with the Group's withdrawal from the Transportation business is reflected as of December 31, 2012 by:

- the retention of Veolia Transdev activities excluding SNCM (Group share) in discontinued operations;
- adjustments to the value of Veolia Transdev's assets and liabilities, excluding SNCM, based on the reference value mentioned in the above agreement for negociation of €400 million (100%);and
- the reclassification of the activities of the SNCM sub-group in continuing operations.

Divestitures

Industrial and financial divestitures (including issues of share capital subscribed by non-controlling interests and transactions with non-controlling interests where there is no change in control) amounted to a total enterprise value of €5,099 million in the year-ended December 31, 2012.

The two main divestitures were:

- On June 28, 2012, the Group completed the sale by Veolia Water UK, a wholly-owned subsidiary of Veolia Environnement, to Rift Acquisitions Limited, of its regulated Water activities in the United Kingdom, based on an enterprise value of £1.2 billion (€1.5 billion). The transaction reduced Veolia Environnement's net financial debt by approximately €1,517 million. Following its completion, Veolia Environnement retained all its non-regulated water business and acquired a 10% stake in the investment fund, Affinity Water A (formerly Rift Acquisition Ltd), for a period of at least 5 years. This 10% stake is accounted for under the equity method since June 30, 2012. The operation generated a capital gain of €233.3 million, net of transaction costs, recognized in discontinued operations;

- On July 19, 2012, the Group announced the signature of an agreement between its subsidiary Veolia Environmental Services North America and Star Atlantic Waste Holding LP, a subsidiary of the U.S. infrastructure fund manager, Highstar Capital, for the sale of its solid waste business in the United States. The transaction was completed on November 20, 2012 based on a enterprise value of USD 1.9 billion (approximately €1.5 billion at the signature date exchange rate). This transaction was reflected by a reduction in Group net financial debt of approximately €1,464 million and recognition of a gain on disposal, net of tax and transaction costs, of €208.4 million, recorded in net income from discontinued operations.

Following the buyout by the Land of Berlin of RWE minority interests in BWB, the Berlin water contract operating company, changes to the governance structure led to a change in the consolidation method and a reduction in Group net financial debt of approximately €1.4 billion.

The Group also performed a number of smaller businesses divestitures under the restructuring program, contributing €516 million to the reduction in Group net financial debt.

Restructuring of Italian activities

Italy- Water Division

The voluntary liquidation of the subsidiary, SORICAL (Societa Risorse Idriche Calabresi S.P.A.), was acknowledged by the Extraordinary Shareholders' Meeting of July 9, 2012. As a result, two independent liquidators were appointed and the Board of Directors of that entity resigned. The two liquidators are now fully and exclusively responsible for the management of the company. Accordingly, this company was removed from the Group's scope of consolidation as of December 31, 2012. As of December 31, 2012, the financial statements reflect the consequences of the deconsolidation (without divestiture) of the assets and liabilities of Sorical and particularly the removal of net financial debt of €69.2 million.

Italy- Environmental Services Division

On February 10, 2012, a voluntary liquidation plan, known as a "Concordato Preventivo", was filed in relation to Termo Energia Calabria ("TEC") (a subsidiary owned by Veolia Propreté through Veolia Servizi Ambientali Tecnitalia S.p.a ("VSAT") and specializing in waste incineration in Calabria) with the La Spezia Civil Court in Italy. On February 23, 2012, the plan was admitted by the Court.

As creditors of other companies of the VSAT group have also launched judicial procedures for debt recovery, a request for a group voluntary liquidation plan, i.e., a "*Concordato Preventivo di Grupo*" ("CPG"), was filed on April 18, 2012, with the La Spezia Civil Court in relation to the VSAT group, which includes TEC. From the date of admission, TEC is part of the CPG.

Following revocation of the CPG of April 18, 2012, a new CPG was filed on September 17, 2012 and admitted on December 5, 2012. If the majority of creditors vote in favor of the CPG, the Court could approve the CPG in the Spring of 2013. If the vote of the creditors is not favorable or if the Court does not approve the CPG, two options may arise:

- another request for CPG will be filed; or
- VSAT and its subsidiaries will be liquidated.

These events did not have a material financial impact on the consolidated financial statements for the year ended December 31, 2012 (see Note 36).

Italy- Energy Services Division

The Group decided to step-up the restructuring of its activities in Italy launched in 2011, mainly following the enactment in the summer of 2012 of two new laws imposing:

- a reduction in the price of services sold under current public contracts, and
- the capping of current contract prices in line with CONSIP benchmark prices (State central purchasing agency).

After buying out minority interests in the Telecoms business in the first half of 2012 and the departure of around 60 employees in this entity alone, the restructuring of Siram was continued. At the time of the enactment of the new laws in the summer of 2012, Siram launched a vast restructuring plan, primarily encompassing a second wave of redundancies concerning over 500 employees. These measures were launched in November and December 2012.

The recovery in the receivables securitization market in the last quarter of the year enabled the assignment of over €170 million of receivables at the year end.

By adapting the production tool, significantly restructuring Siram and focusing the sales teams' efforts on growth markets, business activity was stabilized. These efforts will be continued in 2013.

Other changes in Group structure

Berlin Water

(i) Governance

On October 25, 2012, the Berlin parliament adopted a resolution concerning the purchase of RVB shares by the *Land* of Berlin from RWE. The transfer of shares between RWE and the *Land* of Berlin was completed on October 30, 2012, leading to:

- The loss of joint control exercised by the group over the RVB/BWB entity: the *Land* of Berlin now owns 75.05% of BWB (the Berlin water management company) and obtained new appointment rights within the governance bodies, conferring on it financial and operating control of these entities. Veolia Environnement nonetheless retains significant influence through its presence in these same bodies;
- The accounting by equity method of the Group's shareholding with effect from October 31, 2012 and a decrease in its adjusted operating cash flow of €31 million for the two months of November and December 2011;
- A reduction in Group net financial debt of approximately €1.4 billion.

(ii) German Federal Cartel Office

On June 5, 2012, the German Federal Cartel Office (FCO) issued a final decision, ordering a decrease in BWB's average annual proceeds per cubic meter generated from the sale of drinking water to end customers of 17 to 18% as compared with 2011 (reference year), for the next four years. BWB initiated proceedings on the merits before the Court of Appeal of Düsseldorf on June 11, 2012. This decrease for 2012 will be implemented through the issuance of accrued credit notes to users at the time of invoicing.

As of December 31, 2012, the decrease in Berlin drinking water tariffs ordered by the German Federal Cartel Office contributed to the downturn in the revenue and performance of the Water Division in Germany, with a €24.5 million impact on adjusted operating cash flow.

The Group is not currently in a position to assess the full consequences of these legal proceedings on its financial position or future results.

Acquisitions

In January 2012, the Group purchased 6.9% of Veolia Voda, in the Czech Republic, from the EBRD for an enterprise value of €79 million.

On June 4, 2012, following the meeting of the Azaliya Board of Directors, Mubadala and Veolia Eau signed a Share Purchase Agreement for the sale to Veolia Water of the Azaliya shares held by Mubadala at an enterprise value of €247 million (see Note 30.1).

The transaction was completed on August 2, 2012, bringing Veolia's interest in Azaliya to 100%. The completion of this transaction triggered the termination of all agreements between Mubadala and Veolia Eau and particularly the Azaliya shareholders' agreement.

Following completion of the transaction the Group launched the divesture process for Water activities in Morocco and a letter of intent was signed in the third-quarter of 2012. In view of progress achieved with the divestiture process as of December 31, 2012, Water Division entities in Morocco were classified in discontinued operations.

3.3 Group financing policy

Early redemption of U.S. private placements

On January 9, 2012, Veolia Environnement sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, 2012, for a euro-equivalent of €350.2 million.

Bond exchange

Between March 19 and March 27, 2012, Veolia Environnement refinanced by early redemption a portion of the Company's bonds maturing in 2013, 2014, 2017 and 2018 for an amount of €750 million. At the same time, the Company issued a new bond maturing in 2027 for the same amount. This operation enabled the Group to increase the maturity of its debt and smooth the redemption schedule, without significantly impacting net finance cost.

Bond issue in China

On June 26, 2012, as part of its EMTN program, Veolia Environnement issued a new bond line of CNY500 million (€63.3 million at the settlement date) maturing in June 2017, to finance the requirements of its subsidiaries in China.

Early reversal of a portion of the swap portfolio

In July and August, given the historically low mid-term interest rates, the Group launched the unwinding of a portion of its swap portfolio of euro-denominated floating-rate payer swaps. These swaps were classified as fair value swaps hedging Veolia Environnement bond issues. Balancing amounts paid by the banks totaled €420 million and concerned notional amounts of €3,075 million.

Partial buy-back of USD and euro-denominated bond lines

During the fourth quarter of 2012, Group transactions concerned the full buy back of the USD 50 million (€38.8 million at the transaction date) private placement under the EMTN program, paying a coupon of 4.685% and maturing in June 2015, the partial buy back in the amount of €341 million of the euro-denominated bond paying a coupon of 4.0% and maturing in February 2016, the partial buy back in the amount of €256 million of the euro-denominated bond paying a coupon of 4.375% and maturing in January 2017 and the partial buy back in the amount of USD 153 million (€116.1 million at the transaction date) of the U.S. dollar-denominated bond paying a coupon of 6.0% and maturing in June 2018.

The total cost of these transactions was €47 million and is recorded in net finance costs.

Group credit rating

On October 10, 2012, Standard and Poor's confirmed the Group's A-2/BBB+ credit rating but down-graded the outlook from stable to negative.

Dividend payment

Following approval at the General Shareholders' Meeting of May 16, 2012, the Group offered shareholders a choice of payment of the dividend in cash or shares. The share payment option was taken-up for 7% of coupons payable, resulting in the creation of 2,433,889 shares representing approximately 0.468% of share capital and 0.482% of voting rights. Accordingly, the dividend payment in cash totaled €330 million and was paid on, or after June 18, 2012.

3.4 Other significant events

Connex Railroad

On October 17, 2012, several insurance companies that contributed to the compensation fund for victims of the September 2008 rail accident in Chatsworth (California) launched proceedings before the courts of Los Angeles County, California, against Connex Railroad LLC, Connex North America, Inc. and Veolia Transportation Inc, claiming repayment of €132.5 million.

In the Company's opinion, this claim is unfounded and it will seek its dismissal.

EDF lawsuit

On October 22, 2012, EDF filed a lawsuit against Veolia Environnement in the Commercial Court of Paris to obtain the right to own 50% of Dalkia group, a specialist in energy services. The Group highlights that EDF lost its right to increase its ownership in the capital of Dalkia in 2005. Veolia Environnement, which owns 66% of Dalkia's share capital, has always supported its subsidiary, in particular through the financing of its international growth. The Group therefore intends to strongly oppose EDF's demand, which it views as meritless.

Accordingly, the assessment of the level of control exercised by the Company over the Dalkia sub-group and its consolidation method are not affected by this lawsuit.

Note 4 Goodwill

4.1 Movements in goodwill

Goodwill breaks down as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Gross	5,679.2	6,677.4	7,362.8
Accumulated impairment losses	(884.2)	(881.5)	(522.6)
NET	**4,795.0**	**5,795.9**	**6,840.2**

The main goodwill balances in net carrying amount by cash-generating unit (amounts in excess of €200 million) are as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Water – Distribution France	868.9	865.5	865.4
Environmental Services - United Kingdom	764.0	734.3	712.0
Environmental Services – Germany	405.0	409.1	402.1
Dalkia France	337.8	337.8	337.8
Water – China	287.6	289.8	268.0
Water Solutions & Technologies	304.7	289.7	293.9
Environmental Services – France	258.6	257.3	235.6
Water – Czech Republic	233.1	227.5	230.5
Goodwill balances > €200 million as of December 31, 2012	**3,459.7**	**3,411.0**	**3,345.3**
Water - United Kingdom	-	241.5	239.6
Environmental Services - North America Solid Waste	0.9	660.1	635.6
Goodwill balances > €200 million on divestitures during fiscal year 2012	**3,460.6**	**4,312.6**	**4,220.5**
Transportation goodwill	-	-	**549.0**
Other goodwill balances < €200 million	1,334.4	1,483.3	2,070.7
TOTAL GOODWILL	**4,795.0**	**5,795.9**	**6,840.2**

Goodwill balances of less than €200 million break down by Division as follows:

Goodwill < €200 million *(€ million)*	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Water	328.0	454.3	510.5
Environmental Services	589.8	592.4	706.0
Energy Services	405.8	406.0	823.8
Other	10.8	30.6	30.4
TOTAL	**1,334.4**	**1,483.3**	**2,070.7**

As of December 31, 2012, accumulated impairment losses total €884.2 million and mainly concerned goodwill of the "Environmental Services - Germany" cash-generating unit (€343.0 million), the "Environmental Services – Italy" cash-generating unit (€66.3 million), the "Energy Services – Italy" cash-generating unit (€193.8 million), the "Energy Services – United States" cash-generating unit (€161.5 million) and the "Water - United Kingdom" cash-generating unit (€56.3 million).

Movements in the net carrying amount of goodwill by Division are as follows:

(€ million)	As of December 31, 2011	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Water	2,368.3	(255.5)	8.5	(97.1)	(1.3)	(0.6)	**2,022.3**
Environmental Services	2,653.2	(648.1)	25.5	(12.9)	0.1	0.5	**2,018.3**
Energy Services	743.8	0.7	13.8	(27.5)	12.8	-	**743.6**
Other	30.6	(6.5)	(0.2)	(43.2)	30.3	(0.2)	**10.8**
GOODWILL	5,795.9	(909.4)	47.6	(180.7)	41.9	(0.3)	**4,795.0**

Changes in consolidation scope primarily concern the acquisition of control of Azaliya (+€58.6 million), the divestiture of regulated Water activities in the United Kingdom (-€192.8 million) and of solid waste activities in the United States (-€666.2 million) and the change in consolidation method of Berlin Water activities following the loss of joint control of the RVB/BWB entity (-€134.5 million), presented in Note 3.2.

Foreign exchange translation gains and losses are primarily due to movements in the U.S. dollar, the pound sterling, the Chinese renminbi yuan, the Polish zloty and the Czech crown against the euro in the amount of €3.6 million, €27.1 million, -€2.3 million, €13.1 million and €7.6 million, respectively.

Transfers to Assets classified as held for sale mainly concern the transfer of assets of Water activities in Morocco following the reclassification of this entity to discontinued operations as of December 31, 2012.

Impairment losses recognized in the year total -€180.7 million, including -€95.1 million transferred to net income (loss) from discontinued operations and -€85.6 million presented in operating income. A detailed breakdown is provided in Note 19.

Impairment losses transferred to net income (loss) from discontinued operations mainly concern Water activities in Morocco (-€40.8 million), and European wind energy activities (-€23.2 million).

Recap: Movements in the net carrying amount of goodwill during 2011 are as follows:

(€ million)	As of December 31, 2010	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Water	2,408.0	(19.2)	24.3	(58.6)	13.0	0.8	**2,368.3**
Environmental Services	2,691.2	(3.2)	45.9	(78.1)	(3.3)	0.7	**2,653.2**
Energy Services	1,161.6	(12.1)	(26.7)	(366.1)	(12.9)	-	**743.8**
Transportation	549.0	173.9	0.8	(440.0)	(283.9)	0.2	**0.0**
o/w Veolia Transdev	-	717.5	6.2	(440.0)	(283.9)	0.2	-
o/w Veolia Transport	549.0	(543.6)	(5.4)	-	-	-	-
Other	30.4	-	0.2	-	-	-	**30.6**
GOODWILL	**6,840.2**	**139.4**	**44.5**	**(942.8)**	**(287.1)**	**1.7**	**5,795.9**

Changes in consolidation scope primarily concern the disposal of Veolia Transport (-€543.6 million), the acquisition of joint control of the Veolia Transdev joint venture (€730.0 million) and the disposal of Transportation activities in Norway (-€20.9 million).

Acquisitions during the year are presented in Note 30.2, Main acquisitions, and primarily concern the acquisition of SPEC by the Energy Services Division.

Foreign exchange translation gains and losses are primarily due to movements in the U.S. dollar, the pound sterling and the Chinese renminbi yuan and the depreciation of the Polish zloty against the euro in the amount of €22.3 million, €31.2 million, €23.1 million and -€15.3 million, respectively.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified to discontinued operations (€283.9 million).

Impairment losses recognized in the year total -€942.8 million, including -€440 million in respect of Veolia Transdev transferred to net income (loss) from discontinued operations (see Note 23) and -€502.8 million presented in operating income. A detailed breakdown is provided in Note 19.

Recap: Movements in the net carrying amount of goodwill during 2010 are as follows:

(€ million)	As of December 31, 2009	Changes in consolidation scope	Foreign exchange translation	Impairment losses	Transfers to Assets classified as held for sale	Other	As of December 31, 2010
Water	2,253.3	89.5	72.7	0.4	(13.0)	5.1	2,408.0
Environmental Services	2,678.4	(2.9)	104.0	(0.2)	(84.8)	(3.3)	2,691.2
Energy Services	1,147.9	17.5	25.2	-	(28.9)	(0.1)	1,161.6
Transportation	537.6	7.9	33.0	(26.1)	(3.3)	(0.1)	549.0
Other	7.4	-	0.6	-	32.2	(9.8)	30.4
GOODWILL	**6,624.6**	**112.0**	**235.5**	**(25.9)**	**(97.8)**	**(8.2)**	**6,840.2**

Changes in consolidation scope primarily concern the following acquisitions and divestitures:

- Water Division: the redistribution of companies previously held jointly with Suez Environnement (€64.3 million) and the acquisition of certain United Utilities Group businesses (€16 million);
- Energy Services Division: the acquisition of New World Resources Energy (NWR Energy) (€24.1 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the U.S. dollar, the pound sterling, the Chinese renminbi yuan and the Australian dollar against the euro in the amount of €80.8 million, €30.9 million, €29.4 million and €22.6 million, respectively.

Transfers to Assets classified as held for sale mainly concern Environmental Services Division assets in Norway classified as held for sale in the amount of -€84.5 million and the impact of the interruption of the divestiture process for Renewable Energy activities in the amount of €32.2 million.

Impairment losses recognized in the year total -€25.9 million and mainly concern the Transportation Division.

4.2 Impairment tests

Veolia Environnement performs systematic annual impairment tests in respect of goodwill and other intangible assets with an indefinite useful life. More frequent tests are performed where there is indication that the cash-generating unit may have suffered a loss in value, in accordance with the procedures set out in Note 1.11.

Veolia Environnement Group has 71 cash-generating units as of December 31, 2012, including 26 cash-generating units with allocated goodwill in excess of €20 million (excluding the Transportation business).

Key assumptions underlying the determination of recoverable amounts

The calculation basis for recoverable amounts is presented in Note 1.11.

Changes in the economic and financial context, as well as changes in the competitive or regulatory environment may impact estimates of recoverable amounts, as may unforeseen changes in the political, economic or legal systems of certain countries.

Cash flow projections in the long-term plan reflect changes in volumes, prices, direct costs and investment in the period, determined based on contracts and activities and in line with past data and expected changes over the period covered by the long-term plan.

Other assumptions influencing the determination of recoverable amounts are the discount rate and the perpetual growth rate:

Discount rates and perpetual growth rates used to determine terminal values, reflect the country or geographical area of the cash-generating unit, in accordance with the criteria set out in Notes 1.11 and 2.

The assumptions underlying the impairment tests on Group cash-generating units with material goodwill balances are as follows:

Cash generating unit	Geographic area	Recoverable amount determination method	Discount rate	Perpetual growth rate
Water - Distribution France	France	Value in use	6.80%	1.90%
Environmentak Services - United Kingdom	UK	Value in use	6.00%	2.00%
Environment Services - Germany	Germany	Value in use	6.80%	2.00%
Water - China	China	Value in use	7.70%	3.00%
Water - Czech Republic	Czech Republic	Value in use	7.30%	2.00%

As at the prior year-end, impairment tests were performed based on the 2013 budget for all Group cash-generating units: a reduction in cash flows in the 2013 budget prepared at the end of 2012, of over 10% compared with 2013 figures in the long-term plan, or any other indication of loss in value relating to the operating activities of the CGU, led the Group to review its business plans for the following cash-generating unit: Environmental Services - Poland.

Impairment tests and the fair value remeasurement of assets and liabilities held for sale, led to the recognition of impairment of €180.7 million in 2012 and primarily in:

- The Energy Services Division in Estonia (€12.7 million);
- The Environmental Services Division in other European countries (€12.9 million);
- The Water Division in the United Kingdom (€56.6 million) and Morocco (€40.8 million);
- "Other Segments" in respect of renewable energy activities (€23.2 million).

A breakdown of the main impairment losses is presented in Note 19.

Sensitivity of recoverable amounts

Recoverable amounts determined for impairment testing purposes were tested for their sensitivity to a 1% increase in discount rates, a 1% decrease in perpetual growth rates and a 5% decrease in operating cash flows.

The changes in operating cash flows taken into account for the purpose of these sensitivity tests include operating cash flow before changes in working capital as defined in Note 40, less investments net of divestitures as defined in Note 1.11, plus changes in working capital. They also include the impact of Efficiency and Convergence plans launched by each cash-generating unit at the date of preparation of the long-term plan.

These assumptions are considered reasonable given the Group's activities and the geographic areas of its operations.

For a certain number of cash-generating units, these tests led to the identification of recoverable amounts lower than the net carrying amount of the cash-generating unit, adjusted where appropriate for impairments recognized during the period:

(€ million)			Difference between the recoverable amount and the net carrying amount			
Cash-generating unit	Net carrying amount	*o/w goodwill*	Difference between the recoverable amount and the net carrying amount	Difference between the recoverable amount and the net carrying amount, with an increase in the discount rate (1%)	Difference between the recoverable amount and the net carrying amount, with a decrease in the perpetual growth rate (1%)	Difference between the recoverable amount and the net carrying amount, with a decrease in operating cash flows (5%)
Water - France	1,300.7	868.9	313.0	(17.2)	40.5	222.5
Environment Services Germany	715.2	405.0	40.2	(95.1)	(70.6)	(4.3)
Environment Services Poland	52.0	18.6	2.4	(6.6)	(4.6)	(0.7)
Total	**2,067.9**	**1,292.5**	**355.6**	**(118.9)**	**(34.7)**	**217.5**

The following table presents the percentage change in each of the key assumptions taken individually, which equates the estimated recoverable amount with the net carrying amount of the cash-generating units.

(in %)	**Water-France**	**Environmental Services Germany**	**Environmental Services Poland**
Discount rate	+0.94	+0.26	+0.23
Perpetual growth rate	(1.18)	(0.32)	(0.32)
Operating cash flows	(19.32)	(5.32)	(4.34)

Note 5 Concession intangible assets

Movements in the net carrying amount of concession intangible assets during 2012 are as follows:

(€ million)	As of December 31, 2011	Additions	Disposals	Impairment losses	Amortization/ reversals	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Concession intangible assets, gross	6,804.6	549.7	(104.3)	-	-	203.5	(15.1)	(596.2)	24.3	6,866.5
Amortization and impairment losses	(2,175.5)	-	100.6	(58.1)	(340.2)	(42.8)	3.7	167.6	(3.2)	(2,347.9)
CONCESSION INTANGIBLE ASSETS, NET	**4,629.1**	**549.7**	**(3.7)**	**(58.1)**	**(340.2)**	**160.7**	**(11.4)**	**(428.6)**	**21.1**	**4,518.6**

Additions concern the Water Division in the amount of €319.1 million, the Energy Services Division in the amount of €115.0 million and the Environmental Services Division in the amount of €98.0 million.

A breakdown of **impairment losses** recognized in 2012 is presented in Note 19. These mainly concern:

- The Water Division in Morocco (€23.4 million), before reclassification to discontinued operations and in France (€4.4 million);
- The Environmental Services Division in Italy (€17.7 million);
- The Energy Services Division (€10.6 million).

Changes in consolidation scope primarily concern the acquisition of control of Azaliya (+€221.5 million).

Foreign exchange translation gains and losses are primarily due to movements in the Chinese renminbi yuan in the amount of -€13.8 million.

Transfers to Assets classified as held for sale mainly concern the reclassification in "Assets classified as held for sale" of Water activities in Morocco (-€432.0 million) in the course of divestiture.

Concession intangible assets break down by Division as follows:

	As of December 31, 2012			Net carrying amount as of December 31, 2011	Net carrying amount as of December 31, 2010
(€ million)	Gross carrying amount	Amortization and impairment losses	Net carrying amount		
Water	4,828.5	(1,462.3)	3,366.2	3,567.7	3,196.8
Environmental Services	888.6	(391.0)	497.6	398.4	385.5
Energy Services	1,038.9	(461.5)	577.4	593.8	513.1
Other	110.5	(33.1)	77.4	69.2	69.2
CONCESSION INTANGIBLE ASSETS	**6,866.5**	**(2,347.9)**	**4,518.6**	**4,629.1**	**4,164.6**

Recap: Movements in the net carrying amount of concession intangible assets during 2011 are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Impairment losses	Amortization/ reversals	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Concession intangible assets, gross	5,851.0	620.7	(51.3)	-	-	(28.7)	167.5	272.0	(26.6)	6,804.6
Amortization and impairment losses	(1,686.4)	-	39.7	(146.3)	(292.6)	6.4	(20.4)	(116.8)	40.9	(2,175.5)
CONCESSION INTANGIBLE ASSETS, NET	**4,164.6**	**620.7**	**(11.6)**	**(146.3)**	**(292.6)**	**(22.3)**	**147.1**	**155.2**	**14.3**	**4,629.1**

Additions concern the Water Division in the amount of €315.8 million, the Energy Services Division in the amount of €146.9 million and the Environmental Services Division in the amount of €127.4 million.

A breakdown of **impairment losses** recognized in 2011 is presented in Note 19. These mainly concern:

- The Environmental Services Division in Italy (-€91.1 million) and France (-€12.1 million);
- The Water Division in Italy (-€22.6 million);
- The Energy Services Division in France (-€13.2 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the Chinese renminbi yuan against the euro in the amount of €134.9 million.

Transfers to Assets classified as held for sale mainly concern the reclassification out of "Assets classified as held for sale" of the assets of Water Division activities in Gabon (+€175.8 million) following the decision to interrupt the divestiture process and the assets of the Veolia Transdev group reclassified to discontinued operations on December 6, 2011(-€13.2 million, see Note 23).

Note 6 Other intangible assets

Other intangible assets break down as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**14.9**	**14.7**	**76.2**
Intangible assets with an definite useful life, gross	3,269.8	3,426.9	3,549.4
Amortization and impairment losses	(2,141.8)	(2,160.8)	(2,119.8)
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,128.0**	**1,266.1**	**1,429.6**
OTHER INTANGIBLE ASSETS, NET	**1,142.9**	**1,280.8**	**1,505.8**

Movements in the net carrying amount of other intangible assets during **2012** are as follows:

(€ million)	As of December 31, 2011	Additions	Disposals	Impairment losses	Amortization	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**14.7**	**0.7**	**-**	**(0.8)**	**-**	**3.4**	**(1.2)**	**(28.8)**	**26.9**	**14.9**
Entry fees paid to local authorities	401.7	11.9	(0.4)	(0.2)	(59.7)	2.9	(0.3)	(6.6)	1.0	350.3
Purchased contractual rights	288.2	-	0.7	(11.4)	(23.9)	49.0	1.4	(46.2)	3.2	261.0
Purchased software	142.3	72.8	(0.6)	(1,7)	(52.8)	0.4	(0.8)	0.9	(1.2)	159.3
Purchased customer portfolios	67.9	1.4	-	-	(8.1)	6.7	(1.9)	(10.5)	(3.2)	52.3
Other purchased intangible assets	185.2	14.1	(1.1)	(14.6)	(17.3)	(18.9)	0.3	23.6	(19.9)	151.4
Other internally-developed intangible assets	180.8	26.6	(0.2)	(8.0)	(41.5)	(1.1)	(0.2)	0.4	(3.1)	153.7
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,266.1**	**126.8**	**(1.6)**	**(35.9)**	**(203.3)**	**39.0**	**(1.5)**	**(38.4)**	**(23.2)**	**1,128.0**
OTHER INTANGIBLE ASSETS	**1,280.8**	**127.5**	**(1.6)**	**(36.7)**	**(203.3)**	**42.4**	**(2.7)**	**(67.2)**	**3.7**	**1,142.9**

Intangible assets with an indefinite useful life are primarily trademarks.

Entry fees paid to local authorities in respect of public service contracts total €350.3 million as of December 31, 2012, including €345.8 million for the Water Division. The amortization of entry fees paid at the beginning of concession arrangements, calculated over the contract term, totaled €59.7 million in 2012, including €59.2 million for the Water Division.

Additions mainly concern client IT projects in the Water Division (€20.4 million) and investment in operating and decision-making software in the Energy Services Division (€14.8 million).

A breakdown of the main **impairment losses** recognized in 2012 is presented in Note 19. These primarily concern the Energy Services Division (€20.3 million) and the Environmental Services Division (€9.1 million).

Changes in consolidation scope primarily concern the acquisition of control of Azaliya (€54.9 million) and the divestiture of solid waste activities in the United States (-€13.6 million).

Transfers to Assets classified as held for sale mainly concern the reclassification in "Assets classified as held for sale" of Water activities in Morocco (-€19.7 million) in the course of divestiture and Veolia Transdev (-€58.0 million).

Recap: Movements in the net carrying amount of other intangible assets during 2011 are as follows:

(€ million)	**As of December 31, 2010**	**Additions**	**Disposals**	**Impairment losses**	**Amortization**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2011**
INTANGIBLE ASSETS WITH AN INDEFINITE USEFUL LIFE, NET	**76.2**	**1.7**	**(0.4)**	**(0.7)**	**-**	**(8.6)**	**1.8**	**(55.6)**	**0.3**	**14.7**
Entry fees paid to local authorities	451.3	3.6	(0.5)	(8.4)	(57.1)	(0.2)	6.6	10.1	(3.7)	**401.7**
Purchased contractual rights	382.3	0.2	0.1	(51.8)	(34.8)	(56.4)	0.4	38.7	9.5	**288.2**
Purchased software	138.9	65.3	(1.1)	0.4	(50.8)	(3.6)	1.2	(20.0)	12.0	**142.3**
Purchased customer portfolios	75.2	-	(0.1)	(5.4)	(25.9)	108.1	3.6	(88.3)	0.7	**67.9**
Other purchased intangible assets	188.2	13.2	(2.1)	(2.1)	(23.3)	51.2	2.5	(37.9)	(4.5)	**185.2**
Other internally-developed intangible assets	193.7	29.0	2.3	(0.4)	(34.4)	(14.4)	0.7	(9.0)	13.3	**180.8**
INTANGIBLE ASSETS WITH A DEFINITE USEFUL LIFE, NET	**1,429.6**	**111.3**	**(1.4)**	**(67.7)**	**(226.3)**	**84.7**	**15.0**	**(106.4)**	**27.3**	**1,266.1**
OTHER INTANGIBLE ASSETS	**1,505.8**	**113.0**	**(1.8)**	**(68.4)**	**(226.3)**	**76.1**	**16.8**	**(162.0)**	**27.6**	**1,280.8**

Intangible assets with an indefinite useful life are primarily trademarks.

Entry fees paid to local authorities in respect of public service contracts total €401.7 million as of December 31, 2011, including €397.1 million for the Water Division. The amortization of entry fees paid at the beginning of concession arrangements, calculated over the contract term, totaled -€57.1 million in 2011, including -€56.5 million for the Water Division.

A breakdown of the main **impairment losses** recognized in 2011 is presented in Note 19. These primarily concern the Water Division in Morocco (€21.8 million), Italy (€30 million) and Portugal (€8.3 million).

Changes in consolidation scope primarily concern the Veolia Transdev combination (€34.5 million, see Note 23) and external growth in the Environmental Services Division (€33.3 million).

Transfers to Assets classified as held for sale mainly concern the Veolia Transdev group reclassified to discontinued operations (-€161.9 million, see Note 23).

Note 7 Property, plant and equipment

Movements in the net carrying amount of property, plant and equipment during **2012** are as follows:

(€ million)	As of December 31, 2011	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Property, plant and equipment, gross	18,673.2	1,720.9	(786.0)	-	-	(3,903.0)	281.5	386.7	156.5	16,529.8
Depreciation and impairment losses	(10,184.9)	-	618.3	(127.9)	(1,108.3)	1,650.0	(143.9)	(323.6)	(71.6)	(9,691.9)
PROPERTY, PLANT AND EQUIPMENT, NET	**8,488.3**	**1,720.9**	**(167.7)**	**(127.9)**	**(1,108.3)**	**(2,253.0)**	**137.6**	**63.1**	**84.9**	**6,837.9**

Additions mainly concern the Water Division in the amount of €235.7 million, the Environmental Services Division in the amount of €621.8 million, the Energy Services Division in the amount of €430.2 million and Other segments in the amount of €433.1 million.

Disposals, net of impairment losses and depreciation of -€167.7 million, mainly concern the Water Division in the amount of -€33.3 million, the Environmental Services Division in the amount of -€53.1 million, the Energy Services Division in the amount of -€22.8 million and Other segments in the amount of -€58.4 million.

A breakdown of the main **impairment losses** recognized in 2012 is presented in Note 19. These mainly concern the Environmental Services Division in the United Kingdom (-€17.7 million) and the United States (-€36.7 million) and SNCM (-€35.0 million).

Foreign exchange translation gains and losses are primarily due to the appreciation of the pound sterling against the euro in the amount of €68.4 million and the polish zloty in the amount of €73.2 million.

Changes in consolidation scope mainly concern the divestiture of regulated Water activities in the United Kingdom (-€1,250.9 million), solid waste activities in the United States (-€673.5 million) and American wind energy activities (-€181.8 million).

Transfers to Assets classified as held for sale mainly concern Water activities in Morocco (-€12.3 million) and wind energy activities (-€2.9 million) in line with the reclassification to discontinued operations of these activities as of December 31, 2012 and SNCM activities (€90.6 million) with respect to their reclassification to continuing operations since January 1st, 2012.

Other movements mainly concern:

- The Environmental Services Division for €40.7 million, in respect of the discounting of provisions for site rehabilitation (€33.7 million);
- The Energy Services Division for €43.8 million in respect of the reclassification of Harbin connection rights (€26.1 million) in deferred income.

Property, plant and equipment break down by Division as follows:

(€ million)	As of December 31, 2012			Net carrying amount as of December 31, 2011	Net carrying amount as of December 31, 2010
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount		
Water	2,835.8	(1,775.2)	1,060.6	2,264.9	2,289.6
Environmental Services	8,238.9	(5,360.8)	2,878.1	3,596.0	3,606.6
Energy Services	4,621.1	(1,943.8)	2,677.3	2,436.3	2,023.5
Other	834.0	(612.1)	221.9	191.1	1,783.6
PROPERTY, PLANT AND EQUIPMENT	**16,529.8**	**(9,691.9)**	**6,837.9**	**8,488.3**	**9,703.3**

The breakdown of property, plant and equipment by class of assets is as follows:

(€ million)	As of December 31, 2012			Net carrying Amount as of December 31, 2011	Net carrying Amount as of December 31, 2010
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount		
Land	1,089.2	(518.4)	570.8	916.3	914.7
Buildings	2,784.5	(1,440.2)	1,344.3	1,567.0	1,645.4
Technical installations, plant and equipment	8,031.3	(4,620.3)	3,411.0	4,262.1	4,179.5
Travelling systems and other vehicles	2,247.1	(1,728.7)	518.4	625.0	1,956.5
Other property, plant and equipment	1,732.6	(1,380.7)	351.9	498.9	545.6
Property, plant and equipment in progress	645.1	(3.6)	641.5	619.0	461.6
PROPERTY, PLANT AND EQUIPMENT	**16,529.8**	**(9,691.9)**	**6,837.9**	**8,488.3**	**9,703.3**

The decrease in "Land" is due to the divestiture of solid waste activities in the United States in the Environmental Services Division in the amount of €357.2 million.

The decrease in "Technical installations, plant and equipment" is due to the divestiture of regulated Water activities in the United Kingdom in the amount of €911.3 million, the divestiture of Eolfi American activities in the amount of €181.8 million and the divestiture of solid waste activities in the United States in the amount of €110.8 million.

Recap: Movements in the net carrying amount of property, plant and equipment during 2011 are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Impairment losses	Depreciation	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Property, plant and equipment, gross	21,116.1	1,581.6	(769.8)	-	-	(777.8)	45.7	(2,447.4)	(75.2)	**18,673.2**
Depreciation and impairment losses	(11,412.8)	-	662.0	(103.9)	(1,250.0)	545.7	(17.1)	1,376.1	15.1	**(10,184.9)**
PROPERTY, PLANT AND EQUIPMENT, NET	**9,703.3**	**1,581.6**	**(107.8)**	**(103.9)**	**(1,250.0)**	**(232.1)**	**28.6**	**(1,071.3)**	**(60.1)**	**8,488.3**

Additions concern the Water Division in the amount of €284.4 million, the Environmental Services Division in the amount of €677.9 million, the Energy Services Division in the amount of €380.7 million and the Transportation business in the amount of €169.0 million.

Disposals, net of impairment losses and depreciation of €107.8 million, mainly concern the Water Division in the amount of €18.4 million, the Environmental Services Division in the amount of €30.2 million and the Transportation Division in the amount of €50.0 million.

A breakdown of the main impairment losses recognized in 2011 is presented in Note 19. These primarily concern the Energy Services Division in Italy (€43.0 million) and the Environmental Services Division in the United States (€26.3 million).

Changes in consolidation scope mainly concern:

- The impact of the Veolia Transdev combination (-€443.5 million, see Note 23);
- The acquisition of SPEC (+€319.0 million);
- The divestiture of Proxiserve (-€62.6 million) and Digismart (-€48.6 million) in the Energy Services Division and activities in Norway (-€21 million) and Morocco (-€14.8 million) in the Transportation business.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified to discontinued operations (-€1,014.2 million, see Note 23), the decision to sell Marine Services activities in the Environmental Services Division (-€80.9 million) and the impact of the interruption of the divestiture process for Water Division activities in Gabon (+€20.3 million).

Other movements include the consequences of the application of IFRIC 12 following the renegotiation of STIF contracts in the Transportation business in the amount of -€71.2 million.

Note 8 Investments in associates

The principal investments in associates with a value of greater than €25 million are as follows:

	As of December 31,								
	% control			Share in equity			Share of net income		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Fovarosi Csatomazasi Muvek	25.00%	25.00%	25.00 %	88.9	80.7	89.6	2.1	1.7	1.0
AFF W A Ltd (4)	10.00%			45.3	-	-	2.2	-	-
Berlin Water	24.95% (6)			44.3 (3)	- (2)	13.3 (1)	4.2	0.5	0.7
Regaz (Gaz de Bordeaux)	24.00%	24.00%	24.00 %	27.7	27.1	27.0	1.5	1.6	4.1
Mayflower	10.00 %	10.00 %	10.00 %	24.5	27.1	26.7	0.9	0.5	0.4
Other investments < €25 million				210.8	190.3	155.1	19.1	7.3	13.1
INVESTMENTS IN ASSOCIATES				**441.5**	**325.2**	**311.7**	**30.0**(5)	**11.7**(5)	**19.3**(5)

(1) Berlinwasser China Holding (BWI) equity accounted in the Berlin Water group, proportionately consolidated

(2) Divestiture of Berlinwasser China Holding (BWI) in 2011

(3) Change in control of the RVB/BVB group (from proportionate consolidation to equity accounting)

(4) Formerly Rift Acquisition Holding Co, entered into the scope of consolidation in 2012 following the divestiture of regulated Water activities

(5) Pursuant to IFRS 5, a portion of this net income is reclassified to Net income from discontinued operations in the amount of €0.6 million in 2011 and -€0.8 million in 2010 (see Note 23)

(6) RVB is held 50% by this group

Movements in investments in associates during **2012** are as follows:

(€ million)	% control as of December 31, 2012	2011	Net income	Dividend distribution	Foreign exchange translation	Changes in consolidation scope	Other	2012
Fovarosi Csatomazasi Muvek	25.00%	80.7	2.1	-	6.1	-	-	88.9
AFF W A Ltd (1)	10.00%	-	2.2	-	(0.9)	44.0	-	45.3
Berlin Water	24.95%	-	4.2	(23.6)	-	64.1	(0.4)	44.3
Regaz (Gaz de Bordeaux)	24.00%	27.1	1.5	(0.9)	-	-	-	27.7
Mayflower	10.00 %	27.1	0.9	(2.8)	(0.5)	-	(0.2)	24.5
Other investments < €25 million		190.3	19.1	(5.7)	(1.8)	10.6	(1.7)	210.8
INVESTMENTS IN ASSOCIATES		**325.2**	**30.0**	**(33.0)**	**2.9**	**118.7**	**(2.3)**	**441.5**

(1) Formerly Rift Acquisition Holding Co, entered into the scope of consolidation in 2012

Changes in consolidation scope mainly reflect the impact of:

- The acquisition of 10% of the investment fund, Affinity Water A (formerly Rift Acquisition Ltd) following the divestiture of regulated Water activities in the United Kingdom (€44 million) on June 28, 2012;
- The equity accounting of Berlin Water from October 31, 2012 (€64.1 million).

Following the transaction between RWE and the *Land* (see Note 3.2), the governance structure of Berlin Water was changed, resulting in the loss of joint control over the RVB/BwB entities by the Group, which retained a significant influence. Consequently, the investment is now recognized in Investments in associates. The Group remeasured its investment to fair value, without a significant impact on the accounts.

The total value of the investment in Berlin Water is €619.9 million as of December 31, 2012, including €44.3 million recognized in "Investments in associates" and €575.6 million recognized in financial receivables.

No material amounts were transferred to Assets classified as held for sale in 2010, 2011 or 2012.

Summarized financial information for the main investments in associates is as follows (100% of amounts):

(€ million)	**As of December 31, 2012**	**As of December 31, 2011**	**As of December 31, 2010**
Non-current assets	6,347.9	746.6	566.2
Current assets	1,731.3	225.7	428.2
TOTAL ASSETS	**8,079.2**	**972.3**	**994.4**
Equity attributable to owners of the Company	2,226.4	697.3	727.9
Equity attributable to non-controlling interests	9.8	9.8	9.8
Net financial debt	4,038.4	-	-
Other liabilities and provisions	1,804.6	265.2	256.7
TOTAL EQUITY AND LIABILITIES	**8,079.2**	**972.3**	**994.4**
INCOME STATEMENT			
Revenue	864.4	448.6	389.1
Operating income	124.6	34.0	40.1
Net income for the year	84.1	18.9	24.8

Recap: Movements in investments in associates during **2011** are as follows:

(€ million)	**% control as of December 31, 2011**	**2010**	**Net income**	**Dividend distribution**	**Foreign exchange translation**	**Changes in consolidation scope**	**Other**	**2011**
Fovarosi Csatomazasi Muvek	25.00%	89.6	1.7	-	(10.6)	-	-	80.7
Regaz (Gaz de Bordeaux)	24.00%	27.0	1.6	(1.5)	-	-	-	27.1
Mayflower	10.00 %	26.7	0.5	(0.9)	0.8	-	-	27.1
Other investments < €25 million		168.4	9.6	(5.1)	(3.2)	38.4	(17.8)	190.3
INVESTMENTS IN ASSOCIATES		**311.7**	**13.4**	**(7.5)**	**(13.0)**	**38.4**	**(17.8)**	**325.2**

Note 9 Non-consolidated investments

In accordance with IAS 39, non-consolidated investments are recognized at fair value. Unrealized gains and losses are recognized directly through other comprehensive income, except for unrealized losses considered long-term or material which are expensed in the Consolidated Income Statement in "Other financial income and expenses" (see Note 21).

Movements in non-consolidated investments during **2012** are as follows:

(€ million)	As of December 31, 2011	Additions	Disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Non-consolidated investments	106.3	11.3	(27.4)	(16.1)	2.4	-	0.5	(1.5)	1.9	77.4

The Group did not hold any investment lines in excess of €20 million as of December 31, 2012.

Recap: Movements in non-consolidated investments during **2011** are as follows:

(€ million)	As of December 31, 2010	Additions	Disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses	Foreign exchange translation	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Non-consolidated investments	130.7	25.6	(17.9)	(2.3)	(1.6)	(4.3)	0.7	(18.2)	(6.4)	106.3

Transfers to Assets classified as held for sale mainly concern Veolia Transdev group investments reclassified to discontinued operations (-€17.4 million).

The Group did not hold any investment lines in excess of €20 million as of December 31, 2011.

Note 10 Non-current and current operating financial assets

Operating financial assets comprise financial assets resulting from the application of IFRIC 12 on accounting for concession arrangements and from the application of IFRIC 4 (see Notes 1.20 and 1.21).

Movements in the net carrying amount of non-current and current operating financial assets during **2012** are as follows:

(€ million)	As of December 31, 2011	New operating financial assets	Repayments / disposals	Impairment losses[1]	Changes in consolidation scope	Foreign exchange translation	Non -current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Gross	5,136.5	422.3	(5.9)	-	(2,463.4)	18.3	(347.7)	(44.3)	(16.8)	2,699.0
Impairment losses	(48.2)			(0.3)		(0.1)		0.3		(48.3)
NON-CURRENT OPERATING FINANCIAL ASSETS	**5,088.3**	**422.3**	**(5.9)**	**(0.3)**	**(2,463.4)**	**18.2**	**(347.7)**	**(44.0)**	**(16.8)**	**2,650.7**
Gross	357.0	1.5	(365.0)		(142.0)	0.9	347.7	4.9	(3.0)	202.0
Impairment losses	-			(3.0)	2.8			0.2	-	-
CURRENT OPERATING FINANCIAL ASSETS	**357.0**	**1.5**	**(365.0)**	**(3.0)**	**(139.2)**	**0.9**	**347.7**	**5.1**	**(3.0)**	**202.0**
NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS	**5,445.3**	**423.8[2]**	**(370.9)**	**(3.3)**	**(2,602.6)**	**19.1**	**-**	**(38.9)**	**(19.8)**	**2,852.7**

(1) Impairment losses are recorded in operating income.

(2) New operating financial assets presented in the Consolidated Cash Flow Statement equal new operating financial assets presented above (€423.8 million), net of the related acquisition debt (€12.1 million as of December 31, 2012)

The principal **new operating financial assets** in 2012 mainly concern:

- The Water Division in the amount of €159.7 million, including investments relating to Berlin Water (€92.2 million), before the change in consolidation method to equity accounting;
- The Energy Services Division in the amount of €201.7 million and in particular cogeneration plants (€130.6 million);
- The Environmental Services Division in the amount of €41.3 million, in particular in the United Kingdom (€32.3 million) and France (€8.5 million).

The principal **repayments and disposals of operating financial assets** in 2012 concern:

- The Water Division in the amount of €197.4 million, and in particular Berlin Water (€122.0 million);
- The Energy Services Division in the amount of €120.1 million and in particular cogeneration plants (€96.4 million);
- The Environmental Services Division in the amount of €30.1 million.

Foreign exchange translation gains and losses on current and non-current operating financial assets mainly concern the Water Division (€7.4 million) and the Environmental Services Division (€9.6 million), primarily due to movements in the Korean won and the pound sterling against the euro.

Non-current/current reclassifications mainly concern:

- The Water Division in the amount of €195.3 million and in particular Berlin Water (€119.4 million);
- The Energy Services Division in the amount of €92.5 million and in particular cogeneration plants (€69.6 million).

Changes in consolidation scope mainly concern:

- The impact of the change in consolidation method of Berlin Water, from proportionate consolidation to equity accounting from October 31, 2012 (-€2,664.7 million);
- The impact of the change in consolidation method of Azaliya and its subsidiaries now fully consolidated from August 2, 2012 (+€63.5 million).

Operating financial assets held by the Group in countries considered high-risk by the IMF are not material in amount.

The breakdown of operating financial assets by Division is as follows:

	As of December 31,								
	Non-current			Current			Total		
(€ million)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Water	**1,379.4**	3,873.9	3,889.2	***80.4***	215.6	197.7	**1,459.8**	4,089.5	4,086.9
Environmental Services	**662.7**	697.4	698.0	***55.4***	51.2	47.2	**718.1**	748.6	745.2
Energy Services	**508.4**	416.0	488.3	***62.6***	86.8	110.0	**571.0**	502.8	598.3
Other	**100.2**	101.0	179.8	***3.6***	3.4	18.4	**103.8**	104.4	198.2
OPERATING FINANCIAL ASSETS	**2,650.7**	**5,088.3**	**5,255.3**	**202.0**	**357.0**	**373.3**	**2,852.7**	**5,445.3**	**5,628.6**

IFRIC 12 operating financial assets maturity schedule:

(€ million)	**1 year**	**2 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Water	36.6	133.9	88.1	661.9	920.5
Environmental Services	53.1	99.0	96.8	443.2	692.1
Energy Services	3.1	4.7	7.6	4.6	20.0
Other	0.6	1.4	2.0	1.3	5.3
TOTAL	**93.4**	**239.0**	**194.5**	**1,111.0**	**1,637.9**

IFRIC 4 operating financial assets maturity schedule:

(€ million)	1 year	2 to 3 years	4 to 5 years	More than 5 years	Total
Water	43.7	96.0	94.1	305.5	539.3
Environmental Services	2.3	5.6	7.1	10.9	25.9
Energy Services	59.6	98.1	78.0	315.3	551.0
Other	3.1	6.9	8.2	80.4	98.6
TOTAL	**108.7**	**206.6**	**187.4**	**712.1**	**1,214.8**

Recap: Movements in the net carrying amount of non-current and current operating financial assets during 2011 are as follows:

(€ million)	As of December 31, 2010	New financial assets	Repayments / disposals	Impairment losses[(1)]	Changes in consolidation scope	Foreign exchange translation	Non-current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	5,317.3	**381.0**	**(36.9)**	**-**	**(64.7)**	**33.3**	**(406.6)**	**(135.2)**	**48.3**	**5,136.5**
Impairment losses	(62.0)	-	**-**	**(4.3)**	**-**	**(0.1)**	**5.0**	**-**	**13.2**	**(48.2)**
NON-CURRENT OPERATING FINANCIAL ASSETS	**5,255.3**	**381.0**	**(36.9)**	**(4.3)**	**(64.7)**	**33.2**	**(401.6)**	**(135.2)**	**61.5**	**5,088.3**
Gross	373.3	0.2	(404.1)	-	(9.3)	2.0	406.6	(24.9)	13.2	357.0
Impairment losses	-	-	-	5.0	-	-	(5.0)	-	-	-
CURRENT OPERATING FINANCIAL ASSETS	**373.3**	**0.2**	**(404.1)**	**5.0**	**(9.3)**	**2.0**	**401.6**	**(24.9)**	**13.2**	**357.0**
NON-CURRENT AND CURRENT OPERATING FINANCIAL ASSETS	**5,628.6**	**381.2**	**(441.0)**	**0.7**	**(74.0)**	**35.2**	**-**	**(160.1)**	**74.7**	**5,445.3**

(1) Impairment losses are recorded in operating income.

The principal **new operating financial assets** in 2011 mainly concern:

- The Water Division and in particular Berlin Water (€129.0 million);
- The Energy Services Division and in particular cogeneration plants (€66.9 million).
- The Environmental Services Division and in particular new Private Finance Initiative (PFI) contracts for the processing and disposal of residual waste in the United Kingdom (€47.4 million).

The principal **repayments and disposals of operating financial assets** in 2011 concern:

- The Water Division and in particular Berlin Water (-€141.3 million);
- The Energy Services Division and in particular cogeneration plants (-€110.0 million).
- The Environmental Services Division and in particular the non-recourse assignment of Valomed receivables to the Royal Bank of Scotland (-€28.5 million).

Foreign exchange translation gains and losses on current and non-current operating financial assets mainly concern the Water Division (€20.8 million) and the Environmental Services Division (€17.4 million), primarily due to the appreciation of the Chinese renminbi yuan and the pound sterling against the euro.

Non-current/current reclassifications mainly concern:

- The Water Division and in particular projects in Berlin (€140.8 million);
- The Energy Services Division and in particular cogeneration plants (€85.4 million).

Changes in consolidation scope mainly concern the impacts of the Veolia Transdev combination (-€60.5 million, including -€52.5 million classified as non-current, see Note 23).

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified to discontinued operations (-€120.6 million) and the decision to sell Citelum in the Energy Services Division (-€46.7 million).

Note 11 Other non-current and current financial assets

	As of December 31,								
	Non-current			Current			Total		
(€ million)	2012	2011	2010	2012	2011	2010	2012	2011	2010
Gross	608.2	764.6	787.0	948.3	134.8	134.8	1,556.5	899.4	921.8
Impairment losses	(69.7)	(70.4)	(72.3)	(39.9)	(32.0)	(31.6)	(109.6)	(102.4)	(103.9)
FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**538.5**	**694.2**	**714.7**	**908.4**	**102.8**	**103.2**	**1,446.9**	**797.0**	**817.9**
OTHER FINANCIAL ASSETS	**50.5**	**42.3**	**58.4**	**36.4**	**11.8**	**29.1**	**86.9**	**54.1**	**87.5**
TOTAL OTHER FINANCIAL ASSETS	**589.0**	**736.5**	**773.1**	**944.8**	**114.6**	**132.3**	**1,533.8**	**851.1**	**905.4**

11.1 Movements in other non-current financial assets

Movements in the value of other non-current financial assets during 2012 are as follows:

(€ million)	As of December 31, 2011	Additions	Repayments / disposals	Changes in consolidation scope	Impairment losses[(1)]	Foreign exchange translation	Non- current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Gross	764.6	96.8	(32.7)	(69.9)	-	8.4	(189.9)	(0.2)	31.1	608.2
Impairment losses	(70.4)	-	-	-	(0.8)	1.9	-	(0.3)	(0.1)	(69.7)
NON-CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**694.2**	**96.8**	**(32.7)**	**(69.9)**	**(0.8)**	**10.3**	**(189.9)**	**(0.5)**	**31.0**	**538.5**
OTHER NON-CURRENT FINANCIAL ASSETS	**42.3**	**27.9**	**(5.2)**	**(21.7)**	**(0.8)**	**(1.1)**	**(0.3)**	**8.0**	**1.4**	**50.5**
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**736.5**	**124.7**	**(37.9)**	**(91.6)**	**(1.6)**	**9.2**	**(190.2)**	**7.5**	**32.4**	**589.0**

(1) Impairment losses are recorded in financial income and expenses.

Transfers to other current financial assets mainly concern the non-Group share of the loan granted to Dalkia International (€178.2 million).

Changes in consolidation scope mainly concern the impact of full consolidation of Azaliya (-€49.6 million), the divestiture of regulated Water activities in the United Kingdom (-€11.3 million) and the equity accounting of Berlin Water (-€5.2 million).

Other movements mainly concern the reclassification of the pension fund surplus in the United Kingdom (€20.0 million).

Non-current financial assets in loans and receivables

As of December 31, 2012, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €238.5 million (mainly Dalkia International and its subsidiaries).

Other non-current financial assets

Other non-current financial assets are classified as "Available-for-sale assets" in accordance with the principles set out in Note 1.14.2.

Other financial assets held by the Group in countries considered high-risk by the IMF are not material in amount.

Recap: Movements in other non-current financial assets during **2011** are as follows:

(€ million)	As of December 31, 2010	Additions	Repayments / disposals	Changes in consolidation scope	Impairment losses[1]	Foreign exchange translation	Non- current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	787.0	190.4	(116.4)	(16.5)	-	(6.1)	(35.4)	(34.9)	(3.5)	764.6
Impairment losses	(72.3)	-	-	0.5	0.9	(2.3)	1.8	(0.3)	1.3	(70.4)
NON-CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**714.7**	**190.4**	**(116.4)**	**(16.0)**	**0.9**	**(8.4)**	**(33.6)**	**(35.2)**	**(2.2)**	**694.2**
OTHER NON-CURRENT FINANCIAL ASSETS	**58.4**	**63.5**	**(1.9)**	**(57.3)**	**(3.0)**	**0.6**	**(0.7)**	**(12.6)**	**(4.7)**	**42.3**
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**773.1**	**253.9**	**(118.3)**	**(73.3)**	**(2.1)**	**(7.8)**	**(34.3)**	**(47.8)**	**(6.9)**	**736.5**

(1) Impairment losses are recorded in financial income and expenses.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified as discontinued operations (-€48.3 million, see Notes 3 and 23).

Non-current financial assets in loans and receivables

As of December 31, 2011, the principal non-current financial assets in loans and receivables primarily correspond to the non-Group portion of loans granted to companies consolidated on a proportionate basis for €441.8 million (mainly Dalkia International and its subsidiaries).

Other non-current financial assets

Other non-current financial assets are classified as "Available-for-sale assets" in accordance with the principles set out in Note 1.14.2.

11.2 Movements in other current financial assets

Movements in other current financial assets during **2012** are as follows:

(€ million)	As of December 31, 2011	Repayments / disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses[1]	Foreign exchange translation	Non- current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2012
Gross	134.8	25.6	534.5	-	-	(2.4)	189.9	-	65.9	948.3
Impairment losses	(32.0)	-	-	-	(8.2)	0.2	-	-	0.1	(39.9)
CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**102.8**	**25.6**	**534.5**	**-**	**(8.2)**	**(2.2)**	**189.9**	**-**	**66.0**	**908.4**
OTHER CURRENT FINANCIAL ASSETS	**11.8**	**(4.7)**	**(0.7)**	**(0.7)**	**-**	**(0.1)**	**0.3**	**1.8**	**28.7**	**36.4**
TOTAL OTHER CURRENT FINANCIAL ASSETS, NET	**114.6**	**20.9**	**533.8**	**(0.7)**	**(8.2)**	**(2.3)**	**190.2**	**1.8**	**94.7**	**944.8**

(1) Impairment losses are recorded in financial income and expenses.

The accounting treatment of other current financial assets in loans and receivables complies with the required treatment of loans and receivables as defined by IAS 39.

Other financial assets are classified as available-for-sale assets in accordance with the accounting principles described in Note 1.14.2.

Changes in consolidation scope mainly concern the impact of the equity accounting of Berlin Water (€549.7 million). The receivable is recognized in Veolia Water Deutschland and represents the loan previously granted by the Group to Berlin Water, now equity accounted.

Transfers to other current financial assets mainly concern the non-Group share of the loan granted to Dalkia International (€178.2 million).

Other movements mainly concern the reclassification of long-term financial assets from cash and cash equivalents to other financial assets.

Recap: Movements in other current financial assets during 2011 are as follows:

(€ million)	As of December 31, 2010	Repayments / disposals	Changes in consolidation scope	Fair value adjustments	Impairment losses[(1)]	Foreign exchange translation	Non- current/ current reclassification	Transfers to Assets classified as held for sale	Other	As of December 31, 2011
Gross	134.8	3.6	(17.4)	-	-	3.3	35.4	(24.5)	(0.4)	134.8
Impairment losses	(31.6)	-	0.2	-	1.2	(0.1)	(1.8)	0.1	-	(32.0)
CURRENT FINANCIAL ASSETS IN LOANS AND RECEIVABLES	**103.2**	**3.6**	**(17.2)**	**-**	**1.2**	**3.2**	**33.6**	**(24.4)**	**(0.4)**	**102.8**
OTHER CURRENT FINANCIAL ASSETS	**29.1**	**(5.7)**	**(2.0)**	**0.2**	**-**	**-**	**0.7**	**(8.9)**	**(1.6)**	**11.8**
TOTAL OTHER CURRENT FINANCIAL ASSETS, NET	**132.3**	**(2.1)**	**(19.2)**	**0.2**	**1.2**	**3.2**	**34.3**	**(33.3)**	**(2.0)**	**114.6**

(1) Impairment losses are recorded in financial income and expenses.

The accounting treatment of other current financial assets in loans and receivables complies with the required treatment of loans and receivables as defined by IAS 39.

Other financial assets are classified as available-for-sale assets in accordance with the accounting principles described in Note 1.14.2.

Transfers to Assets classified as held for sale mainly concern the assets of the Veolia Transdev group reclassified to discontinued operations (-€31.2 million, see Notes 3 and 23).

Note 12 Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities during **2012** are as follows:

(€ million)	As of December 31, 2011	Changes in business through net income	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets / liabilities classified as held for sale	Other	As of December 31, 2012
Deferred tax assets, gross	2,360.0	221.4	(8.8)	(132.9)	(9.6)	19.7	(26.9)	2,422.9
Deferred tax assets not recognized	(1,096.1)	(144.6)	25.6	12.0	3.0	(3.2)	23.5	(1,179.8)
DEFERRED TAX ASSETS, NET	**1,263.9**	**76.8**	**16.8**	**(120.9)**	**(6.6)**	**16.5**	**(3.4)**	**1,243.1**
DEFERRED TAX LIABILITIES	**1,891.1**	**11.9**	**(3.8)**	**(485.9)**	**16.3**	**(32.9)**	**(4.2)**	**1,392.5**

As of December 31, 2012, deferred tax assets not recognized totaled -€1,179.8 million, including -€788.0 million on tax losses and -€391.8 million on timing differences. As of December 31, 2011, such deferred tax assets totaled €1,096.1 million, including -€764.9 million on tax losses and -€331.2 million on timing differences.

In France, based on taxable projected income, incorporating in particular margin erosion in the Water Division, the Veolia Environnement tax group restricted recognized deferred tax assets to the amount of deferred tax liabilities, as at the previous year end.

As of December 31, 2012, the tax group in the United States has ordinary tax losses carried forward, relating to the restructuring of Water businesses in 2006 and associated with losses incurred by the former activities of U.S. Filter. These tax losses, which may exceed USD 4 billion, are currently being reviewed by the U.S. tax authorities (see Note 34).

Furthermore, following the update of taxable projected income related to changes in scope and forecast Group activity trends in the United States, in particular, deferred tax assets of USD 251 million (€190 million) were recognized in the Consolidated Statement of Financial Position in respect of these tax losses as of December 31, 2012, compared with USD 178 million (€136 million) as of December 31, 2011.

Changes in business through equity mainly include the tax effect of fair value adjustments and actuarial gains and losses and the impact of the change in impairment of deferred tax assets of the France tax group initially recognized in equity.

Changes in consolidation scope mainly concern:

- The divestiture of solid waste activities in the United States (-€69.0 million in respect of deferred tax assets and -€162.0 million in respect of deferred tax liabilities);
- The divestiture of regulated Water activities in the United Kingdom (-€20 million in respect of deferred tax assets and -€257.3 million in respect of deferred tax liabilities);
- And the impact of the equity accounting of Berlin Water in the Water Division (-€24.9 million in respect of deferred tax assets and -€67.6 million in respect of deferred tax liabilities).

Foreign exchange translation gains and losses are mainly due to fluctuations in the U.S. dollar, the Japanese yen, the pound sterling and the Polish zloty against the euro.

Transfers to Assets and liabilities classified as held for sale mainly concern Water activities in Morocco and European wind energy activities (see Note 23).

Deferred tax assets and liabilities **break down by nature** as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
DEFERRED TAX ASSETS			
Tax losses	1,074.2	1,006.6	1,145.3
Provisions and impairment losses	421.3	478.2	434.7
Employee benefits	249.3	210.3	265.1
Financial instruments	264.8	189.5	182.6
Operating financial assets	82.0	102.3	105.3
Fair value remeasurement of assets purchased	19.7	29.5	65.9
Foreign exchange translation	2.1	4.9	23.7
Finance leases	23.0	23.2	30.8
Intangible assets and Property, plant and equipment	51.3	11.8	22.7
Other	235.2	303.7	350.2
DEFERRED TAX ASSETS, GROSS	**2,422.9**	**2,360.0**	**2,626.3**
DEFERRED TAX ASSETS NOT RECOGNIZED	**(1,179.8)**	**(1,096.1)**	**(876.7)**
RECOGNIZED DEFERRED TAX ASSETS	**1,243.1**	**1,263.9**	**1,749.6**

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
DEFERRED TAX LIABILITIES			
Intangible assets and Property, plant and equipment (1)	467.5	796.2	852.8
Fair value remeasurement of assets purchased	212.7	252.6	283.4
Operating financial assets	207.7	210.5	214.1
Financial instruments	85.8	86.2	89.6
Finance leases	89.7	88.3	96.1
Provisions	51.0	53.5	49.7
Foreign exchange translation	14.1	20.4	38.6
Employee benefits	30.4	40.8	43.5
Other	233.6	342.6	433.6
DEFERRED TAX LIABILITIES	**1,392.5**	**1,891.1**	**2,101.4**

(1) Deferred tax liabilities on property, plant and equipment decreased €328.7 million between December 31, 2011 and December 31, 2012, including €206.7 million in respect of the divestiture of regulated Water activities in the United Kingdom and €130.2 million in respect of the divestiture of solid waste activities in the United States in the Environmental Services Division.

The breakdown **by main tax group** as of December 31, 2012 is as follows:

(€ million)	Recognized deferred tax assets on tax losses	Recognized deferred tax assets on timing differences	Deferred tax liabilities on timing differences	Net recognized deferred tax position
French tax groups	**0.8**	**232.8**	**(242.8)**	**(9.2)**
France Veolia Environnement tax group	-	190.5	(190.5)	-
Dalkia France tax group	0.8	42.3	(52.3)	(9.2)
United States tax group	**189.9**	**133.8**	**(170.2)**	**153.5**
United Kingdom tax group	**-**	**103.1**	**(185.8)**	**(82.7)**
TOTAL	**190.7**	**469.7**	**(598.8)**	**61.6**

The timing schedule for the reversal of the net deferred tax position on timing differences and the deferred tax asset position on tax losses of the France Veolia Environnement tax group and the United States tax group is as follows:

	Deferred tax assets on tax losses			Net deferred tax on timing differences			Total		
(€ million)	5 years or less	More than 5 years	Total	5 years or less	More than 5 years	Total	5 years or less	More than 5 years	Total
France Veolia Environnement tax group	-	-	-	-	-	-	-	-	-
United States tax group	189.9		189.9	34.8	(71.2)	(36.4)	224.7	(71.2)	153.5

The **expiry schedule** for deferred tax assets on tax losses recognized and not recognized as of December 31, 2012 is as follows:

	Expiry			
(€ million)	5 years or less	More than 5 years	Unlimited	Total
Recognized tax losses	**16.6**	**195.9**	**73.7**	**286.2**
o/w France tax groups	-	-	0.8	0.8
o/w United States tax group	-	189.9	-	189.9
o/w United Kingdom tax group	-	-	-	-
Tax losses not recognized	**(87.1)**	**(49.2)**	**(651.7)**	**(788.0)**
o/w French tax groups	-	-	196.4	196.4
o/w United States tax group	-	-	-	-
o/w United Kingdom tax group	-	-	-	-

Deferred tax assets and liabilities **break down by destination** as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
DEFERRED TAX ASSETS, NET			
Deferred tax assets through net income	1,139.6	1,152.7	1,530.5
Deferred tax assets through equity	103.5	111.2	219.1
DEFERRED TAX ASSETS, NET	**1,243.1**	**1,263.9**	**1,749.6**
DEFERRED TAX LIABILITIES			
Deferred tax liabilities through net income	1,365.0	1,856.0	2,060.4
Deferred tax liabilities through equity	27.5	35.1	41.0
DEFERRED TAX LIABILITIES	**1,392.5**	**1,891.1**	**2,101.4**

Recap: Movements in deferred tax assets and liabilities during 2011 are as follows:

(€ million)	As of December 31, 2010	Changes in business through net income	Changes in business through equity	Changes in consolidation scope	Foreign exchange translation	Transfers to Assets / liabilities classified as held for sale	Other	As of December 31, 2011
Deferred tax assets, gross	2,626.3	117.5	20.6	(87.9)	7.4	(340.7)	16.8	2,360.0
Deferred tax assets not recognized	(876.7)	(332.7)	(113.6)	70.7	(7.0)	163.6	(0.4)	(1,096.1)
DEFERRED TAX ASSETS, NET	**1,749.6**	**(215.2)**	**(93.0)**	**(17.2)**	**0.4**	**(177.1)**	**16.4**	**1,263.9**
DEFERRED TAX LIABILITIES	**2,101.4**	**(8.7)**	**(6.6)**	**9.5**	**33.3**	**(255.1)**	**17.3**	**1,891.1**

Note 13 Working capital

Movements in net working capital during **2012** are as follows:

(€ million)	**As of December 31, 2011**	**Changes in business**	**Impairment losses, net**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2012**
Inventories and work-in-progress, net	1,020.8	38.3	(27.1)	(60.5)	3.7	(0.3)	43.5	1,018.4
Operating receivables, net	11,427.6	74.4	(104.0)	(726.9)	(12.8)	(239.9)	(112.5)	10,305.9
Operating payables	(12,598.6)	(132.9)		774.4	5.2	322.9	30.3	(11,598.7)
NET WORKING CAPITAL	**(150.2)**	**(20.2)**	**(131.1)**	**(13.0)**	**(3.9)**	**82.7**	**(38.7)**	**(274.4)**

Net amounts transferred to "**Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale"** mainly concern Water activities in Morocco (€88.7 million) in line with the reclassification to discontinued operations of these activities.

Net impairment losses were mainly recognized in the Energy Services Division in Italy in the amount of €60.7 million and in the Water Division in Guadeloupe in the amount of €25.6 million**.**

Net working capital includes "operating" working capital (inventories, trade receivables, trade payables and other operating receivables and payables, tax receivables and payables other than current tax), "tax" working capital (current tax receivables and payables) and "investment" working capital (receivables and payables in respect of industrial investments).

Movements in each of these working capital categories in **2012** are as follows:

(€ million)	**As of December 31, 2011**	**Changes in business**	**Impairment losses, net**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2012**
Inventories and work-in-progress, net	1,020.8	38.3	(27.1)	(60.5)	3.7	(0.3)	43.5	1,018.4
Operating receivables (including tax receivables other than current tax)	11,234.9	25.6	(100.9)	(722.7)	(13.6)	(228.4)	(93.2)	10,101.7
Operating payables (including tax payables other than current tax)	(11,996.4)	(38.7)	-	738.3	(0.1)	270.0	(9.5)	(11,036.4)
OPERATING WORKING CAPITAL[(1)]	***259.3***	***25.2***	***(128.0)***	***(44.9)***	***(10.0)***	***41.3***	***(59.2)***	***83.7***
Tax receivables (current tax)	174.5	8.9		(4.2)	0.6	(5.3)	(5.1)	169.4
Tax payables (current tax)	(156.0)	(64.4)		9.4	(0.1)	(0.1)	3.6	(207.6)
TAX WORKING CAPITAL	***18.5***	***(55.5)***		***5.2***	***0.5***	***(5.4)***	***(1.5)***	***(38.2)***
Receivables on non-current asset disposals	18.2	39.9	(3.1)		0.2	(6.2)	(14.2)	34.8
Industrial investment payables	(446.2)	(29.8)		26.7	5.4	53.0	36.2	(354.7)
INVESTMENT WORKING CAPITAL	***(428.0)***	***10.1***	***(3.1)***	***26.7***	***5.6***	***46.8***	***22.0***	***(319.9)***
NET WORKING CAPITAL	***(150.2)***	**(20.2)**	**(131.1)**	**(13.0)**	**(3.9)**	**82.7**	**(38.7)**	**(274.4)**

(1) The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.

Movements in inventories during **2012** are as follows:

Inventories *(€ million)*	**As of December 31, 2011**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2012**
Raw materials and supplies	517.3	38.5	-	-	(15.9)	5.4	4.2	1.9	551.4
Work-in-progress	424.2	5.1	-	-	(56.3)	(1.9)	(7.0)	38.8	402.9
Other inventories[(1)]	133.6	(5.3)	-	-	(5.1)	0.7	(8.1)	(1.9)	113.9
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,075.1**	**38.3**	**-**	**-**	**(77.3)**	**4.2**	**(10.9)**	**38.8**	**1,068.2**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(54.3)**	**-**	**(61.7)**	**34.6**	**16.8**	**(0.5)**	**10.6**	**4.7**	**(49.8)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**1,020.8**	**38.3**	**(61.7)**	**34.6**	**(60.5)**	**3.7**	**(0.3)**	**43.5**	**1,018.4**

(1) Including CO_2 inventories.

Inventories mainly concern the Water Division in the amount of €327.0 million and the Energy Services Division in the amount of €502.4 million.

Movements in operating receivables during **2012** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2011**	**Changes in business**	**Impairment losses[(1)]**	**Reversal of impairment losses[(1)]**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Assets classified as held for sale**	**Other**	**As of December 31, 2012**
Trade receivables	*9,097.6*	78.2	-	-	(648.7)	(0.7)	(258.1)	(19.9)	8,248.4
Impairment losses on trade receivables	*(604.7)*		*(230.9)*	*135.4*	*39.2*	*(0.9)*	*34.0*	*(15.4)*	*(643.3)*
TRADE RECEIVABLES, NET[(2)]	**8,492.9**	**78.2**	**(230.9)**	**135.4**	**(609.5)**	**(1.6)**	**(224.1)**	**(35.3)**	**7,605.1**
Other current operating receivables	*870.7*	7.8	-	-	(68.9)	(2.8)	12.2	(34.6)	784.4
Impairment losses on other current operating receivables	*(65.9)*	-	(25.3)	17.0	1.2	0.4	(3.2)	(0.4)	(76.2)
OTHER OPERATING RECEIVABLES, NET[(2)]	**804.8**	**7.8**	**(25.3)**	**17.0**	**(67.7)**	**(2.4)**	**9.0**	**(35.0)**	**708.2**
Other receivables[(3)]	844.1	(4.4)	(0.2)		(27.4)	(9.7)	17.1	(38.3)	781.2
Tax receivables	1,285.8	(7.2)			(22.3)	0.9	(41.9)	(3.9)	1,211.4
OPERATING RECEIVABLES, NET	**11,427.6**	**74.4**	**(256.4)**	**152.4**	**(726.9)**	**(12.8)**	**(239.9)**	**(112.5)**	**10,305.9**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Short-term commercial receivables and payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope primarily concern the divestiture of regulated activities in the United Kingdom (-€213.9 million) and solid waste activities in the United States in the Environmental Services Division (-€81.6 million), the change in consolidation method of Berlin Water (-€324.1 million), the deconsolidation of Sorical (€112.1 million) and the acquisition of Azaliya (€112.0 million).

Transfers to Assets classified as held for sale mainly concern Water activities in Morocco (-€178.5 million) and wind energy activities (-€3.3 million) in line with the reclassification to discontinued operations of these activities.

Net impairment losses mainly concern trade receivables (€95.5 million) and are tied to the write-down of trade receivables in Italy in the Energy Services Division (€53.5 million) and in Water distribution activities in France (€15.3 million).

Operating receivables held by the Group in countries considered high-risk by the IMF are not material in amount.

Movements in operating payables during **2012** are as follows:

Operating payables *(€ million)*	**As of December 31, 2011**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Liabilities classified as held for sale**	**Other**	**As of December 31, 2012**
Trade payables[1]	5,140.1	134.2	(126.0)	1.6	(127.1)	0.7	5,023.5
Other operating payables[1]	4,720.6	(109.7)	(149.9)	(4.5)	(131.6)	(24.0)	4,300.9
Other liabilities[2]	1,353.8	(7.5)	(495.9)	(2.9)	(6.7)	(1.4)	839.4
Tax and employee-related liabilities	1,384.1	115.9	(2.6)	0.6	(57.5)	(5.6)	1,434.9
OPERATING PAYABLES	**12,598.6**	**132.9**	**(774.4)**	**(5.2)**	**(322.9)**	**(30.3)**	**11,598.7**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred income.

Trade payables are recognized as liabilities at amortized cost in accordance with IAS 39 for accounting purposes. Short-term commercial payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope primarily concern the divestiture of regulated activities in the United Kingdom (-€250.4 million), the divestiture of solid waste activities in the United States in the Environmental Services Division (-€79.4 million), the change in consolidation method of Berlin Water (-€437.8 million) and the deconsolidation of Sorical (-€75.6 million).

Transfers to assets classified as held for sale mainly concern Water activities in Morocco (-€273.5 million) in line with the reclassification to discontinued operations of these activities.

Transfers of financial assets

Veolia Environnement has several programs for the assignment of receivables through securitization, factoring, discounting and assignment by way of security.

Securitization

The securitization program implemented by the Water Division ended in May 2012 and was not renewed. The risks associated with these receivables (primarily credit risk and payment risk) were retained by the Group, justifying their retention in assets in the Consolidated Statement of Financial Position. Receivables of €444.7 million were securitized in 2012.

Factoring

There are currently fourteen trade receivable factoring programs, in the Energy Services Division mainly in France, Italy and Poland, representing maximum aggregate outstandings of €480 million. Under these programs, generally renewed annually, certain subsidiaries have agreed to assign, on a renewable basis, trade receivables by contractual subrogation without recourse against the risk of default by the debtor. The analysis of the risks and rewards as defined by IAS39 led the Group to derecognize almost all the receivables assigned under these factoring programs. The French subsidiaries concerned by the programs remain responsible for invoicing and debt recovery, for which they receive remuneration but do not retain control.

Accordingly, receivables totaling €474.1 million were assigned under the aforementioned programs in 2012. Receivables assigned and derecognized as of December 31, 2012 total €325.3 million, including €179.7 million in France, €109.0 million in Italy and €36.6 million in Poland. These assignments were mainly performed from September to December 2012, due to the seasonality of activities in the Energy Services Division (higher volume of receivables to assign), changes in the economic context in Italy (assignment of receivables recommenced in September 2012), and the implementation of a annually renewable factoring program for recurring receivable assignments in France.

Discounting and assignment by way of security

Under Public-Private partnerships, all Veolia Environnement Division subsidiaries can assign the fraction of future payments guaranteed by local authorities / private clients (recognized in financial receivables pursuant to IFRIC 12 or IFRIC 4-IAS 17) to the bodies funding the project, through discounting or assignment by way of security programs (such as *Dailly* programs in France).

For the majority of partnerships concerned by these financial receivable assignments, the assignment agreements negotiated and the contractual clauses agreed between the stakeholders are sufficient to satisfy the derecognition criteria set out in IAS 39. The residual risk retained by the companies (considered immaterial) is generally tied solely to late customer payment due to late/deferred invoicing of royalties by Group subsidiaries. Group subsidiaries are mandated by the financial institutions to manage the invoicing and recovery of the receivables covered by these programs. Veolia Environnement analyzed the management and recovery procedures falling to Group subsidiaries and concluded they these services did not constitute continuing involvement.

Two assignments by way of security performed in 2005 and 2006 in connection with the specific terms and conditions of finance lease agreements entered into by the Environmental Services Division operate differently and do not permit the derecognition of the receivables assigned. The assignment terms provide for the provision of a joint surety by the subsidiaries and their partners to the assignee financial institutions. Receivables of €85 million and corresponding finance lease obligations maturing in 2025 and 2026 of €86 million are recognized in Veolia Environnement's balance sheet as of December 31, 2012 in respect of these contracts.

Recap: Movements in net working capital during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Changes in business**	**Impairment losses, net**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2011**
Inventories and work-in-progress, net	1,130.6	28.1	13.9	(76.1)	2.1	(59.6)	(18.2)	1,020.8
Operating receivables, net	12,488.7	330.8	(23.5)	(481.6)	28.0	(829.8)	(85.0)	11,427.6
Operating payables	13,773.9	305.1	-	(436.9)	53.0	(1,007.4)	(89.1)	12,598.6
NET WORKING CAPITAL	**(154.6)**	**53.8**	**(9.6)**	**(120.8)**	**(22.9)**	**118.0**	**(14.1)**	**(150.2)**

(€ million)	As of December 31, 2010	Changes in business	Impairment losses, net	Changes in consolidation scope	Foreign exchange translation	Transfers to assets / liabilities classified as held for sale	Other	As of December 31, 2011
Inventories and work-in-progress, net	1,130.6	28.1	13.9	(76.1)	2.1	(59.6)	(18.2)	1,020.8
Operating receivables (including tax receivables other than current tax)	12,287.9	262.2	(23.2)	(446.0)	27.2	(824.8)	(48.4)	11,234.9
Operating payables (including tax payables other than current tax)	(13,135.2)	(240.3)	0.0	439.3	(41.4)	975.4	5.8	(11,996.4)
OPERATING WORKING CAPITAL[(1)]	**283.3**	**50.0**	**(9.3)**	**(82.8)**	**(12.1)**	**91.0**	**(60.8)**	**259.3**
Tax receivables (current tax)	176.6	72.2	-	(15.4)	0.5	(3.9)	(55.5)	174.5
Tax payables (current tax)	(221.0)	(31.4)	-	17.9	(0.6)	19.3	59.8	(156.0)
TAX WORKING CAPITAL	**(44.4)**	**40.8**	**-**	**2.5**	**(0.1)**	**15.4**	**4.3**	**18.5**
Receivables on non-current asset disposals	24.2	(3.6)	(0.3)	(20.2)	0.3	(1.1)	18.9	18.2
Industrial investment payables	(417.7)	(33.4)	-	(20.3)	(11.0)	12.7	23.5	(446.2)
INVESTMENT WORKING CAPITAL	**(393.5)**	**(37.0)**	**(0.3)**	**(40.5)**	**(10.7)**	**11.6**	**42.4**	**(428.0)**
NET WORKING CAPITAL	**(154.6)**	**53.8**	**(9.6)**	**(120.8)**	**(22.9)**	**118.0**	**(14.1)**	**(150.2)**

(1) The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.

Recap: Movements in inventories during **2011** are as follows:

Inventories *(€ million)*	**As of December 31, 2010**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets classified as held for sale**	**Other**	**As of December 31, 2011**
Raw materials and supplies	593.3	52.5	-	-	(67.4)	(2.4)	(58.3)	(0.4)	517.3
Work-in-progress	463.6	(23.5)	-	-	(1.4)	4.6	(1.6)	(17.5)	424.2
Other inventories[(1)]	153.7	(0.9)	-	-	(12.8)	(1.2)	(5.2)	-	133.6
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,210.6**	**28.1**	**-**	**-**	**(81.6)**	**1.0**	**(65.1)**	**(17.9)**	**1,075.1**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(80.0)**	**-**	**(29.4)**	**43.3**	**5.5**	**1.1**	**5.5**	**(0.3)**	**(54.3)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**1,130.6**	**28.1**	**(29.4)**	**43.3**	**(76.1)**	**2.1**	**(59.6)**	**(18.2)**	**1,020.8**

(1) Including CO_2 inventories.

Inventories mainly concern the Water Division in the amount of €308.4 million and the Energy Services Division in the amount of €470.9 million.

Recap: Movements in operating receivables during **2011** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2010**	**Changes in business**	**Impairment losses[(1)]**	**Reversal of impairment losses[(1)]**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets classified as held for sale**	**Other**	**As of December 31, 2011**
Trade receivables	9,852.8	*165.3*	-	-	*(346.2)*	*14.4*	*(561.5)*	*(27.2)*	*9,097.6*
Impairment losses on trade receivables	(600.4)	-	*(194.8)*	*173.0*	*12.0*	*(1.3)*	*10.5*	*(3.7)*	*(604.7)*
TRADE RECEIVABLES, NET[(2)]	**9,252.4**	**165.3**	**(194.8)**	**173.0**	**(334.2)**	**13.1**	**(551.0)**	**(30.9)**	**8,492.9**
Other current operating receivables	1,187.5	*(112.4)*	-	-	*(73.8)*	*4.2*	*(149.2)*	*14.4*	*870.7*
Impairment losses on other current operating receivables	(77.9)	-	*(17.8)*	*16.1*	*3.9*	*(0.4)*	*8.2*	*2.0*	*(65.9)*
OTHER OPERATING RECEIVABLES, NET[(2)]	**1,109.6**	**(112.4)**	**(17.8)**	**16.1**	**(69.9)**	**3.8**	**(141.0)**	**16.4**	**804.8**
Other receivables[(3)]	800.1	109.6	-	-	(19.6)	14.1	(48.2)	(11.9)	844.1
Tax receivables	1,326.6	168.3	-	-	(57.9)	(3.0)	(89.6)	(58.6)	1,285.8
OPERATING RECEIVABLES, NET	**12,488.7**	**330.8**	**(212.6)**	**189.1**	**(481.6)**	**28.0**	**(829.8)**	**(85.0)**	**11,427.6**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Short-term commercial receivables and payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€375.5 million, see Note 23) and the divestiture of the household assistance services business (Proxiserve) held jointly by the Water and Energy Services Divisions (-€108.0 millions).

Transfers to Assets classified as held for sale mainly concern the Veolia Transdev group reclassified to discontinued operations (-€695.7 million) and urban lighting activities (Citelum) in the Energy Services Division (-€205.5 million). These amounts also include the impact of the interruption of the divestiture process for Water Division activities in Gabon (+€71.8 million).

Recap: Movements in operating payables during **2011** are as follows:

Operating payables *(€ million)*	**As of December 31, 2010**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to Liabilities classified as held for sale**	**Other**	**As of December 31, 2011**
Trade payables[1]	5,535.3	80.9	(140.3)	15.1	(344.9)	(6.0)	5,140.1
Other operating payables[1]	5,332.0	0.5	(213.7)	35.3	(450.7)	17.2	4,720.6
Other liabilities[2]	1,340.2	180.7	(28.3)	2.8	(105.7)	(35.9)	1,353.8
Tax and employee-related liabilities	1,566.4	43.0	(54.6)	(0.2)	(106.1)	(64.4)	1,384.1
OPERATING PAYABLES	**13,773.9**	**305.1**	**(436.9)**	**53.0**	**(1,007.4)**	**(89.1)**	**12,598.6**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred income.

Trade payables are recognized as liabilities at amortized cost in accordance with IAS 39 for accounting purposes. Short-term commercial payables without a declared interest rate are recognized at nominal value, unless discounting at the market rate has a material impact.

Changes in consolidation scope mainly concern the Veolia Transdev combination (-€380.9 million, see Note 23) and the divestiture of the household assistance services business (Proxiserve) held jointly by the Water and Energy Services Divisions (-€100.6 million).

Transfers to Liabilities associated with assets classified as held for sale mainly concern the VTD group reclassified to discontinued operations (-€964.7 million, see Note 23) and urban lighting activities (Citelum) in the Energy Services Division (-€148.6 million). These amounts also include the impact of the interruption of the divestiture process for Water Division activities in Gabon.

Recap: Movements in net working capital during **2010** are as follows:

(€ million)	**As of December 31, 2009**	**Changes in business**	**Impairment losses, net**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Inventories and work-in-progress, net	978.0	115.7	(6.9)	4.1	31.9	(0.8)	8.6	1,130.6
Operating receivables, net	12,241.3	325.2	(30.3)	161.3	259.7	(116.8)	(351.7)	12,488.7
Operating payables	13,076.9	605.7	(0.0)	205.8	294.2	(119.4)	(289.3)	13,773.9
NET WORKING CAPITAL	**142.4**	**(164.8)**	**(37.2)**	**(40.4)**	**(2.6)**	**1.8**	**(53.8)**	**(154.6)**

(€ million)	**As of December 31, 2009**	**Changes in business**	**Impairment losses, net**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Inventories and work-in-progress, net	978.0	115.7	(6.9)	4.1	31.9	(0.8)	8.6	1,130.6
Operating receivables (including tax receivables other than current tax)	12,040.6	274.4	(30.3)	160.1	255.4	(117.3)	(295.0)	12,287.9
Operating payables (including tax payables other than current tax)	(12,501.7)	(458.7)	-	(195.3)	(268.6)	115.5	173.6	(13,135.2)
OPERATING WORKING CAPITAL[(1)]	**516.9**	**(68.6)**	**(37.2)**	**(31.1)**	**18.7**	**(2.6)**	**(112.8)**	**283.3**
Tax receivables (current tax)	189.7	37.8	-	1.2	4.0	-	(56.1)	176.6
Tax payables (current tax)	(220.8)	(67.3)	-	(3.9)	(8.4)	5.3	74.1	(221.0)
TAX WORKING CAPITAL	**(31.1)**	**(29.5)**	**-**	**(2.7)**	**(4.4)**	**5.3**	**18.0**	**(44.4)**
Receivables on non-current asset disposals	11.0	13.0	-	-	0.3	0.5	(0.6)	24.2
Industrial investment payables	(354.4)	(79.7)	-	(6.6)	(17.2)	(1.4)	41.6	(417.7)
INVESTMENT WORKING CAPITAL	**(343.4)**	**(66.7)**	**-**	**(6.6)**	**(16.9)**	**(0.9)**	**41.0**	**(393.5)**
NET WORKING CAPITAL	**142.4**	**(164.8)**	**(37.2)**	**(40.4)**	**(2.6)**	**1.8**	**(53.8)**	**(154.6)**

(1) The change in working capital presented in the Consolidated Cash Flow Statement is equal to the sum of operating working capital changes in business activity and impairment losses presented above.

Movements in inventories during **2010** are as follows:

Inventories *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Impairment losses**	**Reversal of impairment losses**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Raw materials and supplies	611.6	10.0	-	-	3.5	17.9	(34.8)	(14.9)	593.3
Work-in-progress	287.1	107.0	-	-	0.9	9.1	45.3	14.2	463.6
Other inventories[1]	154.2	(1.3)	-	-	-	6.1	(13.1)	7.8	153.7
INVENTORIES AND WORK-IN-PROGRESS, GROSS	**1,052.9**	**115.7**	**-**	**-**	**4.4**	**33.1**	**(2.6)**	**7.1**	**1,210.6**
IMPAIRMENT LOSSES ON INVENTORIES AND WORK-IN-PROGRESS	**(74.9)**	**-**	**(44.5)**	**37.6**	**(0.3)**	**(1.2)**	**1.8**	**1.5**	**(80.0)**
INVENTORIES AND WORK-IN-PROGRESS, NET	**978.0**	**115.7**	**(44.5)**	**37.6**	**4.1**	**31.9**	**(0.8)**	**8.6**	**1,130.6**

(1) Including CO_2 inventories.

Recap: Movements in operating receivables during **2010** are as follows:

Operating receivables *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Impairment losses[1]**	**Reversal of impairment losses[1]**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets/ liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Trade receivables	9,638.3	268.9	-	-	136.8	191.5	(115.6)	(267.1)	9,852.8
Impairment losses on trade receivables	(560.3)	-	(150.6)	116.4	(23.4)	(9.8)	15.1	12.2	(600.4)
TRADE RECEIVABLES, NET[2]	**9,078.0**	**268.9**	**(150.6)**	**116.4**	**113.4**	**181.7**	**(100.5)**	**(254.9)**	**9,252.4**
Other current operating receivables	1,178.0	(0.9)	-	-	34.9	29.7	(11.0)	(43.2)	1,187.5
Impairment losses on other current operating receivables	(76.8)	-	(15.1)	18.9	0.8	(0.6)	0.6	(5.7)	(77.9)
OTHER OPERATING RECEIVABLES, NET[2]	**1,101.2**	**(0.9)**	**(15.1)**	**18.9**	**35.7**	**29.1**	**(10.4)**	**(48.9)**	**1,109.6**
Other receivables[3]	728.4	13.0	-	0.1	5.8	39.6	5.3	7.9	800.1
Tax receivables	1,333.7	44.2	-	-	6.4	9.3	(11.2)	(55.8)	1,326.6
OPERATING RECEIVABLES, NET	**12,241.3**	**325.2**	**(165.7)**	**135.4**	**161.3**	**259.7**	**(116.8)**	**(351.7)**	**12,488.7**

(1) Impairment losses are recorded in operating income and included in the line "Changes in working capital" in the Consolidated Cash Flow Statement.

(2) Financial assets as defined by IAS 39, valued in accordance with the rules applicable to loans and receivables.

(3) Receivables recognized on a percentage completion basis in respect of construction activities and prepayments.

Recap: Movements in operating payables during **2010** are as follows:

Operating payables *(€ million)*	**As of December 31, 2009**	**Changes in business**	**Changes in consolidation scope**	**Foreign exchange translation**	**Transfers to assets / liabilities classified as held for sale**	**Other**	**As of December 31, 2010**
Trade payables[(1)]	5,312.2	272.2	56.1	138.0	(25.1)	(218.1)	5,535.3
Other operating payables[(1)]	4,933.4	226.6	122.0	113.0	(74.5)	11.5	5,332.0
Other liabilities[(2)]	1,324.4	(2.4)	17.0	25.0	(13.9)	(9.9)	1,340.2
Tax and employee-related liabilities	1,506.9	109.3	10.7	18.2	(5.9)	(72.8)	1,566.4
OPERATING PAYABLES	**13,076.9**	**605.7**	**205.8**	**294.2**	**(119.4)**	**(289.3)**	**13,773.9**

(1) Financial liabilities as defined by IAS 39, measured at amortized cost.

(2) Primarily deferred income.

Note 14 Cash and cash equivalents

Movements in cash and cash equivalents and bank overdrafts and other cash position items during **2012** are as follows:

(€ million)	As of December 31, 2011	Changes in business	Changes in consolidation scope	Fair value adjustments[1]	Foreign exchange translation	Transfers to assets / liabilities classified as held for sale	Other	As of December 31, 2012
Cash	1,141.1	76.5	(103.9)	-	(3.9)	(79.1)	(5.7)	1,025.0
Cash equivalents	4,582.8	18.6	18.4	-	10.4	5.3	(112.7)	4,522.8
CASH AND CASH EQUIVALENTS	**5,723.9**	**95.1**	**(85.5)**	**-**	**6.5**	**(73.8)**	**(118.4)**	**5,547.8**
Bank overdrafts and other cash position items	**440.2**	**(164.1)**	**4.7**	**-**	**(1.0)**	**5.1**	**3.8**	**288.7**
Net cash	**5,283.7**	**259.2**	**(90.2)**	**-**	**7.5**	**(78.9**	**(122.2)**	**5,259.1**

(1) Fair value adjustments are recorded in financial income and expenses.

Transfers to assets classified as held for sale mainly concern the net cash of Water Division activities in Morocco (-€25.9 million) and wind energy activities (-€68.0 million).

As of December 31, 2012, cash and cash equivalents total €5,547.8 million, compared with €5,723.9 million as of December 31, 2011. This heading includes cash balances and cash equivalents "subject to restrictions" of €352 million as of December 31, 2012.

As of December 31, 2012, the Water Division held cash of €419.4 million, the Environmental Services Division held cash of €200.3 million, the Energy Services Division held cash of €214.4 million, Veolia Environnement SA held cash of €114.9 million and certain subsidiaries (primarily insurance) held cash of €76.0 million.

Surplus cash balances of other Group subsidiaries, not pooled at Veolia Environnement SA level, are invested in accordance with procedures defined by the Group. Note 27.3.2 – Management of liquidity risk, presents a breakdown of investments by nature.

As of December 31, 2012, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,234.7 million including monetary UCITS of €3,210.4 million, negotiable debt instruments (bank certificates of deposit, negotiable medium term notes and treasury notes with a maturity of less than three months) of €399.0 million and term deposit accounts of €625.3 million. Cash equivalents are accounted for as assets at fair value through the Consolidated Income Statement.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts.

Recap: Movements in cash and cash equivalents during **2011** are as follows:

(€ million)	As of December 31, 2010	Changes in business	Changes in consolidation scope	Fair value adjustments[(1)]	Foreign exchange translation	Transfers to assets / liabilities classified as held for sale	Other	As of December 31, 2011
Cash	1,429.9	(73.5)	(11.2)	-	5.3	(176.0)	(33.4)	1,141.1
Cash equivalents	3,976.9	584.0	(2.9)	-	(0.3)	(2.9)	28.0	4,582.8
CASH AND CASH EQUIVALENTS	**5,406.8**	**510.5**	**(14.1)**	**-**	**5.0**	**(178.9)**	**(5.4)**	**5,723.9**
Bank overdrafts and other cash position items	**387.0**	**82.5**	**(1.0)**		**(1.0)**	**(29.3)**	**-**	**440.2**
Net cash	**5,019.8**	**428.0**	**(13.1)**	**-**	**4.0**	**(149.6)**	**(5.4)**	**5,283.7**

(1) Fair value adjustments are recorded in financial income and expenses.

Transfers to assets classified as held for sale mainly concern the net cash of the Veolia Transdev group reclassified as discontinued operations (-€136.7 million) and the net cash of Citelum (-€14.1 million) in the Energy Services Division.

As of December 31, 2011, cash and cash equivalents total €5,723.9 million, compared with €5,406.8 million as of December 31, 2010. This heading includes cash balances "subject to restrictions" of €420 million as of December 31, 2011.

As of December 31, 2011, the Water Division held cash of €561.2 million, the Environmental Services Division held cash of €218.7 million, the Energy Services Division held cash of €208.0 million, Veolia Environnement SA held cash of €79.1 million and certain subsidiaries (primarily insurance) held cash of €74.1 million.

Investment supports used by the Group include monetary UCITS (Undertakings for Collective Investment in Transferable Securities), negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) and monetary notes.

Surplus cash balances of other Group subsidiaries, not pooled at Veolia Environnement SA level, are invested in accordance with procedures defined by the Group. Note 27.3.2 – Management of liquidity risk, presents a breakdown of investments by nature.

As of December 31, 2011, cash equivalents were primarily held by Veolia Environnement SA in the amount of €4,204.2 million including monetary UCITS of €1,883.9 million, negotiable debt instruments (bank certificates of deposit and treasury notes with a maturity of less than three months) of €794.0 million, monetary notes of €219.1 million and term deposit accounts of €1,307.2 million. Cash equivalents are accounted for as assets at fair value through the Consolidated Income Statement. These instruments are held between 1 and 90 days.

Bank overdrafts and other cash position items consist of credit balances on bank accounts and related accrued interest payable, corresponding to brief overdrafts.

Note 15 Equity

15.1 Share capital management objectives, policies and procedures

Veolia Environnement manages its share capital within the framework of a prudent and rigorous financial policy that seeks to ensure easy access to French and international capital markets, to enable investments in projects that create value and provide shareholders with a satisfactory remuneration, while maintaining an "Investment Grade" credit rating.

This policy has led Veolia Environnement to define a debt coverage ratio: Net financial debt / (Operating cash flow before changes in working capital + principal payments on operating financial assets) of 3 to 2014 +/-5%. This objective will be updated from January 1, 2013 in line with the application of the new consolidation standards.

Net financial debt is equal to gross borrowings (non-current borrowings, current borrowings, bank overdrafts and other cash position items), less cash and cash equivalents and excluding fair value adjustments to derivatives hedging debt.

15.2 Equity attributable to owners of the Company

15.2.1 Share capital

The share capital is fully paid up.

Share capital increases

In 2010, Veolia Environnement performed a share capital increase of €79 million on the payment of scrip dividends. As decided at the Annual General Shareholders' Meeting of May 7, 2010, the Group offered shareholders a choice of payment of the dividend in cash or shares. The option to receive payment of the dividend in shares led to the creation of 3,732,018 shares.

In addition, in 2010, Veolia performed a share capital increase (including additional-paid-in capital) reserved for members of Group employee savings plans of €30 million (excluding issuance costs).

In 2011, Veolia Environnement performed a share capital increase of €1.2 million following the exercise of share purchase and subscription options.

In addition, Veolia Environnement performed a share capital increase of €382.7 million (net of issuance costs) on the payment of scrip dividends. As decided at the Annual General Shareholders' Meeting of May 17, 2011, the Group offered shareholders a choice of payment of the dividend in cash or shares. The option to receive payment of the dividend in shares led to the creation of 20,462,396 shares.

In 2012, Veolia Environnement performed a share capital increase of €23.9 million on the payment of scrip dividends. As decided at the Annual General Shareholders' Meeting of May 16, 2012, the Group offered shareholders a choice of payment of the dividend in cash or shares. The option to receive payment of the dividend in shares led to the creation of 2,433,889 shares.

Number of shares outstanding and par value

The number of shares outstanding was 499,126,367 as of December 31, 2010, 519,652,960 as of December 31, 2011 and 522,086,849 as of December 31, 2012 (including treasury shares). The par value of each share is €5.

Authorized but unissued shares

The Veolia Environnement combined general shareholders' meeting grants two types of share issuance authorizations to the Board of Directors: (i) authorizations for the issuance of new shares, which are collectively limited to 70% of the number of shares outstanding on the date of the general shareholders' meeting; and (ii) authorizations for the preferential issuance of warrants, which is limited to 25% of the number of shares outstanding on the date of the decision to issue and which may only be used in the context of an outstanding tender offer on the Company's shares. The first category of authorizations yields an exact number of authorized but unissued shares, whereas the number of shares authorized but unissued under the second category of authorizations will depend on the number of shares already outstanding on the date of the decision. Both types of authorizations, with the same limitations on issuance, i.e. 70% and 25%, were approved at the combined general shareholders' meetings in 2009 and 2010.

Fiscal years 2010, 2011 and 2012

For 2010, authorized but unissued shares under the first category amounted to 345,541,261 shares on the basis of 493,630,374 shares outstanding on May 7, 2010, the date of the general shareholders' meeting voting the authorizations.

As of December 31, 2010, 5,424,880 shares had been issued from among the 345,541,261 above-mentioned authorized shares.

For 2011, authorized but unissued shares under the first category amounted to 349,388,456 shares on the basis of 499,126,367 shares outstanding on May 17, 2011, the date of the combined general shareholders' meeting.

As of December 31, 2011, 20,462,396 shares had been issued from among the 349,388,456 above-mentioned authorized shares.

For 2012, authorized but unissued shares under the first category amounted to 363,757,072 shares on the basis of 519,652,960 shares outstanding on May 16, 2012, the date of the general shareholders' meeting voting the authorizations.

As of December 31, 2012, 2,433,889 shares had been issued from among the 363,757,072 above-mentioned authorized shares.

15.2.2 Offset of treasury shares against equity

In 2010, Veolia Environnement transferred 202,597 shares as consideration for a minority interest buy-out (external growth) transaction performed by a subsidiary for an amount of €4.2 million and 190,092 shares as part of the share capital increase reserved for employees. As of December 31, 2010, the Group held 14,338,903 of its own shares.

In 2011, Veolia Environnement transferred 100,976 shares in part payment of the scrip dividend. As of December 31, 2011, the Group held 14,237,927 of its own shares.

Veolia Environnement did not purchase or sell any treasury shares in 2012.

15.2.3 Appropriation of net income and dividend distribution

A dividend of €353.8 million was distributed by Veolia Environnement SA in 2012 and deducted from "Additional paid-in capital" and "Reserves". 2011 net income attributable to owners of the Company of -€489.8 million was appropriated to "Consolidated reserves".

15.2.4 Foreign exchange translation reserves

Accumulated foreign exchange translation reserves as of January 1, 2010 are negative in the amount of €344.4 million (Group share), including -€109.3 million related to the U.S. dollar, -€320.1 million related to the pound sterling, +€81.6 million related to the Czech crown and +€25.1 million related to the Chinese renminbi yuan.

Accumulated foreign exchange translation reserves total +€23.8 million as of December 31, 2010 (Group share).

The change in foreign exchange translation reserves primarily reflects the appreciation of the Chinese renminbi yuan, the U.S. dollar and the Australian dollar against the euro in 2010. Movements in foreign exchange translation reserves are nonetheless significantly limited by the Group policy of securing borrowings in the local currency.

Accumulated foreign exchange translation reserves total +€34.9 million as of December 31, 2011 (Group share).

The change in foreign exchange translation reserves primarily reflects the appreciation of the Chinese renminbi yuan (+€124.2 million, Group share), U.S. dollar (+€33.7 million, Group share) and pound sterling (+€37.3 million, Group share) against the euro in 2011. Movements in foreign exchange translation reserves are nonetheless significantly limited by the Group policy of securing borrowings in the local currency.

Accumulated foreign exchange translation reserves total €227.5 million as of December 31, 2012 (Group share).

The change in foreign exchange translation reserves primarily reflects the release to the Consolidated Income Statement of the foreign exchange translation reserves of regulated Water activities in the United Kingdom and solid waste activities in the United States, following their divestiture in 2012 as detailed below.

It also reflects movements in the Chinese renminbi yuan (+€8.1 million, Group share), the US dollar (-€39.3 million, Group share), the Korean won (+€15.6 million) and the pound sterling (+€18.7 million) against the euro in 2012.

Movements in foreign exchange translation reserves (attributable to owners of the Company and to non-controlling interests)

(€ million)	**Total**	**o/w Attributable to owners of the Company**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	327.2	180.8
Translation differences on net foreign investments	(159.2)	(157.0)
As of December 31, 2010	**168.0**	**23.8**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	406.3	283.1
Translation differences on net foreign investments	(245.7)	(248.2)
As of December 31, 2011	**160.6**	**34.9**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	118.3	102.3
Translation differences on net foreign investments	86.4	90.3
Movements in 2012	**204.7**	**192.6**
Translation differences on the financial statements of subsidiaries drawn up in a foreign currency	524.8	385.4
Translation differences on net foreign investments	(159.5)	(157.9)
As of December 31, 2012	**365.3**	**227.5**

Amounts released from Group foreign exchange translation reserves to the Consolidated Income Statement following the divestiture of regulated Water activities in the United Kingdom and solid waste activities in the United States in the Environmental Services Division total €96.8 million and €49.9 million, respectively.

Breakdown by currency of Foreign exchange translation reserves attributable to owners of the Company

(€ million)	As of December 31, 2010	As of December 31, 2011	Movement	As of December 31, 2012
Chinese renminbi yuan	143.2	267.4	8.1	275.5
Czech Crown	95.8	72.9	5.6	78.5
Australian dollar	81.0	73.7	(6.3)	67.4
U.S. Dollar	26.6	60.3	10.6	70.9
Canadian dollar	16.4	9.7	0.2	9.9
Slovakian crown	16.4	16.4	-	16.4
Swiss franc	8.6	10.3	(5.6)	4.7
Swedish crown	7.2	0.4	(2.1)	(1.7)
Norwegian crown	5.6	0.2	0.2	0.4
Pound Sterling	(284.1)	(246.8)	115.5	(131.3)
Hong Kong dollar	(46.2)	(67.6)	10.4	(57.2)
Polish zloty	(21.7)	(30.2)	7.9	(22.3)
Romanian leu	(13.5)	(15.6)	(3.3)	(18.9)
Korean won	(12.0)	(7.2)	15.6	8.4
Mexican peso	(9.2)	(11.9)	1.5	(10.4)
Hungarian florint	(7.8)	(21.9)	10.3	(11.6)
Other currencies	17.5	(75.2)	24.0	(51.2)
TOTAL	**23.8**	**34.9**	**192.6**	**227.5**

The movement between 2011 and 2012 mainly reflects the impact on foreign exchange translation reserves of the divestiture of regulated Water activities in the United Kingdom and solid waste activities in the United States.

15.2.6 Fair value reserves

Fair value reserves attributable to owners of the Company total -€34.2 million as of December 31, 2010, -€66.7 million as of December 31, 2011 and -€60.1 million as of December 31, 2012 and break down as follows:

(€ million)	Available-for-sale securities	Commodity derivatives hedging cash flows	Foreign currency derivatives hedging cash flows	Interest rate derivatives hedging cash flows	Total	o/w Attributable to owners of the Company
As of December 31, 2010	**10.1**	**0.5**	**5.8**	**(51.6)**	**(35.2)**	**(34.2)**
Fair value adjustments	(1.9)	(2.0)	(1.5)	(33.8)	(39.2)	(34.2)
Other movements	0.6	3.0	(1.2)	0.7	3.1	1.7
As of December 31, 2011	**8.8**	**1.5**	**3.1**	**(84.7)**	**(71.3)**	**(66.7)**
Fair value adjustments	4.1	(6.9)	(2.0)	10.9	6.1	2.9
Other movements	0.9	0.3	1.8	0.8	3.8	3.7
As of December 31, 2012	**13.8**	**(5.1)**	**2.9**	**(73.0)**	**(61.4)**	**(60.1)**

Amounts are presented net of tax.

No material amounts were released to the Consolidated Income Statement in respect of interest rate derivatives hedging cash flows and recorded in finance costs and income.

15.3 Non-controlling interests

A breakdown of the movement in non-controlling interests is presented in the Statement of Changes in Equity.

The decrease in non-controlling interests in 2012 is mainly due to the dividend distribution for -€216.7 million and other movements for -€628.4 million, offset by net income for the year of €136.0 million. Other movements in 2012 mainly concern the loss of joint control of Berlin Water and its equity accounting as of December 31, 2012 (€661.5 million).

The decrease in non-controlling interests in 2011 is mainly due to the dividend distribution for -€343.9 million, offset by net income for the year of €173.2 million and transactions with non-controlling interests for €54.1 million.

The increase in non-controlling interests in 2010 is due to the dividend distribution for -€233.5 million, offset by net income for the year of €290.5 million and the various share capital increases for €104.8 million.

Note 16 Non-current and current provisions

In accordance with IAS 37 (see Note 1.13), provisions maturing after more than one year are discounted. Changes in discount rates applied to "Provisions for closure and post-closure costs" (waste storage facilities), which make up the majority of non-current provisions, are as follows:

Changes in discount rates

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Euro			
2 to 5 years	3.28 %	3.28 %	3.66 %
6 to 10 years	4.43 %	4.59 %	4.67 %
More than 10 years	5.42 %	5.67 %	5.65 %
U.S. Dollar			
2 to 5 years	3.59 %	2.72 %	3.56 %
6 to 10 years	4.53 %	4.35 %	4.75 %
More than 10 years	5.53 %	5.74 %	5.95 %
Pound Sterling			
2 to 5 years	4.17 %	3.76 %	4.32 %
6 to 10 years	4.98 %	5.04 %	5.21 %
More than 10 years	5.77 %	5.84 %	5.86 %

The discount rate calculation methodology is presented in Note 2, Use of management estimates in the application of Group accounting standards.

Movements in non-current provisions during **2012** are as follows:

(€ million)	As of December 31, 2011	Additions/ Charge	Repayment / Utilization	Reversal	Actuarial gains (losses)	Unwinding of the discount	Changes in consolidation scope	Foreign exchange translation	Non-current / current reclassification	Other	As of December 31, 2012
Tax litigation	86.4	36.8		(1.5)		0.2	(0.6)	-0.8	(23.0)	1.9	99.4
Employee litigation	4.1	2.3		(1.7)				(0.1)	(0.7)	2.3	6.2
Other litigation	47.5	9.9		(2.8)		0.5	(0.2)	(0.2)	(10.4)	3.5	47.8
Contractual commitments	279.0	193.5	(190.9)	(0.9)		0.8	0.2			(0.3)	281.4
Provisions for work-in-progress and losses to completion on long-term contracts	138.0	20.0		2.9		2.4	(10.8)	(0.1)	(33.5)	-	118.9
Closure and post-closure costs	603.0	15.4		(9.7)		79.0	(147.8)	6.4	(53.7)	13.8	506.4
Restructuring provisions	0.6	0.1		(0.1)		(0.1)			(0.6)	0.2	0.1
Self-insurance provisions	98.7	26.0		(1.0)		3.5		(0.3)	(20.2)	(0.9)	105.8
Other provisions	67.8	61.4		(6.3)		1.8	(1.7)	-	(28.7)	(1.8)	92.5
Non-current provisions excl. pensions and other employee benefits	**1,325.1**	**365.4**	**(190.9)**	**(21.1)**		**88.1**	**(160.9)**	**4.9**	**(170.8)**	**18.7**	**1,258.5**
Provisions for pensions and other employee benefits	**752.0**	**93.4**	**(145.2)**	**(9.1)**	**130.2**	**22.4**	**(48.6)**	**3.5**		**35.6**	**834.2**
NON-CURRENT PROVISIONS	**2,077.1**	**458.8**	**(336.1)**	**(30.2)**	**130.2**	**110.5**	**(209.5)**	**8.4**	**(170.8)**	**54.3**	**2,092.7**

Changes in consolidation scope mainly concern the impact of the divestiture of solid waste activities in the Environmental Services Division (-€150.2 million) and the equity accounting of Berlin Water Operations from October 31, 2012.

Movements in current provisions during **2012** are as follows:

(€ million)	As of December 31, 2011	Charge	Utilization	Reversal	Changes in consolidation scope	Foreign exchange translation	Non-current/ current reclassification	Other	As of December 31, 2012
Tax litigation	73.0	20.7	(38.8)	(23.2)	0.4	(0.7)	23.0	4.4	58.8
Employee litigation	20.6	11.5	(10.0)	(1.8)		(0.2)	0.7	3.1	23.9
Other litigation	93.8	55.4	(34.9)	(17.9)	(0.8)	0.2	10.4	(1.5)	104.7
Provisions for work-in-progress and losses to completion on long-term contracts	34.0	38.4	(31.1)	(24.3)	(1.9)	(0.5)	33.5	22.3	70.4
Closure and post-closure costs	87.2	8.4	(58.0)	(7.0)	(15.3)	1.4	53.7	14.5	84.9
Restructuring provisions	20.8	30.6	(12.4)	(12.0)	0	0.3	0.6	1.4	29.3
Self-insurance provisions	86.4	83.4	(97.2)	(13.7)	(23.6)	(0.1)	20.2	(0.8)	54.6
Other provisions	189.0	61.1	(83.2)	(25.2)	3.5	0.8	28.7	(58.3)	116.4
CURRENT PROVISIONS	**604.8**	**309.5**	**(365.6)**	**(125.1)**	**(37.7)**	**1.2**	**170.8**	**(14.9)**	**543.0**

Changes in consolidation scope mainly concern the impact of the divestiture of solid waste activities in the Environmental Services Division.

Other movements mainly concern the transfer to "Liabilities associated with assets classified as held for sale" of Water concession activities in Morocco.

Movements in current and non-current provisions break down as follows:

Litigation

This provision covers all losses that are considered probable and that relate to litigation (taxation, employee or other) arising in the normal course of Veolia Environnement's business operations.

Additional information on the main litigation (particularly estimates of financial impacts) is presented in Note 36.

Provisions for litigation total €340.8 million as of December 31, 2012, compared with €325.4 million as of December 31, 2011.

The Water, Energy Services and Environmental Services Divisions account for €153.8 million, €69.8 million and €72.4 million of these provisions, respectively, as of December 31, 2012.

Contractual commitments

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

These provisions total €281.4 million as of December 31, 2012 and primarily concern the Water and Energy Services Divisions in the amount of €175.0 million and €106.4 million, respectively.

Provisions for work-in-progress and losses to completion on long-term contracts

These provisions total €189.3 million as of December 31, 2012 and mainly concern activities of the Environmental Services Division in the amount of €100.0 million and of the Water Division in the amount of €81.9 million.

Closure and post-closure costs

This provision encompasses the legal and contractual obligations of the Group on the completion of operating activities at a site (primarily site rehabilitation provisions) and, more generally, expenditure associated with environmental protection as defined in the ethics charter of each entity (provision for environmental risks).

These provisions total €591.3 million and mainly concern:

- The Environmental Services Division in the amount of €520.7 million in 2012, compared with €617.6 million in 2011 and €636.8 million in 2010;
- The Energy Services Division in the amount of €53.4 million in 2012, compared with €60.1 million in 2011 and €64.4 million in 2010.

The decrease in these provisions is mainly due to the divestiture of solid waste activities in the Environmental Services Division in the amount of €159.9 million and changes in interest rates and the unwinding of the discount in the amount of €79.0 million.

By nature of obligation, these provisions concern:

- **Provisions for site rehabilitation** which cover obligations relating to closure and post-closure costs at waste disposal facilities operated by the Group and for which it is responsible. These provisions primarily concern the Environmental Services Division. Forecast site rehabilitation costs are provided pro rata to waste tonnage deposited over the authorized duration of the sites and total €503.7 million at the end of 2012, including €464.7 million in respect of the Environmental Services Division compared with €626.2 million at the end of 2011 and €590.6 million at the end of 2010;
- **Provisions for environmental risks** in the amount of €67.0 million in 2012 compared with €43.1 million in 2011 and €41.9 million in 2010;
- **Provisions for plant dismantling**, essentially in the Water, Energy Services and Environmental Services Division in the amount of €20.6 million in 2012, compared with €20.9 million in 2011 and €30.2 million in 2010.

Self-insurance provisions

As of December 31, 2012, self-insurance provisions total €160.4 million, compared with €185.1 million as of December 31, 2011. They were mainly recorded by Group insurance and reinsurance subsidiaries in the amount of €102.1 million, the Energy Services Division in the amount of €38.5 million and the Environmental Services Division in the amount of €9.7 million.

Other provisions

Other provisions include various obligations recorded as part of the normal operation of the Group's subsidiaries and which are of immaterial individual amount.

Overall these **other provisions** total €208.9 million as of December 31, 2012, compared with €256.8 million as of December 31, 2011 and mainly concern:

- the Water Division in the amount of €123.0 million as of December 31, 2012, compared with €129.1 million as of December 31, 2011;
- the Environmental Services Division in the amount of €50.7 million as of December 31, 2012, compared with €89.2 million as of December 31, 2011;
- the Energy Services Division in the amount of €32.2 million as of December 31, 2012, compared with €43.4 million as of December 31, 2011.

Provisions for pensions and other employee benefits

Provisions for pensions and other employee benefits as of December 31, 2012 total €834.2 million, and include provisions for pensions and other post-employment benefits of €724.4 million (governed by IAS 19 and detailed in Note 29, Employee benefit obligation) and provisions for other long-term benefits of €109.8 million.

Recap: Movements in non-current provisions during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Additions/ Charge**	**Repayment / Utilization**	**Reversal**	**Actuarial gains (losses)**	**Unwinding of the discount**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current / current reclassification**	**Other**	**As of December 31, 2011**
Tax litigation	109.6	14.9	-	(6.5)	-	0.1	1.4	(0.2)	(32.6)	(0.3)	86.4
Employee litigation	9.8	3.1	-	(1.0)	-	-	(1.8)	(0.0)	(0.5)	(5.5)	4.1
Other litigation	114.6	16.4	-	(12.4)	-	0.6	(0.6)	0.4	(55.0)	(16.5)	47.5
Contractual commitments	180.9	179.7	(177.4)	(1.8)	-	1.4	3.1	0.2	-	92.9	279.0
Provisions for work-in-progress and losses to completion on long-term contracts	205.8	16.2	-	(11.2)	-	4.6	(57.1)	1.1	(25.1)	3.7	138.0
Closure and post-closure costs	615.5	3.5	-	(3.7)	-	65.8	(24.5)	4.7	(62.0)	3.7	603.0
Restructuring provisions	1.2	0.5	-	(0.0)	-	(0.0)	0.8	(0.0)	(1.3)	(0.6)	0.6
Self-insurance provisions	116.8	34.9	-	(12.4)	-	1.8	(9.4)	0.6	(17.6)	(16.0)	98.7
Other provisions	78.9	35.0	-	(3.7)	-	1.5	(10.1)	(0.3)	(11.9)	(21.6)	67.8
Non-current provisions excl. pensions and other employee benefits	**1,433.1**	**304.2**	**(177.4)**	**(52.7)**	**-**	**75.8**	**(98.2)**	**6.5**	**(206.0)**	**39.8**	**1,325.1**
Provisions for pensions and other employee benefits	**880.8**	**103.0**	**(120.9)**	**(28.2)**	**33.8**	**22.1**	**(54.7)**	**3.3**	**-**	**(87.2)**	**752.0**
NON-CURRENT PROVISIONS	**2,313.9**	**407.2**	**(298.3)**	**(80.9)**	**33.8**	**97.9**	**(152.9)**	**9.8**	**(206.0)**	**(47.4)**	**2,077.1**

Recap: Movements in current provisions during **2011** are as follows:

(€ million)	**As of December 31, 2010**	**Charge**	**Utilization**	**Reversal**	**Changes in consolidation scope**	**Foreign exchange translation**	**Non-current/ current reclassification**	**Other**	**As of December 31, 2011**
Tax litigation	47.1	43.5	(46.1)	(3.4)	(2.8)	(0.4)	32.6	2.5	73.0
Employee litigation	25.6	16.0	(10.3)	(2.2)	(5.0)	(0.1)	0.5	(3.9)	20.6
Other litigation	127.5	36.5	(59.6)	(34.1)	3.4	0.2	55.0	(35.1)	93.8
Provisions for work-in-progress and losses to completion on long-term contracts	89.7	18.1	(74.1)	(4.1)	(10.8)	(0.4)	27.6	(12.0)	34.0
Closure and post-closure costs	99.7	5.9	(49.2)	(29.0)	1.0	(0.1)	62.0	(3.1)	87.2
Restructuring provisions	13.9	22.0	(9.4)	(4.3)	(0.4)	(0.6)	1.3	(1.7)	20.8
Self-insurance provisions	101.4	89.1	(88.4)	(9.1)	(13.5)	1.0	17.6	(11.7)	86.4
Other provisions	185.0	111.4	(94.0)	(18.9)	(17.7)	(0.1)	9.3	14.0	189.0
CURRENT PROVISIONS	**689.9**	**342.5**	**(431.1)**	**(105.1)**	**(45.8)**	**(0.5)**	**205.9**	**(51.0)**	**604.8**

Note 17 Non-current and current borrowings

	As of December 31,								
	Non-current			Current			Total		
(€ million)	2012	2011	2010	2012	2011	2010	2012	2011	2010
Bond issues	**10,870.6**	**13,076.2**	**13,625.7**	**834.5**	**690.8**	**17.1**	**11,705.1**	**13,767.0**	**13,642.8**
• maturing in < 1 year	-	-	-	834.5	690.8	17.1	834.5	690.8	17.1
• maturing in 2-3 years	1,904.2	2,400.9	2,004.5	-	-	-	1,904.2	2,400.9	2,004.5
• maturing in 4-5 years	1,810.8	2,127.1	2,382.0	-	-	-	1,810.8	2,127.1	2,382.0
• maturing in > 5 years	7,155.6	8,548.2	9,239.2	-	-	-	7,155.6	8,548.2	9,239.2
Other borrowings	**2,213.1**	**3,630.5**	**4,270.4**	**2,794.7**	**3,251.5**	**2,810.0**	**5,007.8**	**6,882.0**	**7,080.4**
• maturing in < 1 year	-	-	-	2,794.7	3,251.5	2,810.0	2,794.7	3,251.5	2,810.0
• maturing in 2-3 years	966.5	1,050.2	1,429.8	-	-	-	966.5	1,050.2	1,429.8
• maturing in 4-5 years	384.2	493.4	572.2	-	-	-	384.2	493.4	572.2
• maturing in > 5 years	862.4	2,086.9	2,268.4	-	-	-	862.4	2,086.9	2,268.4
TOTAL NON-CURRENT AND CURRENT BORROWINGS	**13,083.7**	**16,706.7**	**17,896.1**	**3,629.2**	**3,942.3**	**2,827.1**	**16,712.9**	**20,649.0**	**20,723.2**

The heading "Net increase/decrease in current borrowings" in the Consolidated Cash Flow Statement includes redemptions of current bonds in the amount of €698.1 million in 2012 and increases and repayments of other current borrowings of -€641.4 million. This heading does not include accrued interest payable of €70.6 million in 2012, presented on the line "Interest paid" in the Consolidated Cash Flow Statement.

The heading "New non-current borrowings and other debts" in the Consolidated cash Flow Statement includes non-current bond issues in the amount of €738.9 million in 2012 and new other non-current borrowings of €647.1 million. However, it excludes new finance lease obligations of €59.9 million in 2012, presented in investment flows.

The heading "Principal payments on non-current borrowings and other debts" in the Consolidated Cash Flow Statement includes redemptions of non-current bonds in the amount of €1,573.7 million in 2012 and principal payments on other non-current borrowings of €85.9 million.

17.1 Movements in non-current and current bond issues

Movements in non-current and current bond issues during **2012** are as follows:

(€ million)	As of December 31, 2011	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments[(1)]	Foreign exchange translation	Non-current/ current reclassification	Other	As of December 31, 2012
Non-current bonds	13,076.2	738.9	(1,573.7)	(246.4)	(390.3)	106.9	(841.0)	-	10,870.6
Current bonds	690.8	-	(698.1)	-	(0.4)	0.2	841.0	1.0	834.5
TOTAL BONDS	**13,767.0**	**738.9**	**(2,271.8)**	**(246.4)**	**(390.7)**	**107.1**	**-**	**1.0**	**11,705.1**

(1) Fair value adjustments are recorded in financial income and expenses.

Non-current borrowings are recorded as financial liabilities at amortized cost for accounting purposes. Hedging transactions were entered into in respect of certain fixed-rate borrowings. Fair value hedge accounting was applied to these transactions.

Increases and **repayments** mainly comprise:

- The early refinancing between March 19 and 27, 2012 of a portion of the bond lines maturing in May 2013, April 2014, January 2017 and May 2018 in the amounts of €49.7 million (4.875% coupon), €430.8 million (5.25% coupon), €139.5 million (4.375% coupon) and €130 million (5.375% coupon) respectively, representing a total of €750 million, by issuing a new bond line in the same amount maturing in March 2027 and paying a coupon of 4.625%;
- The issue by Veolia Environnement, under its EMTN program, of a new CNY 500 million (€63.3 million at the issue date) bond line on June 26, 2012, maturing June 2017, to finance the requirements of its subsidiaries in China.
- The repayment of the bond line maturing February 2012 in the amount of €671 million;
- The early redemption, on January 9, 2012, of US private placements performed in January 2003, in a euro-equivalent amount of €350 million;
- The partial redemption, in November and December 2012, of bonds in a total amount of USD 203 million on the USD bond lines maturing in 2015 and 2018 and €597 million on the EUR bond lines maturing in 2016 and 2017 (see also Note 3).

Non-current/current reclassifications concern the European public issue maturing in May 2013 in the amount of €437 million and the public issue on the US market maturing in June 2013 in the amount of €377 million.

Changes in consolidation scope primarily concern the removal of the bond line carried by regulated Water activities in the United Kingdom, divested during the year, in the euro-equivalent amount of €246 million.

Non-current bonds break down by maturity as follows:

(€ million)	As of December 31, 2010	As of December 31, 2011	As of December 31, 2012	Maturing in 2 to 3 years	Maturing in 4 to 5 years	Maturing in > 5 years
Publicly offered or traded issuances[(a)]	12,836.0	12,264.2	10,645.6	1,851.3	1,773.1	7,021.2
European market[(i)]	11,403.0	10,940.1	9,859.5	1,851.3	1,773.1	6,235.1
U.S. market[(ii)]	1,433.0	1,324.1	786.1	-	-	786.1
Private placements[(b)]	324.9	338.8	-	-	-	-
Three Valleys bond issue[(c)]	228.4	235.5	-	-	-	-
Stirling Water Seafield Finance bond issue[(d)]	90.2	89.2	87.2	9.0	10.3	67.9
Other amounts < €50 million in 2012	146.2	148.5	137.8	43.9	27.4	66.5
NON-CURRENT BOND ISSUES	**13,625.7**	**13,076.2**	**10,870.6**	**1,904.2**	**1,810.8**	**7,155.6**

(a) Publicly offered or traded issuances.

(i) European market: As of December 31, 2012, an amount of €10,296.8 million is recorded in the Consolidated Statement of Financial Position in respect of bonds issued under the European Medium Term Notes (EMTN) Program, including €9,859.5 million maturing in more than one year. The impact of the fair value measurement of hedged interest rate risk is €147.0 million at the year-end (non-current portion).

During the fourth quarter of 2012, Veolia Environnement bought back €341 million of the bond line maturing in February 2016 (4.0% coupon), reducing nominal outstandings to €559 million and €256 million of the bond line maturing in January 2017 (4.375% coupon), reducing nominal outstandings to €744 million.

(ii) U.S. market: As of December 31, 2012, nominal outstandings on the bond issues performed in the United States on May 27, 2008 total €1,089.1 million (euro equivalent), including €717.6 million (euro-equivalent) maturing in more than one year. The non-current portion recognized in the Consolidated Statement of Financial Position is €786.1 million (including fair value adjustments of €17.3 million). These fixed-rate bond issues total USD 1.4 billion and comprise three tranches:

- *Tranche 1, maturing June 3, 2013, of USD 490 million, bearing fixed-rate interest of 5.25% (reclassified in current bond issues as of December 31, 2012);*
- *Tranche 2, maturing June 1, 2018, of USD 547 million, bearing fixed-rate interest of 6%; USD 153 million was bought back in December 2012*
- *Tranche 3, maturing June 1, 2038, of USD 400 million, bearing fixed-rate interest of 6.75%;*

(b) Private placements: the private placements were redeemed early on February 2, 2012 in the amount of €350 million (euro-equivalent)

(c) VW Central (formerly Three Valleys) bond issue: the £200 million bond issue performed by VW Central in the U.K. (Water Division) in July 2004, bearing interest of 5.875%, was removed from the accounts following the divestiture of regulated Water activities in the United Kingdom.

(d) Stirling Water Seafield Finance bond issue: the outstanding balance as of December 31, 2012 on the amortizable bond issue performed in 1999 by Stirling Water Seafield Finance (Veolia Water UK subsidiary, Water Division), is £78.4 million. This bond issue is recognized at amortized cost for a euro equivalent of €87.2 million as of December 31, 2012 (non-current portion). This bond matures on September 26, 2026.

Breakdown of non-current bond issues by component:

Transaction *(all amounts are in € million)*	**Final maturity**	**Currency**	**Nominal**	**Interest rate**	**Net carrying amount**
Series 11	05/28/2018	EUR	620	5.375 %	716
Series 12	11/25/2033	EUR	700	6.125 %	695
Series 15	06/17/2015	EUR	875	1.75% (indexed to European inflation)	1,013
Series 17	02/12/2016	EUR	559	4.000 %	598
Series 18	12/11/2020	EUR	600	4.375 %	678
Series 21	01/16/2017	EUR	744	4.375 %	853
Series 23	05/24/2022	EUR	1,000	5.125 %	1,077
Series 24	10/29/2037	GBP	796	6.125 %	822
Series 25	04/24/2014	EUR	819	5.250 %	838
Series 26	04/24/2019	EUR	750	6.750 %	800
Series 27	06/29/2017	EUR	250	5.700 %	263
Series 28 (PEO)	01/06/2021	EUR	834	4.247 %	780
Series 29 (PEO)	03/30/2027	EUR	750	4.625 %	667
Series 30	06/26/2017	CNY	61	4.500 %	60
Total bond issues (EMTN)	**N/A**	**N/A**	**9,358**	**N/A**	**9,860**
USD Series Tranche 2	01/06/2018	USD	414	6.000 %	454
USD Series Tranche 3	01/06/2038	USD	303	6.750 %	332
Total publicly offered or traded issuances in USD	**N/A**	**N/A**	**717**		**786**
Stirling Water Seafield Finance bond issue	09/26/2026	GBP	96	5.822 %	87
Total principle bond issues	**N/A**	**N/A**	**10,171**	**N/A**	**10,733**
Total other bond issues	**N/A**	**N/A**		**N/A**	**138**
TOTAL NON-CURRENT BOND ISSUES	**N/A**	**N/A**		**N/A**	**10,871**

Recap: Movements in non-current and current bond issues during 2011 are as follows:

(€ million)	**As of December 31, 2010**	**Increases/ subscriptions**	**Repayments**	**Changes in consolidation scope**	**Fair value adjustments[(1)]**	**Foreign exchange translation**	**Non-current/ current reclassification**	**Other**	**As of December 31, 2011**
Non-current bonds	13,625.7	124.5	(194.6)	-	150.6	63.5	(693.5)	-	13,076.2
Current bonds	17.1	-	(20.5)	1.1	-	0.6	693.5	(1.0)	690.8
TOTAL BONDS	**13,642.8**	**124.5**	**(215.1)**	**1.1**	**150.6**	**64.1**	**-**	**(1.0)**	**13,767.0**

(1) Fair value adjustments are recorded in financial income and expenses.

17.2 Movements in other borrowings

(€ million)	As of December 31, 2011	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments[1]	Foreign exchange translation	Non-current / current reclassification	Transfers to Liabilities classified as held for sale	Other	As of December 31, 2012
Other non-current borrowings	3,630.5	647.1	(85.9)	(1,288.3)	0.3	8.0	(478.0)	(227.3)	6.7	2,213.1
Other current borrowings	3,251.5	406.2	(1,047.6)	(343.7)	5.6	42.4	478.0	20.4	(18.1)	2,794.7
OTHER BORROWINGS	**6,882.0**	**1,053.3**	**(1,133.5)**	**(1,632.0)**	**5.9**	**50.4**	**-**	**(206.9)**	**(11.4)**	**5,007.8**

(1) Fair value adjustments are recorded in financial income and expenses.

The decrease in other non-current borrowings in **2012** breaks down as follows:

Increases and repayments mainly concern draw-downs on project debt and on the Polish zloty syndicated loan facility.

Changes in consolidation scope mainly concern the removal of the BWB debt in line with its change to equity accounting in the amount of €1,346 million.

Transfers to liabilities classified as held for sale mainly concern the transfer to Liabilities directly associated with assets classified as held for sale of other borrowings held by Morocco Water in line with the reclassification to discontinued operations of these activities (€272.4 million).

Breakdown of other **non-current borrowings** by main component:

(€ million)	As of December 31, 2010	As of December 31, 2011	As of December 31, 2012	Maturing in		
				2 to 3 years	4 to 5 years	> 5 years
BWB and SPE debts[(a)]	1,334.9	1,325.8	-	-	-	-
Finance lease obligations[(b)]	571.1	434.5	346.4	103.9	70.2	172.3
Multi-currency syndicated loan facility[(c)]	345.5	307.3	392.7	392.7	-	-
Shenzhen[(d)]	107.8	112.6	107.5	15.1	21.3	71.1
Non-controlling interest put options (Note 1.14.5)[(e)]	18.1	34.8	122.2	121.6	-	0.6
VSA Tecnitalia[(f)]	76.8	-	-	-	-	-
Redal[(g)]	90.4	82.3	-	-	-	-
Cogevolt [(h)]	34.7	-	-	-	-	-
Syndicated loan facility in CZK[(i)]	59.9	-	-	-	-	-
Glen Water Holding Ltd.[(j)]	77.5	78.4	79.1	3.3	9.7	66.1
VID[(k)]	78.9	73.8	71.2	10.3	11.1	49.8
SHARQIYAH[(l)]	52.1	50.2	89.0	13.7	13.7	61.6
Shanghai Pudong[(m)]	75.9	57.1	76.6	29.9	21.6	25.1
Other amounts < €70 million	1346.9	1,073.7	928.4	276.0	236.6	415.8
OTHER NON-CURRENT BORROWINGS	**4,270.4**	**3,630.5**	**2,213.1**	**966.5**	**384.2**	**862.4**

(a) BWB and SPE debts: The Berliner Wasser Betriebe ("BWB" in the Water Division) non-current borrowing, were deconsolidated in line with the equity accounting of BWB from October 31, 2012.

(b) Finance lease obligations: as of December 2012, finance lease obligations fall due between 2013 and 2045. Interest rates are fixed or floating (indexed to EONIA, euro T4M and euro TAM or their equivalent for financing in other currencies).

(c) Multi-currency syndicated loan facility: this €4 billion multi-currency syndicated loan facility maturing in 2012 was refinanced early in April 2011 by two syndicated loan facilities: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint. Both facilities include two one-year extension options that were exercised and accepted in 2012. As of December 31, 2012, the Polish zloty syndicated loan facility was drawn in the amount of PLN 1,600 million (euro equivalent of €392.7 million).

(d) Shenzhen: this financing, which concerns the comprehensive water management contract for the town of Shenzhen, is carried by Beijing Capital VW Invest. Co, proportionately consolidated (50%), in the amount of €107.5 million (euro equivalent) as of December 31, 2012. This Chinese renminbi yuan redeemable loan matures in June 2022 and bears interest to December 2013 at a fixed-rate of 6.55%, now revisable each year.

(e) The increase in non-controlling interest put options reflects the commitment granted by the Group on the acquisition of SPEC in the amount of €9.3 million and a new commitment in respect of Veolia Voda in the amount of €102.5 million.

(f) VSA Tecnitalia: this borrowing was transferred to current borrowings as of December 31, 2011.

(g) Redal: this debt was reclassified to liabilities directly associated with assets held for sale as of December 31, 2012.

(i) Cogevolt: this securitization of future receivables was organized to finance cogeneration installations in the Energy Services Division and matured in May 2012.

(i) Syndicated loan facility in CZK: this CZK 12 billion syndicated loan facility arranged by Komerční Banka, Crédit Lyonnais and ING Bank in favor of Veolia Environnement, refinanced in 2005 the five-year CZK 8 billion syndicated loan facility negotiated in November 2003. It included a CZK 8 billion tranche which matured on July 29, 2010 and a CZK 4 billion redeemable tranche which matured on July 27, 2012.

(j) Glen Water: debt carried by Glen Water Holding Ltd proportionately consolidated in the amount of 50%. It matures in December 2030, bears interest at a rate of 6.047% and amounts to €79.1 million as of December 31, 2012.

(k) VID: financing carried by V.I.D. Desalination Company Ltd in respect of the Ashkelon project, proportionately consolidated in the amount of 50%, of €71.2 million as of December 31, 2012. This financing primarily consists of an amortizable loan bearing interest at a rate of 7.75% and maturing in 2026.

(l) Sharquiyah: financing carried by Sharqiyah Desalination Company, fully consolidated from August 2, 2012, of €89.0 million as of December 31, 2012. This floating-rate financing, maturing in December 2028, is hedged 76% by a 6.10% fixed rate swap.

(m) Shanghai Pudong: financing carried by Shanghai Pudong – Veolia Water Corp Ltd, proportionately consolidated in the amount of 50%, of €76.6 million (euro-equivalent) as of December 31, 2012. This financing comprises various Chinese renminbi yuan loans with maturities up to 2026.

Current borrowings are recorded as financial liabilities at amortized cost for accounting purposes.

Other **current borrowings** total €2,794.7 million as of December 31, 2012, compared with €3,251.5 million as of December 31, 2011 and €2,810.0 million as of December 31, 2010.

Increases and repayments of other current borrowings in **2012** mainly reflect the increase in treasury notes issued in the amount of €444 million and the arrival at maturity of the securitization program in May 2012 (€391 million as of

December 31, 2011), the decrease in the debt to Caisse des dépôts et consignations in respect of Veolia Transdev cash surpluses invested by Veolia Environnement S.A. (-€110 million) and principal payments on project debts during the year.

Changes in consolidation scope mainly concern the deconsolidation of the BWB debt in line with its equity accounting in the amount of €116.3 million.

As of December 31, 2012, current borrowings mainly concern:

- Veolia Environnement SA for €2,180.8 million (including bond issues of €814.2 million, treasury notes of €943.6 million and accrued interest on debt of €279.9 million);
- The Water Division for €468.7 million (including the Tianjin debt of €135.2 million);
- The Environmental Services Division for €414.1 million;
- The Energy Services Division for €430.7 million (including external refinancing in Dalkia Polska of €112.7 million).

The current portion of Group finance lease obligations is €77.1 million as of December 31, 2012, compared with €88.7 million as of December 31, 2011 and €112.4 million as of December 31, 2010.

Recap: Movements in other borrowings during 2011 are as follows:

(€ million)	As of December 31, 2010	Increases/ subscriptions	Repayments	Changes in consolidation scope	Fair value adjustments[1]	Foreign exchange translation	Non-current / current reclassification	Transfers to Liabilities classified as held for sale	Other	As of December 31, 2011
Other non-current borrowings	4,270.4	666.2	(120.4)	51.4	1.6	18.4	(1,079.6)	(206.1)	28.6	3,630.5
Other current borrowings	2,810.0	385.2	(881.7)	50.4	7.0	21.1	1,079.6	(165.4)	(54.7)	3,251.5
OTHER BORROWINGS	**7,080.4**	**1,051.4**	**(1,002.1)**	**101.8**	**8.6**	**39.5**	**-**	**(371.5)**	**(26.1)**	**6,882.0**

(1) Fair value adjustments are recorded in financial income and expenses.

The decrease in other non-current borrowings in 2011 breaks down as follows:

Increases and repayments mainly concern draw-downs on project debt and on the Polish zloty syndicated loan facility.

Changes in consolidation scope mainly concern the Veolia Transdev combination (+€64.2 million, see Note 23).

Non-current/current reclassifications primarily reflect the impact of the refinancing of the syndicated loan facilities maturing April 2012 in April 2011 in the amount of €345 million.

Transfers to liabilities classified as held for sale mainly concern the transfer to **liabilities directly associated with assets classified as held for sale** of the other borrowings of the Veolia Transdev group reclassified to discontinued operations (-€206.9 million, see Notes 3 and 23).

17.3 Breakdown of non-current and current borrowings by currency

Borrowings are primarily denominated in euro, pound sterling, U.S. dollar, Chinese renminbi yuan and Polish zloty.

Borrowings break down by original currency (before currency swaps) as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Euro	12,228.4	15,420.7	15,385.1
U.S. Dollar	1,511.0	1,996.2	2,142.9
Pound Sterling	1,081.4	1,353.6	1,328.0
Chinese renminbi yuan	826.8	726.7	632.9
Polish zloty	526.6	338.7	293.2
Moroccan dirham	6.9	158.7	193.4
Danish crown	163.1	196.0	159.4
Israeli shekel	133.2	144.0	129.3
Czech Crown	15.0	68.4	95.1
Korean won	22.1	26.8	33.1
Norwegian crown	-	-	19.3
Other	198.4	219.2	311.5
NON-CURRENT AND CURRENT BORROWINGS	**16,712.9**	**20,649.0**	**20,723.2**

17.4 Finance leases

The Group uses finance leases to finance the purchase of certain operating property, plant and equipment and real estate assets recognized as assets in the Consolidated Statement of Financial Position.

Assets financed by **finance lease** break down by category as follows:

(€ million)	Property, plant and equipment	Concession intangible assets	Operating financial assets	Total
As of December 31, 2012	**125.1**	**120.7**	**197.6**	**443.4**
As of December 31, 2011	258.4	114.9	220.1	593.4
As of December 31, 2010	343.5	131.1	237.0	711.6

The decrease in assets financed by finance lease is mainly due to the exercise of the Marine Swordfish option in the Environmental Services Division in the amount of €56 million and the divestiture of Estonian activities in the Energy Services Division in the amount of €25 million.

As of December 31, 2012, future minimum lease payments under these contracts are as follows:

(€ million)	Finance leases
Less than 1 year	97.6
2 to 3 years	148.4
4 to 5 years	94.4
More than 5 years	222.7
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**563.1**
Less amounts representing interest	145.8
PRESENT VALUE OF MINIMUM LEASE PAYMENTS (FINANCE LEASES)	**417.3**

Contingent rent and sub-lease income for the period recorded in the Consolidated Income Statement is not material.

Note 18 Revenue

As for other Income Statement headings, Revenue does not include amounts relating to discontinued operations, in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* (see Note 23).

These amounts concern:

- The entire contribution of Veolia Transdev, excluding the activities of the Société Nationale Maritime Corse Méditerranée (SNCM) Group, as this sub-group was excluded from the Veolia Transdev divestiture process;
- Water activities in Morocco;
- Wind energy activities, partially divested as of December 31, 2012, through the divestiture of Ridgeline on December 31, 2012;
- Urban lighting activities (Citelum) in the Energy Services Division;
- Regulated Water activities in the United Kingdom in the Water Division, divested in June 2012;
- Solid waste activities in the United States in the Environmental Services Division, divested in November 2012;
- Norwegian activities in the Environmental Services Division, divested in March 2011;
- German activities in the Energy Services Division, divested in May and August 2011;
- Household assistance services (Proxiserve), divested in December 2011;
- Water activities in the Netherlands, divested in December 2010.

The results of these activities are presented in a separate line, "Net income (loss) from discontinued operations", for fiscal year 2012 and fiscal years 2011 and 2010 presented for comparison purposes (see Note 23).

Breakdown of Revenue (see Note 1.17)

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Services rendered	22,688.6	21,632.6	21,292.2
Sales of goods	2,205.2	2,477.6	2,161.7
Revenue from operating financial assets	329.4	383.7	380.8
Construction	4,215.3	4,082.6	4,016.9
REVENUE	**29,438.5**	**28,576.5**	**27,851.6**

Sales of goods mainly concern sales of technological solutions in the Water Division and sales of products relating to recycling activities in the Environmental Services Division.

A breakdown of revenue by operating segment is presented in Note 40.

Note 19 Operating income

Operating income is calculated as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	**29,438.5**	**28,576.5**	**27,851.6**
Cost of sales	**(24,795.4)**	**(24,143.0)**	**(22,644.2)**
o/w:			
• impairment losses on goodwill, net of negative goodwill recognized in the Consolidated Income Statement	(85.6)	(470.4)	0.2
• impairment losses (excl. working capital) and provisions	(119.5)	(132.7)	(20.7)
• restructuring costs	(14.9)	-	(14.4)
• replacement costs	(409.6)	(405.1)	(368.5)
Selling costs	**(607.7)**	**(582.7)**	**(572.8)**
General and administrative expenses	**(3,002.3)**	**(3,084.5)**	**(3,040.7)**
• Research and development costs	(103.9)	(110.9)	87.4
Other operating revenue and expenses	**61.9**	**62.8**	**182.2**
o/w:			
• Capital gains (losses) on disposal of financial assets	63.1	63.4	179.5
• Other	(1.2)	(0.6)	2.7
OPERATING INCOME	**1,095.0**	**829.1**	**1,776.1**

Breakdown of capital gains and losses on disposal

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Capital gains and losses on disposals of property, plant and equipment	21.2	13.7	19.5
Capital gains and losses on disposals of financial assets	63.1	63.4	179.5
Capital gains and losses on disposals recognized in operating income	**84.3**	**77.1**	**199.0**
Capital gains and losses on disposals recognized in financial income (loss)	**(0.2)**	**(2.3)**	**(2.7)**
Capital gains and losses on disposals of PP&E and financial assets	16.5	16.7	23.5
Capital gains and losses on disposals of discontinued operations	581.5	500.9	57.4
Capital gains and losses on disposals recognized in net income (loss) from discontinued operations	**598.0**	**517.6**	**80.9**
TOTAL CAPITAL GAINS AND LOSSES ON DISPOSALS IN THE CASH FLOWS STATEMENT	**682.1**	**592.4**	**277.2**

A breakdown of capital gains and losses on disposals of discontinued operations is provided in Note 23.

Breakdown of impairment losses

The main impairment losses recognized as of December 31, 2012 break down as follows:

- Impairment losses on goodwill in the amount of €85.6 million, mainly concerning:
  - Group non-regulated activities in the United Kingdom in the Water Division in the amount of €56.6 million;
  - Estonian and Latvian activities in the Energy Services and Environmental Services Divisions in the amount of €25.6 million.
- Impairment losses and provisions recognized in cost of sales in the amount of €119.5 million, mainly concerning:
  - in the Environmental Services Division, the impairment loss Marine Services assets in the amount of €36.7 million;
  - and impairment losses recognized on SNCM non-current assets in the amount of €35.0 million. The enterprise value (Group share) is €13 million at the year end.

As of December 31, 2011, impairment losses on goodwill and non-current assets mainly concern:

- In Italy, the Energy Services Division in the amount of €242.8 million and the Environmental Services Division in the amount of €169.6 million;
- In the United States, the Energy Services Division in the amount of €153.1 million.

Breakdown of operating depreciation, amortization, provisions and impairment losses

Operating depreciation, amortization, provisions and impairment losses included in operating income in **2012** break down as follows:

(€ million)	Charge	Reversal	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
OPERATING DEPRECIATION, AMORTIZATION AND PROVISIONS, NET	**(2,543.5)**	**860.7**	**(1,682.8)**	**(1,615.2)**	**(1,417.9)**
Depreciation and amortization	**(1,482.7)**	**2.9**	**(1,479.8)**	**(1,388.9)**	**(1,355.7)**
Property, plant and equipment	(964.2)	2.9	(961.3)	(921.5)	(917.6)
Intangible assets	(518.5)		(518.5)	(467.4)	(438.1)
Impairment losses	**(426.2)**	**187.8**	**(238.4)**	**(377.0)**	**(82.5)**
Property, plant and equipment	(114.2)	10.8	(103.4)	(181.1)	(19.5)
Intangible assets and operating financial assets	(50.2)	1.3	(48.9)	(191.6)	(25.6)
Inventories	(29.9)	33.6	3.7	13.3	(6.4)
Trade receivables	(213.8)	125.6	(88.2)	(16.2)	(35.4)
Other operating and non-operating receivables	(18.1)	16.5	(1.6)	(1.4)	4.4
Non-current and current operating provisions	**(634.6)**	**670.0**	**35.4**	**150.7**	**20.3**
Non-current operating provisions	(388.5)	296.7	(91.8)	(18.5)	(111.8)
Current operating provisions	(246.1)	373.3	127.2	169.2	132.1
IMPAIRMENT LOSSES AND IMPACT OF DISPOSALS ON GOODWILL AND NEGATIVE GOODWILL RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENT	**(85.6)**		**(85.6)**	**(470.4)**	**0.2**
OPERATING DEPRECIATION, AMORTIZATION, PROVISIONS AND IMPAIRMENT LOSSES	**(2,629.1)**	**860.7**	**(1,768.4)**	**(2,085.6)**	**(1,417.7)**

Operating depreciation, amortization, charges to provisions and impairment losses in the Consolidated Cash Flow Statement include operating depreciation, amortization, provisions and impairment losses transferred to Net income from discontinued operations in the amount of -€290.6 million in 2012, -€761.2 million in 2011 and -€503.9 million in 2010. Impairment losses on inventories and receivables are recorded in changes in working capital in the Consolidated Cash Flow Statement.

Recap: Before adjustment for wind energy activities, Water activities in Morocco, the divestiture of regulated Water activities in the United Kingdom and solid waste activities in the United States and the inclusion of SNCM in continuing operations, published Operating depreciation, amortization, provisions and impairment losses for the year ended December 31, 2011 and 2010 broke down as follows:

(€ million)	Charge	Reversal	Year ended December 31, 2011	Year ended December 31, 2010
OPERATING DEPRECIATION, AMORTIZATION AND PROVISIONS, NET	**(2,723.4)**	**1,022.5**	**(1,700.9)**	**(1,553.8)**
Depreciation and amortization	**(1,552.4)**	**2.9**	**(1,549.5)**	**(1,475.2)**
Property, plant and equipment	(1,054.9)	2.9	(1,052.0)	(1,021.5)
Intangible assets	(497.5)	-	(497.5)	(453.7)
Impairment losses	**(559.6)**	**239.8**	**(319.8)**	**(80.5)**
Property, plant and equipment	(112.7)	9.4	(103.3)	(19.5)
Intangible assets and operating financial assets	(221.0)	7.7	(213.3)	(25.5)
Inventories	(28.4)	41.7	13.3	(6.1)
Trade receivables	(184.7)	165.8	(18.9)	(34.4)
Other operating and non-operating receivables	(12.8)	15.2	2.4	5.0
Non-current and current operating provisions	**(611.4)**	**779.8**	**168.4**	**1.9**
Non-current operating provisions	(348.0)	337.0	(11.0)	(107.0)
Current operating provisions	(263.4)	442.8	179.4	108.9
IMPAIRMENT LOSSES AND IMPACT OF DISPOSALS ON GOODWILL AND NEGATIVE GOODWILL RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENT			**(502.8)**	**0.2**
OPERATING DEPRECIATION, AMORTIZATION, PROVISIONS AND IMPAIRMENT LOSSES	**-**	**-**	**(2,203.7)**	**(1,553.6)**

Restructuring costs

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Restructuring costs	(48.2)	(6.3)	(16.8)
Net charge to restructuring provisions	(7.6)	(7.8)	(4.7)
RESTRUCTURING COSTS	**(55.8)**	**(14.1)**	**(21.5)**

In 2012, restructuring costs are included in cost of sales in the amount of -€14.9 million, selling costs in the amount of -€0.6 million and general and administrative expenses in the amount of -€40.3 million.

Restructuring costs included in general and administrative expenses in 2012 include notably -€17.6 million in the Energy Services Division and -€11.4 million in the "Other" segment. They include notably costs of Group holdings restructuring plan.

Personnel costs

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Employee costs	(7,978.9)	(7,754.3)	(7,362.5)
Profit-sharing and incentive schemes	(139.9)	(154.0)	(152.4)
Share-based compensation (IFRS 2)	1.1	(1.6)	(3.1)
PERSONNEL COSTS	**(8,117.7)**	**(7,909.9)**	**(7,518.0)**

Research and development costs

Research and developments costs totaled €103.9 million, €110.9 million and €87.4 million in fiscal years 2012, 2011 and 2010 respectively.

Note 20 Net finance costs

The income and expense balances making up net finance costs are as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Finance income	80.1	112.9	93.2
Finance costs	(838.9)	(823.0)	(816.2)
NET FINANCE COSTS	**(758.8)**	**(710.1)**	**(723.0)**

Finance costs and finance income represent the cost of borrowings net of cash and cash equivalents. In addition, net finance costs include net gains and losses on derivatives allocated to borrowings, irrespective of whether they qualify for hedge accounting.

Net finance costs total €758.8 million in 2012, compared with €710.1 million in 2011.

Net finance costs presented in the Consolidated Cash Flow Statement reflect the net finance costs of continuing operations presented above and the net finance costs of discontinued operations of €75.9 million in 2012.

The heading "Interest paid" in the Consolidated Cash Flow Statement reflects the net finance costs of continuing and discounted operations adjusted for accrued interest of €70.6 million and fair value adjustments to hedging derivatives in the amount of €60.5 million in 2012.

The increase in net finance costs is mainly due to the active management of debt: expenses incurred on the early redemption of US private placements (USPP) in February 2012 and on the redemption of bond issues in the fourth quarter of 2012, partially offset by a decrease in expenses tied to the redemption of the bond line maturing in February 2012 (5.875%). These transactions were performed to improve the liquidity cost.

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Financial liabilities measured using the effective interest method	(843.5)	(910.2)	(902.0)
Commission on undrawn credit facilities	(9.4)	(10.0)	(6.4)
Expenses on gross debt	**(852.9)**	**(920.2)**	**(908.4)**
Assets at fair value through the Consolidated Income Statement (fair value option)*	**49.1**	**85.0**	**56.5**
Net gains and losses on derivative instruments, hedging relationships and other	**45.0**	**125.1**	**128.9**
NET FINANCE COSTS	**(758.8)**	**(710.1)**	**(723.0)**

* *Cash equivalents are valued at fair value through the Consolidated Income Statement.*

Net gains and losses on derivative instruments, hedging relationships and other mainly include the following amounts for fiscal year 2012:

- Interest income on hedging relationships (fair value hedges and cash flow hedges) of €112.2 million, as a result of the fall in interest rates in fiscal year 2012;
- The unwinding of the discount on non–controlling interest put options in the amount of -€9.2 million;
- Net gains and losses on derivatives not qualifying for hedge accounting of -€51.4 million, mainly on foreign currency derivatives.

In addition, the charge relating to the ineffective portion of net investment hedges and cash flow hedges was not material in 2012 or 2011.

Interest income on instruments measured using the effective interest method (including interest income recorded in operating income and in other financial income and expenses) totals €350.0 million in 2012, compared with €400.9 million in 2011 and €393.3 million in 2010.

Note 21 Other financial income and expenses

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net gains and losses on loans and receivables[1]	18.4	14.0	5.5
Net gains and losses on available-for-sale assets[2]	4.9	4.6	(1.4)
Assets and liabilities at fair value through the Consolidated Income Statement	(1.0)	-	(16.7)
Unwinding of the discount on provisions	(58.9)	(50.1)	(61.5)
Foreign exchange gains and losses	(21.1)	(6.6)	(3.5)
Other	(5.8)	(9.3)	(19.8)
OTHER FINANCIAL INCOME AND EXPENSES	**(63.5)**	**(47.4)**	**(97.4)**

(1) Including impairment losses of €7.7 million in 2012, compared with €9.1 million in 2011 and €23.3 million in 2010.

(2) Including dividends received of €4.8 million in 2012, compared with €4.0 million in 2011 and €6.0 million in 2010.

Note 22 Income tax expense

Analysis of the income tax expense

The income tax expense breaks down as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Current income tax expense	**(355.7)**	**(283.4)**	**(284.1)**
France	(99.2)	(62.3)	(73.7)
Other countries	(256.5)	(221.1)	(210.4)
Deferred tax expense (income)	**196.7**	**(237.5)**	**11.7**
France	2.5	(74.0)	(16.4)
Other countries	194.2	(163.5)	28.1
TOTAL INCOME TAX EXPENSE	**(159.0)**	**(520.9)**	**(272.4)**

The income tax expense presented in the Consolidated Cash Flow Statement reflects the income tax expense of continuing operations presented above and the income tax expense of discontinued operations.

A number of French subsidiaries elected to form a consolidated tax group with Veolia Environnement as the head company (five-year agreement, renewed in 2011). Veolia Environnement is liable to the French treasury department for the full income tax charge, calculated based on the group tax return. Any tax savings are recognized at the level of Veolia Environnement SA.

The US tax group was reorganized in 2006. This reorganization is still being reviewed by the U.S. tax authorities (see Notes 12 and 34).

The Group bears a net income tax expense of €159.0 million in 2012, compared with €520.9 million in 2011. The 2012 net income tax expense includes the impact of the recognition of tax losses of the US tax group of around €120 million, primarily due to amendments to forecasts in the United States and the consequences of changes in consolidation scope.

Effective tax rate

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income from continuing operations (a)	143.7	(437.6)	702.6
Share of net income of associates (b)	30.0	11.7	19.3
Income tax expense (c)	(159.0)	(520.9)	(272.4)
Net income from continuing operations before tax (d) = (a)-(b)-(c)	272.7	71.6	955.7
Effective tax rate (c) / (d)	**58.31%**	**727.45%**	**28.50%**
Theoretical tax rate[(1)]	**34.43%**	**34.43%**	**34.43%**
Net impairment losses on goodwill not deductible for tax purposes	5.14%	209.22%	0.30%
Differences in tax rate[(2)]	-12.09%	-96.09%	-9.99%
Capital gains and losses on disposals	3.08%	-49.02%	-2.45%
Dividends[(2)]	14.29%	47.07%	3.18%
Taxation without basis	8.84%	71.79%	1.58%
Effect of tax projections	-8.72%	553.35%	5.34%
Other permanent differences[(2)]	13.34%	-43.30%	-3.89%
EFFECTIVE TAX RATE	**58.31%**	**727.45%**	**28.50%**

(1) The tax rate indicated is the statutory tax rate in France excluding the exceptional contribution applicable in fiscal years 2011 to 2014.

(2) The main elements explaining the effective tax rate are as follows:

- *taxable dividends;*
- *differences in tax rate due to the presence of the Group in countries which have a different theoretical tax rate;*
- *other permanent differences mainly related to non-deductible expenses for tax purposes.*

Recap: the 2011 effective tax rate was mainly due to:

- Net impairment losses on goodwill not deductible for tax purposes;
- The non-capitalization of Veolia Environnement tax group losses and the recognition of an impairment to reduce the amount of deferred tax assets to that of deferred tax liabilities;
- The estimated consequences of changes in the scope of the US tax group.

Recap: the 2010 effective tax rate mainly reflects a low rate of capitalization of tax losses of the Veolia Environnement and US tax groups, offset by substantial capital gains taxed at reduced rates.

Note 23 Assets classified as held for sale, discontinued operations and divestitures

Discontinued operations

In the Consolidated Income Statement presented for comparative purposes, the net income (loss) of operations divested or in the course of divestiture was reclassified to "Net income (loss) from discontinued operations". This concerns the following operations:

- The entire contribution of Veolia Transdev, excluding the activities of the Société Nationale Maritime Corse Méditerranée (SNCM) Group;
- Water activities in Morocco;
- Wind energy activities, partially divested as of December 31, 2012, through the divesture of Ridgeline on December 31, 2012;
- Urban lighting activities (Citelum) in the Energy Services Division;
- Regulated Water activities in the United Kingdom in the Water Division, divested in June 2012;
- Solid waste activities in the United States in the Environmental Services Division, divested in November 2012;
- Environmental Services activities in Norway, divested in March 2011;
- Energy Services operations in Germany, divested in May and August 2011;
- Household assistance services (Proxiserve) held jointly by the Water and Energy Services Divisions, divested in December 2011;
- Water Division activities in the Netherlands, divested in December 2010.

Recap: as part of the withdrawal from the Transportation business, the Caisse des dépôts et consignations and Veolia Environnement concluded an agreement on the Transdev-Veolia Transport combination by the creation of a 50/50 joint venture combining Transdev and Veolia Transport. Following completion of the combination on **March 3, 2011**, Veolia Environnement became the industrial operator of the new entity and Caisse des dépôts et consignations a long-term strategic partner. From this date and pursuant to IFRS, Veolia Environnement lost exclusive control of Veolia Transport in exchange for a 50% investment in the Veolia Transdev joint venture, which is proportionately consolidated.

On December 6, 2011, during the Investor Day, the Group presented its strategic plan encompassing the refocusing of its activities and business portfolio and leading to the decision to withdraw significantly from the Transportation sector. The communication of these decisions and progress with the withdrawal process as of December 31, 2011, led the Group to classify the Transportation business as a discontinued operation as defined by IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations,* and measure it at the lower of net carrying amount and disposal value.

In 2012, as described in Note 3, significant events, ongoing preparations for the withdrawal from the Transportation business and discussions with Caisse des dépôts et consignations, led the Group to:

- Reclassify the activities of the SNCM sub-group in continuing operations, this sub-group having been excluded from the divestiture process;
  - The main indicators for the Société Nationale Maritime Corse Méditerranée sub-group (Group share) for 2012, 2011 and 2010 are as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	145.0	128.7	277.3
Operating income	(24.4) (1)	(67.7) (1)	2.9
Financial items	(1.5)	(1.4)	(5.2)
Income tax expense	(1.6)	0.2	(0.8)
Share of net income of associates	-	-	-
NET INCOME (LOSS) OF THE SOCIETE NATIONALE MARITIME CORSE MEDITERRANEE (SNCM) GROUP	**(27.5)**	**(68.9)**	**(3.1)**

(1) Including impairment losses of €35.0 million in 2012, compared with €77.8 million in 2011.

  - Recap: the SNCM sub-group was fully consolidated in the Veolia Transport group until March 3, 2011 and is proportionately consolidated in Veolia Transdev since that date.

- An additional impairment of €20 million was recognized as of December 31, 2012 following the fair value remeasurement of Veolia Transdev activities as of December 31, 2012, based on the latest negotiations with Caisse des dépôts et consignations. An impairment of €440 million was recognized as of December 31, 2011 in respect of all Veolia Transdev operations, including €362.2 million in respect of Veolia Transdev activities excluding SNCM.

Movements in **Net income (loss) from discontinued operations** are as follows:

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income (loss) from discontinued operations	(52.6)	(379.9)	180.9
Capital gains and losses on disposal	511.6	500.9	(32.2)
Income tax expense	(72.9)	-	(2.3)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**386.1**	**121.0**	**146.4**

Net income (loss) from discontinued operations in **2012** breaks down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other	Total
Net income (loss) from discontinued operations	4.1 (3)	(68.2) (2)	97.4	(85.9) (1)	(52.6)
Capital gains and losses on disposal(4)	233.3	-	281.3	(3.0)	511.6
Income tax expense	-	-	(72.9)	-	(72.9)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**237.4**	**(68.2)**	**305.8**	**(88.9)**	**386.1**

(1) Including impairment of €20.0 million on Veolia Transdev assets, excluding SNCM, and of €39.0 million on wind energy activities in 2012.

(2) including the fair value remeasurement of Citelum in the amount of €67.8 million in 2012.

(3) including the fair value remeasurement of Water activities in Morocco in the amount of €64.2 million in 2012.

(4) including disposal costs on discontinued operations of €69.9 million in 2012.

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2012** break down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other	Total
Revenue	538.5	343.3	574.2	14.1	1,470.1
Operating income	29.8	(58.5)	140.4	(72.9)	38.8
Financial items	(29.0)	(4.8)	(11.2)	(19.2)	(64.2)
Income tax expense	3.3	(5.4)	(31.8)	6.3	(27.6)
Share of net income of associates	-	0.5	-	(0.1)	0.4
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**4.1**	**(68.2)**	**97.4**	**(85.9)**	**(52.6)**

Net income (loss) from discontinued operations in **2011** breaks down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Net income (loss) from discontinued operations	21.6	(5.2)	43.0	(439.3)	(379.9)
Capital gains and losses on disposal	1.8	(6.1)	62.2	443.0	500.9
Income tax expense	-	-	-	-	-
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**23.4**	**(11.3)**	**105.2**	**3.7**	**121.0**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, classified in discontinued operations, is presented in the "Other" operating segment.

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2011** break down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Revenue	713.1	448.7	586.2	4,162.4	5,910.4
Operating income	52.7	6.5	78.8	(387.6)	(249.6)
Financial items	(35.8)	(5.7)	(10.1)	(42.9)	(94.5)
Income tax expense	4.5	(6.3)	(25.7)	(9.9)	(37.4)
Share of net income of associates	0.2	0.3	-	1.1	1.6
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**21.6**	**(5.2)**	**43.0**	**(439.3)**	**(379.9)**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, classified in discontinued operations, is presented in the "Other" operating segment.

Net income (loss) from discontinued operations in **2010** breaks down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Net income (loss) from discontinued operations	61.6	10.0	61.8	47.5	180.9
Capital gains and losses on disposal	(3.2)	(56.2)	56.5	(29.3)	(32.2)
Income tax expense	5.0	-	(7.3)	-	(2.3)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**63.4**	**(46.2)**	**111.0**	**18.2**	**146.4**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, classified in discontinued operations, is presented in the "Other" operating segment.

The main Consolidated Income Statement items for discontinued operations for the year ended **December 31, 2010** break down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Revenue	718.9	462.5	999.6	5,582.1	7,763.1
Operating income	124.1	18.3	117.2	107.5	367.1
Financial items	(47.8)	(2.7)	(13.8)	(38.2)	(102.5)
Income tax expense	(14.8)	(5.7)	(41.6)	(20.8)	(82.9)
Share of net income of associates	0.1	0.1	-	(1.0)	(0.8)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**61.6**	**10.0**	**61.8**	**47.5**	**180.9**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, classified in discontinued operations, is presented in the "Other" operating segment.

Assets/liabilities classified as held for sale

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale are presented separately in the Group Consolidated Statement of Financial Position as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Assets classified as held for sale	3,974.3	3,256.5	805.6
Liabilities directly associated with assets classified as held for sale	2,551.0	2,012.8	386.8

As of December 31, 2012, Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale primarily concern:

- The activities of the entire contribution of Veolia Transdev, excluding the activities of the SNCM group;
- Water activities in Morocco;
- European wind energy activities;
- Urban lighting activities (Citelum) in the Energy Services Division;
- Assets and liabilities of the Marine Services business in the Environmental Services Division.

The urban lighting activities reclassified to discontinued operations as of December 31, 2011 were retained in discontinued operations as of December 31, 2012, in view of progress with the divestiture process at the year-end. Citelum assets and liabilities are recorded in the accounts as of December 31, 2012 at a fair value of €140 million. An asset impairment of €67.8 million was recognized in Net income (loss) from discontinued operations

The assets and liabilities of the Marine Services business were transferred to Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of June 30, 2011 and are retained in these lines as of December 31, 2012. Following the withdrawal of the initial buyer during the first half of 2012, the Group relaunched the sales process in May 2012. The value of the assets and liabilities of this business was adjusted in the accounts for the year ended December 31, 2012 to take account of the most recent offers received and an impairment of €36.7 million was recognized.

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of December 31, 2011 primarily concern the assets and liabilities of the Velia Transdev group, those of Citelum in the Energy Services Division and those of Marine Services in the Environmental Services Division, pursuant to the restructuring of the Group's activities announced on December 6, 2011.

Assets classified as held for sale and Liabilities directly associated with assets classified as held for sale as of December 31, 2010 primarily concern Water Division activities in Gabon and Environmental Services Division activities in Norway, divested in 2011.

In 2012, the main asset and liability categories recorded in assets classified as held for sale, break down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Assets					
Non-current assets	476.9	120.3	57.3	1,771.9	2,426.4
Current assets	192.0	272.0	20.4	806.0	1,290.4
Cash and cash equivalents	26.0	25.5	-	206.0	257.5
ASSETS CLASSIFIED AS HELD FOR SALE	**694.9**	**417.8**	**77.7**	**2,783.9**	**3,974.3**
Liabilities					
Non-current liabilities	287.1	46.2	-	547.9	881.2
Current liabilities	320.6	221.5	6.3	1,121.4	1,669.8
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**607.7**	**267.7**	**6.3**	**1,669.3**	**2,551.0**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, is now presented in the "Other" operating segment for asset and liability headings.

In 2011, the main asset and liability categories recorded in assets classified as held for sale, break down by Division as follows:

(€ million)	Energy Services	Environmental Services	Other[(1)]	Total
Assets				
Non-current assets	90.5	89.2	1,836.6	2,016.3
Current assets	226.0	20.8	809.5	1,056.3
Cash and cash equivalents	32.1		151.8	183.9
ASSETS CLASSIFIED AS HELD FOR SALE	**348.6**	**110.0**	**2,797.9**	**3,256.5**
Liabilities				
Non-current liabilities	14.8	-	633.5	648.3
Current liabilities	169.5	52.7	1,142.3	1 364.5
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**184.3**	**52.7**	**1,775.8**	**2,012.8**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, is now presented in the "Other" operating segment for asset and liability headings.

In 2010, the main asset and liability categories recorded in assets classified as held for sale, break down by Division as follows:

(€ million)	Water	Energy Services	Environmental Services	Other[(1)]	Total
Assets					
Non-current assets	237.6	92.8	189.4	32.2	552.0
Current assets	85.8	13.5	97.7	25.8	222.8
Cash and cash equivalents	3.0	0.2	12.1	15.5	30.8
ASSETS CLASSIFIED AS HELD FOR SALE	**326.4**	**106.5**	**299.2**	**73.5**	**805.6**
Liabilities					
Non-current liabilities	124.4	1.1	14.8	9.9	150.2
Current liabilities	125.5	13.5	67.6	30.0	236.6
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**249.9**	**14.6**	**82.4**	**39.9**	**386.8**

(1) Under the new operating segment presentation, the Veolia Transdev group, excluding SNCM, is now presented in the "Other" operating segment for asset and liability headings.

Note 24 Net income for the year attributable to non-controlling interests

Net income attributable to non-controlling interests for the year ended December 31, 2012 is €136.0 million, compared with €173.2 million for the year ended December 31, 2011 and €290.5 million for the year ended December 31, 2010.

The change in net income attributable to non-controlling interests in Veolia Energy Services is mainly due to the impairments recognized in Italy and Spain in 2011 and 2012 (see Note 19).

The decrease in net income attributable to non-controlling interests in Water Operations is mainly due to the decrease in the net income of Berliner Wasser Betriebe AöR (Berlin Water) and to a less degree the change in control on October 31, 2012.

Net income for the year attributable to non-controlling interests breaks down by Division as follows:

(€ million)	**Year ended December 31, 2012**	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Water[(a)]	102.1	131.9	147.4
Environmental Services	26.2	35.1	16.5
Energy Services[(b)]	14.3	(5.6)	118.9
Other	(6.6)	11.8	7.7
NON-CONTROLLING INTERESTS	**136.0**	**173.2**	**290.5**

(a) Including non-controlling interests in Germany (Berliner Wasser Betriebe AöR and Stadtwerke of Braunschweig) of €79.4 million in 2010, €83.7 million in 2011 and €52.5 million in 2012.

(b) Including EDF's interest in Dalkia Holding of €73.9 million in 2010,-€38.9 million in 2011 and -€20.0 million in 2012.

Note 25 Earnings per share

Basic earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the fiscal year.

Diluted earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of ordinary shares outstanding during the fiscal year plus the weighted average number of ordinary shares that would be issued following the conversion into ordinary shares of all potentially dilutive ordinary shares.

Net income and the number of shares used to calculate basic and diluted earnings per share are presented below for all businesses.

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Weighted average number of ordinary shares *(in million)*	506.7	496.3	481.9
Weighted average number of ordinary shares for the calculation of basic earnings per share	506.7	496.3	481.9
Theoretical number of additional shares resulting from the exercise of share purchase and subscription options			
Weighted average number of ordinary shares for the calculation of diluted earnings per share (in million)	**506.7**	**496.3**	**481.9**
Net income attributable to owners of the Company per share *(€ million)*			
Net income attributable to owners of the Company	393.8	(489.8)	558.5
Net income attributable to owners of the Company per share:			
Basic	0.78	(0.99)	1.16
Diluted	0.78	(0.99)	1.16
Net income (expense) from discontinued operations attributable to owners of the Company per share *(€ million)*			
Net income (expense) from discontinued operations attributable to owners of the Company	422.5	138.4	155.0
Net income (expense) from discontinued operations attributable to owners of the Company per share:			
Basic	0.84	0.28	0.32
Diluted	0.84	0.28	0.32
NET INCOME (EXPENSE) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE *(€ million)*			
Net income (expense) from continuing operations attributable to owners of the Company	(28.7)	(628.2)	403.5
Net income (expense) from continuing operations attributable to owners of the Company per share:			
Basic	(0.06)	(1.27)	0.84
Diluted	(0.06)	(1.27)	0.84

The only potentially dilutive instruments recognized by Veolia Environnement are the share subscription and purchase options presented in Note 29.

Note 26 Additional information on the fair value of financial assets and liabilities (excluding derivatives)

26.1 Financial assets

The following tables present the net carrying amount and fair value of Group financial assets as of December 31, 2012, 2011 and 2010, grouped together in accordance with IFRS 7 categories. Fair values are determined in accordance with the principles set out in Note 1.26.

		As of December 31, 2012							
		Net carrying amount	Financial assets at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Total	Level 1	Level 2	Level 3
Non-consolidated investments	9	77.4	77.4	-	-	77.4	3.6	73.8	-
Non-current and current operating financial assets	10	2,852.7	-	2,852.7	-	3,127.0		3,127.0	
Other non-current financial assets	11	589.0	50.5	538.5	-	589.0	-	589.0	-
Trade receivables	13	7,605.1	-	7,605.1	-	7,605.1	-	7,605.1	-
Other current operating receivables	13	708.2	-	708.2	-	708.2	-	708.2	-
Other current financial assets	11	944.8	36.4	908.4	-	944.8	-	944.8	-
Cash and cash equivalents	14	5,547.8			5,547.8	5,547.8	4,596.5	951.3	-
TOTAL		**18,325.0**	**164.3**	**12,612.9**	**5,547.8**	**18,599.3**	**4,600.1**	**13,999.2**	**-**

		As of December 31, 2011							
		Net carrying amount	Financial assets at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Total	Level 1	Level 2	Level 3
Non-consolidated investments	9	106.3	106.3	-	-	106.3	2.8	103.5	-
Non-current and current operating financial assets	10	5,445.3	-	5,445.3	-	5,389.6	-	5,389.6	-
Other non-current financial assets	11	736.5	42.3	694.2	-	736.5	-	736.5	-
Trade receivables	13	8,492.9	-	8,492.9	-	8,492.9	-	8,492.9	-
Other current operating receivables	13	804.8	-	804.8	-	804.8	-	804.8	-
Other current financial assets	11	114.6	11.8	102.8	-	114.6	-	114.6	-
Cash and cash equivalents	14	5,723.9	-	-	5,723.9	5,723.9	3,287.7	2,436.2	-
TOTAL		**21,424.3**	**160.4**	**15,540.0**	**5,723.9**	**21,368.6**	**3,290.5**	**18,078.1**	**-**

Level 2 cash and cash equivalents mainly consist of negotiable debt instruments and term deposit accounts.

		As of December 31, 2010							
		Net carrying amount	Financial assets at fair value			Fair value	Method for determining fair value		
(€ million)	Note	Total	Available-for-sale assets	Loans and receivables	Assets designated at fair value through the Consolidated Income Statement	Total	Level 1	Level 2	Level 3
Non-consolidated investments	9	130.7	130.7	-	-	130.7	4.2	126.5	-
Non-current and current operating financial assets	10	5 628.6	-	5,628.6	-	5,653.6	-	5,653.6	-
Other non-current financial assets	11	773.1	58.4	714.7	-	773.1	-	773.1	-
Trade receivables	13	9,252.4	-	9,252.4	-	9,252.4	-	9,252.4	-
Other current operating receivables	13	1,109.6	-	1,109.6	-	1,109.6	-	1,109.6	-
Other current financial assets	11	132.3	29.2	103.1	-	132.3	-	132.3	-
Cash and cash equivalents	14	5,406.8	-	-	5,406.8	5,406.8	4,441.3	965.5	-
TOTAL		**22,433.5**	**218.3**	**16,808.4**	**5,406.8**	**22,458.5**	**4,445.5**	**18,013.0**	**-**

26.2 Financial liabilities

The following tables present the net carrying amount and fair value of Group financial liabilities as of December 31, 2012, 2011 and 2010, grouped together in accordance with IFRS 7 categories.

Financial liability fair values are determined pursuant to the measurement principles presented in Note 1.26.

		As of December 31, 2012							
		Net carrying amount	Financial liabilities at fair value			Fair value			Method for determining fair value
(€ million)	Note	TOTAL	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	17	10,870.6	10,870.6	-	-	12,192.0	12,044.9	147.1	-
• other non-current borrowings	17	2,213.1	2,213.1	-	-	2,250.9	-	2,250.9	-
• current borrowings	17	3,629.2	3,629.2	-	-	3,629.2	-	3,629.2	-
• bank overdrafts and other cash position items	14	288.7	288.7	-	-	288.7	-	288.7	-
Trade payables	13	5,023.5	5,023.5	-	-	5,023.5	-	5,023.5	-
Other operating payables	13	4,300.9	4,300.9	-	-	4,300.9	-	4,300.9	-
TOTAL		**26,326.0**	**26,326.0**	**-**	**-**	**27,685.2**	**12,044.9**	**15,640.3**	**-**

		As of December 31, 2011							
		Net carrying amount	Financial liabilities at fair value			Fair value			Method for determining fair value
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	17	13,076.2	13,076.2	-	-	13,859.9	13,391.6	468.3	-
• other non-current borrowings	17	3,630.5	3,630.5	-	-	3,559.3	-	3,559.3	-
• current borrowings	17	3,942.3	3,942.3	-	-	3,942.3	-	3,942.3	-
• bank overdrafts and other cash position items	14	440.2	440.2	-	-	440.2	-	440.2	-
Trade payables	13	5,140.1	5,140.1	-	-	5,140.1	-	5,140.1	-
Other operating payables	13	4,720.6	4,720.6	-	-	4,720.6	-	4,720.6	-
TOTAL		**30,949.9**	**30,949.9**	**-**	**-**	**31,662.4**	**13,391.6**	**18,270.8**	**-**

		As of December 31, 2010							
		Net carrying amount	Financial liabilities at fair value			Fair value			Method for determining fair value
(€ million)	Note	Total	Liabilities at amortized cost	Liabilities at fair value through the Consolidated Income Statement	Liabilities at fair value through the Consolidated Income Statement and held for trading	Total	Level 1	Level 2	Level 3
Borrowings and other financial liabilities									
• non-current bonds	17	13,625.7	13,625.7	-	-	14,495.3	13,683.2	812.1	-
• other non-current borrowings	17	4,270.4	4,270.4	-	-	4,299.6	-	4,299.6	-
• current borrowings	17	2,827.1	2,827.1	-	-	2,827.1	-	2,827.1	-
• bank overdrafts and other cash position items	14	387.0	387.0	-	-	387.0	-	387.0	-
Trade payables	13	5,535.3	5,535.3	-	-	5,535.3	-	5,535.3	-
Other operating payables	13	5,332.0	5,332.0	-	-	5,332.0	-	5,332.0	-
TOTAL		**31,977.5**	**31,977.5**	**-**	**-**	**32,876.3**	**13,683.2**	**19,193.1**	**-**

Note 27 Financial risk management

Group objectives and organization

The Group is exposed to the following financial risks in the course of its operating and financial activities:

- Market risks presented in Note 27.1:
  - Interest-rate risk, presented in Note 27.1.1 (interest-rate fair value hedges, cash flow hedges and derivatives not qualifying for hedge accounting),
  - Foreign exchange risk, presented in Note 27.1.2 (hedges of a net investment in a foreign operation, hedges of balance sheet foreign exchange exposure by derivatives not qualifying for hedge accounting, embedded derivatives, overall foreign exchange risk exposure),
  - Commodity risk, presented in Note 27.1.3 (fuel and electricity risks, greenhouse gas emission rights);
- Equity risk, presented in Note 27.2;
- Liquidity risk, presented in Note 27.3;
- Credit risk, presented in Note 27.4.

27.1 Market risk management

27.1.1 Management of interest rate risk

The financing structure of the Group exposes it naturally to the risk of interest rate fluctuations. As such, the cash and cash equivalents position covers floating-rate debt which impacts future financial results according to fluctuations in interest rates.

Short-term debt is primarily indexed to short-term indexes (Eonia for the treasury note program and Euribor/Libor for the main short-term credit lines). Medium and long-term debt comprises both fixed and floating-rate debt.

The Group manages a fixed/floating rate position in each currency in order to limit the impact of interest rate fluctuations on its net income and to optimize the cost of debt.

For this purpose, it uses interest rate swap and swaption instruments. These swaps may be classified as fair value hedges or cash flow hedges.

The following table shows the interest-rate exposure of gross debt (defined as the sum of non-current borrowings, current borrowings and bank overdrafts and other cash position items) before and after hedging.

	As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	**Outstandings**	**% total debt**	**Outstandings**	**% total debt**	**Outstandings**	**% total debt**
Fixed rate	11,456.6	68.1 %	15,358.0	75.1%	16,187.3	78.5 %
Floating rate	5,374.6	31.9 %	5,095.8	24.9%	4,437.5	21.5 %
Gross debt before hedging	**16,831.2**	**100.0%**	**20,453.8**	**100.0%**	**20,624.8**	**100.0 %**
Fixed rate	11,172.2	65.7%	11,104.6	52.7%	10,481.4	49.7 %
Floating rate	5,829.4	34.3%	9,984.6	47.3%	10,628.8	50.3 %
Gross debt after hedging and fair value remeasurement of fixed-rate debt	**17,001.6**	**100.0%**	**21,089.2**	**100.0%**	**21,110.2**	**100.0 %**
Fair value adjustments to (asset)/liability hedging derivatives	**(170.4)**		**(635.4)**		**(485.4)**	
GROSS DEBT AT AMORTIZED COST	**16,831.2**		**20,453.8**		**20,624.8**	

Total gross debt as of December 31, 2012 after hedging is 66% fixed-rate and 34% floating-rate. No caps are active as of December 31, 2012. Excluding inactive caps (€123 million), the fixed-rate portion of gross debt is 66% and the floating-rate portion is 34%.

As of December 31, 2012, the Group has cash and cash equivalents of €5,547.8 million, the majority of which bears interest at floating rates.

Net financial debt totals €11,283.4 million and is 98% fixed-rate and 2% floating-rate.

Sensitivity of the consolidated income statement and equity

The Group manages its exposure to interest rate fluctuations based on floating-rate gross debt net of cash.

The breakdown of the Group's floating-rate debt by maturity as of December 31, 2012 is as follows:

(€ million)	**Overnight and less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Total assets (cash and cash equivalents)	5,547.8			5,547.8
Total floating-rate liabilities	(3,917.6)	(886.9)	(570.1)	(5,374.6)
Net floating-rate position before active hedging	**1,630.2**	**(886.9)**	**(570.1)**	**173.2**
Derivative instruments[(1)]	246.5	372.7	207.0	826.2
NET FLOATING-RATE POSITION AFTER ACTIVE MANAGEMENT AND HEDGING	**1,876.7**	**(514.2)**	**(363.1)**	**999.4**

(1) Financial instruments hedging debt excluding inactive caps of €123 million.

The analysis of the sensitivity of finance costs to interest rate risk covers financial assets and liabilities and the derivative portfolio as of December 31, 2012. Given the net debt structure of the Group and its derivative portfolio, a change in interest rates would impact the income statement via the cost of floating-rate debt (after hedging), the fair value of trading derivatives and Group investments.

The analysis of the sensitivity of equity to interest rate risk concerns the cash flow hedge reserve. This sensitivity corresponds to fair market value movements as a result of an instantaneous change in interest rates.

Assuming a constant net debt structure and management policy, an increase in the fair value of the effective portion of derivatives designated as cash flow hedges, following a 0.5% increase in interest rates at the year end, would generate an increase in fair value reserves in equity of €15.0 million. The impact on floating-rate debt and floating-rate payer swaps on fixed-rate debt would decrease net income by €0.4 million. A decrease in interest rates of 0.5% would have the opposite impact on net income and equity. All other variables have been assumed to be constant for the purpose of this analysis and the change in net income and equity is attributable to the change in interest rates, all other things being equal.

27.1.2 Management of foreign exchange risk

The Group's international activities generate significant foreign currency flows.

The Group's central treasury department manages foreign exchange risk centrally within limits set by the Chief Finance Officer.

Foreign exchange risk, as defined by IFRS 7, mainly results from:

(a) foreign currency-denominated purchases and sales of goods and services relating to operating activities and the related hedges (e.g. currency forwards). The Group has no significant exposure to foreign exchange transaction risk. The activities of the Group are performed by subsidiaries operating in their own country and their own currency. Exposure to foreign exchange risk is therefore naturally limited;

(b) foreign-currency denominated assets and liabilities including foreign currency-denominated loans/borrowings and related hedges (e.g. forex swaps). With many offices worldwide, Veolia organizes financing in local currencies. In the case of inter-company financing, these credit lines can generate foreign exchange risk. In order to limit the impact of this risk, Veolia Environnement has developed a policy which seeks to back foreign-currency financing and foreign currency derivatives with intercompany receivables denominated in the same currency;

The asset exposure hedging strategy primarily involves hedging certain net foreign investments and ensuring that Group companies do not have a material balance sheet foreign exchange position that could generate significant volatility in foreign exchange gains and losses (see Note 27.1.2.2);

(c) investments in foreign subsidiaries reflected by the translation of accounts impacting the translation reserves (see Note 27.1.2.3).

27.1.2.1 Translation risk

Due to its international presence, the translation of the income statements of the Group's foreign subsidiaries is sensitive to exchange rate fluctuations.

The following table summarizes the sensitivity of certain Group consolidated income statement aggregates to a 10% increase or decrease in foreign exchange rates against the euro, with regard to the translation of financial statements of foreign subsidiaries.

	Contribution to the consolidated financial statements									Sensitivity to an increase or decrease in the main currencies against the euro	
(€ million)	**EUR**	**GBP**	**USD**	**PLN**	**CZK**	**AUD**	**CNY**	**Other currencies**	**Total**	**+10 %**	**-10 %**
Revenue	17,282.4	2,273.6	1,802.7	752.2	1,165.5	1,078.2	913.6	4,170.3	**29,438.5**	-726.0	887.3
Operating income	439.6	43.7	19.8	78.5	161.1	48.2	94.2	209.9	**1,095.0**	-40.4	49.6

27.1.2.2 Foreign exchange risk with regard to the net finance cost

With many offices worldwide, Veolia organizes financing in local currencies.

The foreign currency debt borne by the parent company, Veolia Environnement SA, is generally hedged using either derivative instruments or assets in the same currency.

The following table shows the exposure to exchange rate fluctuations of the foreign currency net financial debt of the entities that bear the main foreign exchange risks. It also presents the sensitivity of these entities to a 10% increase or decrease in the parities of the corresponding foreign currencies.

	Net finance cost Foreign currency exposure *(in millions of currency)*					**Total euro equivalent**	**Sensitivity to an increase or decrease in the 4 main currencies against the euro** *(€ million)*	
	GBP	**USD**	**PLN**	**CNY**	**Other currencies** *(in euros)*		**+10 %**	**-10 %**
Veolia Environnement SA	(35.2)	(109.1)	(85.1)	(11.8)	(431.6)	(580.5)	(16.6)	13.5
Other Group subsidiaries	(8.3)	(14.3)	(0.8)	(336.1)	(115.4)	(178.3)	(7.0)	5.7
Total in foreign currency	**(43.5)**	**(123.4)**	**(85.9)**	**(347.9)**	**(547.0)**	**(758.8)**		
TOTAL EURO EQUIVALENT	**(54.1)**	**(94.3)**	**(20.5)**	**(42.9)**	**(547.0)[(1)]**	**(758.8)**	**(23.6)**	**19.2**

(1) o/w -€474.8 million in Euro currency

27.1.2.3 Foreign exchange and translation risk in the Consolidated Statement of Financial Position

Due to its international presence, the Group's consolidated statement of financial position is exposed to exchange rate fluctuations. A fluctuation in the euro impacts the translation of subsidiary foreign currency denominated assets in the consolidated statement of financial position. The main currencies concerned are the U.S. dollar and the pound sterling.

For its most significant assets, the Group has issued debt in the relevant currencies.

The following table shows the net asset amounts for the main currencies:

	Contribution to the consolidated financial statements					**Sensitivity to an increase or decrease in the 2 main currencies against the euro**	
(€ million)	**EUR**	**USD**	**GBP**	**Other currencies**	**Total**	**+10%**	**-10%**
Assets excluding net financial debt by currency	9,272	1,232	2,098	7,877	**20,479**	370	(303)
Net financial debt by currency	6,096	313	874	4,000	**11,283**	132	(108)
Net assets by currency	**3,176**	**919**	**1,224**	**3,877**	**9,196**	**238**	**(195)**

27.1.3 Management of commodity risk

Fuel or electricity prices can be subject to significant fluctuations. Nonetheless, Veolia Environnement's activities have not been materially affected and should not be materially affected in the future by cost increases or the availability of fuel or other commodities. The long-term contracts entered into by Veolia Environnement generally include price review and/or indexation clauses which enable it to pass on the majority of any increases in commodity or fuel prices to the price of services sold to customers, even if this may be performed with a time delay.

Nonetheless, as part of supply management and cost optimization measures or to hedge future production, certain Group subsidiaries may be required, depending on their activities, to contract forward purchases or sales of commodities (see Note 35) and set-up derivatives to fix the cost of commodities supply or the selling price of commodities produced (electricity).

27.1.3.1 Fuel risks

As part of its transportation activities, the Group uses firm fuel purchase contracts (classified as "for own use") and derivatives defined in line with forecast requirements. The majority of these derivatives are swaps used to set the forward purchase price of fuel. They are classified as hedging instruments pursuant to IAS 39 (cash flow hedges) (see Note 28).

27.1.3.2 Coal, gas and electricity risks

The Group has entered into long-term gas, coal, electricity and biomass purchase contracts in order to secure its supplies. The majority of these commitments are reciprocal; the third parties concerned are obliged to deliver the quantities indicated in these contracts and the Group is obliged to take them.

Conversely, as part of electricity sales activities on the wholesale market, the Group may be required to contract forward electricity sales contacts aimed at securing future production (with maturities not exceeding 3 years).

These purchase / sales contracts are generally recognized outside the scope of IAS 39 ("own use" exemption), except for certain specific transactions in gas, $C0_2$ and electricity. For these specific transactions, cash flow hedge accounting is systematically preferred. Certain electricity instruments in Germany do not however qualify for this classification (see Note 35 on off-balance sheet commitments and Note 28.3.1 on electricity derivatives).

27.2 Management of equity risk

As of December 31, 2012, Veolia Environnement holds 14,237,927 of its own shares, of which 8,389,059 are allocated to external growth operations and 5,848,868 were acquired for allocation to employees under employee savings plans, with a market value of €130.3 million, based on a share price of €9.155 and a net carrying amount of €442.5 million deducted from equity.

As part of its cash management strategy, Veolia Environnement holds UCITS. These UCITS have the characteristics of monetary UCITS and are not subject to equity risk.

The Group is also exposed to equity risk through the plan assets of certain of its pension plans (see Note 29, Employee benefit obligation).

27.3 Management of liquidity risk

The operational management of liquidity and financing is managed by the Treasury and Financing Department. This management involves the centralization of major financing in order to optimize liquidity and cash.

The Group secures financing on international bond markets, international private placement markets, the treasury note market and the bank lending market (see Note 17, Non-current and current borrowings).

27.3.1 Maturity of financial liabilities

As of December 31, 2012, **undiscounted contractual flows on net financial debt** (nominal value) break down by maturity date as follows:

	As of December 31, 2012		Maturity of undiscounted contractual flows					
(€ million)	**Gross carrying amount**	**Total undiscounted contractual flows**	**2013**	**2014**	**2015**	**2016**	**2017**	**More than 5 years**
Bond issues[1]	11,705.1	11,240.1	820.3	846.5	1,031.1	574.0	1 070.8	6,897.4
Treasury notes	943.6	943.6	943.6					
Finance lease obligations	423.5	414.9	77.1	51.5	46.9	46.2	28.6	164.6
Other borrowings	3,640.7	3,267.6	1 773.9	170.5	505.8	111.0	135.9	570.5
Bank overdrafts and other cash position items	288.7	288.7	288.7					
Gross borrowings excluding the impact of amortized cost and hedging derivatives	**17,001.6**	**16,154.9**	**3,903.6**	**1,068.5**	**1,583.8**	**731.2**	**1,235.3**	**7,632.5**
Impact of amortized cost and derivatives hedging debt	(170.4)	N/A						
Gross borrowings	**16,831.2**	**16,154.9**	**3,903.6**	**1,068.5**	**1,583.8**	**731.2**	**1,235.3**	**7,632.5**
Cash and cash equivalents	(5,547.8)	(5,547.8)	(5,547.8)					
Net financial debt	**11,283.4**	**10,607.1**	**(1,644.2)**	**1,068.5**	**1,583.8**	**731.2**	**1,235.3**	**7,632.5**

(1) Excluding the impact of amortized cost and derivatives hedging debt.

As of December 31, 2012, the average maturity of net financial debt is 9.7 years, compared with 8.7 years as of December 31, 2011.

Most trade payables have a maturity of less than one year (see Note 13).

As of December 31, 2012, **undiscounted contractual interest flows** on outstanding borrowings break down by maturity date as follows:

	As of December 31, 2012	Maturity of undiscounted contractual flows					
(€ million)	**Total flows**	**2013**	**2014**	**2015**	**2016**	**2017**	**More than 5 years**
Undiscounted contractual interest flows on outstanding borrowings	**5,867.6**	**635.1**	**583.6**	**520.9**	**485.9**	**455.3**	**3,186.8**

As of December 31, 2012, **undiscounted contractual interest flows on derivative outstandings** recorded in liabilities and assets break down by maturity date as follows:

	As of December 31, 2012		Maturity of undiscounted contractual flows					
(€ million)	**Gross carrying amount**	**Total undiscounted contractual flows**	**2013**	**2014**	**2015**	**2016**	**2017**	**More than 5 years**
Interest-rate derivatives	**124.0**	**(76.4)**	**9.6**	**5.9**	**11.8**	**18.8**	**3.1**	**(125.6)**
Fair value hedges	190.6	215.5	43.0	37.2	36.9	35.2	17.1	46.1
Inflows	190.6	312.0	62.8	54.4	53.7	50.0	25.9	65.2
Outflows	-	(96.5)	(19.8)	(17.2)	(16.8)	(14.8)	(8.8)	(19.1)
Cash flow hedges	(56.1)	(276.3)	(31.1)	(30.0)	(23.8)	(15.1)	(12.7)	(163.6)
Inflows	75.6	89.9	27.3	27.2	17.5	3.2	1.0	13.7
Outflows	(131.7)	(366.2)	(58.4)	(57.2)	(41.3)	(18.3)	(13.7)	(177.3)
Derivatives not qualifying for hedge accounting	(10.5)	(15.6)	(2.3)	(1.3)	(1.3)	(1.3)	(1.3)	(8.1)
Inflows	3.3	0.3	0.1	-	-	-	-	0.2
Outflows	(13.8)	(15.9)	(2.4)	(1.3)	(1.3)	(1.3)	(1.3)	(8.3)
Foreign currency derivatives excluding net investment hedges	**(50.5)**	**(9.3)**	**(17.7)**	**1.9**	**2.6**	**3.8**	**0.1**	**-**
Fair value hedges	0.2	(1.4)	(0.5)	(0.5)	(0.3)	(0.1)	-	-
Inflows	3.7	123.9	106.8	12.7	3.1	1.3	-	-
Outflows	(3.5)	(125.3)	(107.3)	(13.2)	(3.4)	(1.4)	-	-
Cash flow hedges	1.5	0.9	(0.4)	(0.1)	0.2	1.1	0.1	-
Inflows	3.3	207.2	65.6	36.7	47.5	44.7	12.7	-
Outflows	(1.8)	(206.3)	(66.0)	(36.8)	(47.3)	(43.6)	(12.6)	-
Derivatives not qualifying for hedge accounting	(52.2)	(8.8)	(16.8)	2.5	2.7	2.8	-	-
Inflows	33.6	6,812.4	6,743.3	29.9	19.0	20.2	-	-
Outflows	(85.8)	(6,821.2)	(6,760.1)	(27.4)	(16.3)	(17.4)	-	-
Foreign currency derivatives hedging a net investment	**(17.1)**	**(27.9)**	**(11.5)**	**-**	**-**	**-**	**-**	**(16.4)**

In order to best reflect the economic reality of transactions, cash flows relating to derivatives recorded in assets and liabilities are presented net. Asset values are indicated as positive amounts and liabilities as negative amounts in the above table.

27.3.2 Net liquid asset positions

Net liquid assets of the Group as of December 31, 2012 break down as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Veolia Environnement:			
Undrawn MT syndicated loan facility	2,607.3	2,692.7	3,654.5
Undrawn MT bilateral credit lines	625.0	700.0	1,000.0
Undrawn ST bilateral credit lines	300.0	300.0	100.0
Letter of credit facility	473.7	483.0	467.7
Cash and cash equivalents	4,349.6	4,283.3	3,680.8
Subsidiaries:			
Cash and cash equivalents	1,198.2	1,440.6	1,726.0
Total liquid assets	**9,553.8**	**9,899.6**	**10,629.0**
Current debts and bank overdrafts and other cash position items			
Current debts	**3,629.2**	**3,942.3**	**2,827.1**
Bank overdrafts and other cash position items	**288.7**	**440.2**	**387.0**
Total current debts and bank overdrafts and other cash position items	**3,917.9**	**4,382.5**	**3,214.1**
TOTAL LIQUID ASSETS NET OF CURRENT DEBTS AND BANK OVERDRAFTS AND OTHER CASH POSITION ITEMS	**5,635.9**	**5,517.1**	**7,414.9**

As of December 31, 2012, Veolia Environnement had total liquid assets of €9.6 billion, including cash and cash equivalents of €5.5 billion.

As of December 31, 2012, cash equivalents were mainly held by Veolia Environnement SA in the amount of €4,234.7 million. They comprise monetary UCITS of €3,210.4 million, negotiable debt instruments (bank certificates of deposit, negotiable medium term notes and treasury notes with a maturity of less than three months) of €399.0 million and term deposit accounts of €625.3 million.

Veolia Environnement signed two syndicated loan facilities on April 7, 2011: a 5-year €2.5 billion multi-currency loan facility and a 3-year €500 million loan facility available for drawdown in Polish zloty, Czech crown and Hungarian forint (this facility is drawn in a euro equivalent of €392.7 million as of December 31, 2012).

Undrawn credit lines total €925 million as of December 31, 2012.

The portion of the USD 1.25 billion U.S. letters of credit facility signed on November 22, 2010 that may be drawn in cash is capped at USD 625 million, i.e. half of the facility. As of December 31, 2012, the facility is drawn USD 374.1 million in the form of letters of credit. The portion that may be drawn in cash is USD 625 million (€473.7 million euro equivalent) and is recorded in the liquidity table.

Veolia Environnement may draw on the multi-currency syndicated loan facility and all credit lines at any time.

Undrawn credit lines mature as follows:

	As of December 31, 2012	Maturity				
(€ million)	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**
Undrawn syndicated loan facility	2,607.3			107.3	315.5	2,184.5
Undrawn credit lines	925.0	300.0		625.0		
Letter of credit facility	473.7			473.7		
TOTAL	**4,006.0**	**300.0**		**1,206.0**	**315.5**	**2,184.5**

27.3.3 Information on early debt repayment clauses

Veolia Environnement SA debt

The legal documentation for bank financing and bond issues contracted by the Company does not contain any financial covenants, i.e. obligations to comply with a debt coverage ratio or a minimum credit rating which, in the event of non-compliance, could lead to the early repayment of the relevant financing.

Subsidiary debt

Certain project financing or financing granted by multilateral development banks to the Group's subsidiaries contain financial covenants (as defined above).

Based on diligences performed within the subsidiaries, the Company considers that the covenants included in the documentation of material financing were satisfied (or had been waived by lenders) as of December 31, 2012.

Project financing in Italy in the Environmental Services Division that did not comply with all covenants as of December 2011 was retained in current borrowings as of December 31, 2012 given ongoing legal proceedings.

27.4 Management of credit risk

The Group is exposed to counterparty risk in various areas: its operating activities, cash investment activities and derivatives.

27.4.1 Counterparty risk relating to operating activities

Credit risk must be considered separately with respect to operating financial assets and operating receivables. Credit risk on operating financial assets is appraised via the rating of primarily public customers. Credit risk on other operating receivables is appraised through an analysis of risk dilution and late payments for private customers and exceptionally, for public customers, by a credit analysis.

Group customer credit risk analysis may be broken down into the following four categories (Public customers - Delegating authority, Private customers - Individuals, Public customers - Other and Private customers - Companies):

		As of December 31, 2012			Breakdown by customer type			
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Public customer – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	10	2,901.0	(48.3)	2,852.7	1,760.2	-	305.7	786.8
Trade receivables	13	8,248.4	(643.3)	7,605.1	1,036.5	1,882.8	1,656.5	3,029.3
Other current operating receivables	13	784.4	(76.2)	708.2	112.1	102.2	157.5	336.4
Other non-current financial assets in loans and receivables	11	608.2	(69.7)	538.5	105.2	21.9	9.3	402.1 (1)
Current financial assets in loans and receivables	11	948.3	(39.9)	908.4	25.1	16.2	10.0	857.1 (1)
LOANS AND RECEIVABLES		**13,490.3**	**(877.4)**	**12,612.9**	**3,039.1**	**2,023.1**	**2,139.0**	**5,411.7**
Other non-current financial assets	11	**73.0**	**(22.5)**	**50.5**	**(7.4)**	**12.7**	**11.6**	**33.6**
Other current financial assets	11	**36.4**	**-**	**36.4**	**2.2**	**1.6**	**-**	**32.6**
TOTAL		**13,599.7**	**(899.9)**	**12,699.8**	**3,033.9**	**2,037.4**	**2,150.6**	**5,477.9**

(1) Of which Dalkia International and its subsidiaries in the amount of €416.7 million as of December 31, 2012, including a current portion of €178.2 million.

The analysis of Group customer credit risk as of **December 31, 2011** is as follows:

		As of December 31, 2011			Breakdown by customer type			
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Public customer – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	10	5,493.5	(48.2)	5,445.3	4,435.2	-	136.2	873.9
Trade receivables	13	9,097.6	(604.7)	8,492.9	1,765.3	1,810.1	1,781.1	3,136.4
Other current operating receivables	13	870.7	(65.9)	804.8	180.0	177.3	129.2	318.3
Other non-current financial assets in loans and receivables	11	764.6	(70.4)	694.2	67.0	8.4	6.7	612.1(1)
Current financial assets in loans and receivables	11	134.8	(32.0)	102.8	13.2	3.8	19.9	65.9
LOANS AND RECEIVABLES		**16,361.2**	**(821.2)**	**15,540.0**	**6,460.7**	**1,999.6**	**2,073.1**	**5,006.6**
Other non-current financial assets	11	**64.0**	**(21.7)**	**42.3**	**0.7**	**1.0**	**1.4**	**39.2**
Other current financial assets	11	**11.9**	**(0.1)**	**11.8**	**0.1**	**2.2**	**-**	**9.5**
TOTAL		**16,437.1**	**(843.0)**	**15,594.1**	**6,461.5**	**2,002.8**	**2 074.5**	**5,055.3**

(1) Of which Dalkia International and its subsidiaries in the amount of €389.7 million as of December 31, 2011.

The analysis of Group customer credit risk as of **December 31, 2010** is as follows:

		As of December 31, 2010			Breakdown by customer type			
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Public customer – Delegating authority	Private customers – Individuals	Public customers – Other	Private customers – Companies
Non-current and current operating financial assets	10	5,690.6	(62.0)	5,628.6	4,697.4	-	239.4	691.8
Trade receivables	13	9,852.8	(600.4)	9,252.4	2,015.7	2,196.6	1,922.2	3,117.9
Other current operating receivables	13	1,187.5	(77.9)	1,109.6	244.7	180.8	130.3	553.8
Other non-current financial assets in loans and receivables	11	787.0	(72.3)	714.7	53.0	8.1	19.0	634.6(1)
Current financial assets in loans and receivables	11	134.8	(31.6)	103.2	26.4	4.5	3.2	69.1
LOANS AND RECEIVABLES		**17,652.7**	**(844.2)**	**16,808.5**	**7,037.2**	**2,390.0**	**2,314.1**	**5,067.2**
Other non-current financial assets	11	**81.0**	**(22.6)**	**58.4**	**10.2**	**7.2**	**20.1**	**20.9**
Other current financial assets	11	**29.3**	**(0.2)**	**29.1**	**1.8**	**2.4**	**7.8**	**17.1**
TOTAL		**17,763.0**	**(867.0)**	**16,896.0**	**7,049.2**	**2,399.6**	**2,342.0**	**5,105.2**

(1) Of which Dalkia International and its subsidiaries in the amount of €373.7 million as of December 31, 2010.

Assets past due and not impaired break down as follows:

		As of December 31, 2012						
						Assets past due but not impaired		
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Assets not yet due	0-6 months	6 months – 1 year	More than 1 years
Non-current and current operating financial assets	10	2,901.0	(48.3)	2,852.7	2,821.7	22.3	4.8	3.9
Trade receivables	13	8,248.4	(643.3)	7,605.1	5,719.1	1,431.0	186.9	268.1
Other current operating receivables	13	784.4	(76.2)	708.2	492.2	105.0	33.3	77.7
Other non-current financial assets in loans and receivables	11	608.2	(69.7)	538.5	538.5	-	-	-
Current financial assets in loans and receivables	11	948.3	(39.9)	908.4	716.3	4.7	179.8	7.6
LOANS AND RECEIVABLES		**13,490.3**	**(877.4)**	**12,612.9**	**10,287.8**	**1,563.0**	**404.8**	**357.3**
Other non-current financial assets	11	**73.0**	**(22.5)**	**50.5**	**50.5**	**-**	**-**	**-**
Other current financial assets	11	**36.4**	**-**	**36.4**	**27.2**	**0.1**	**2.4**	**6.7**

Assets past due over 6 months and not impaired (€771.0 million) mainly consist of trade receivables.

Payment delays in excess of 6 months are mainly concentrated in Italy.

In Italy, net "trade receivables" of all Group subsidiaries total €171.9 million as of December 31, 2012, compared with €339 million as of December 31, 2011 for receivables past due over six months. Furthermore, in Italy, trade receivables primarily consist of a multitude of user/private customers for which the credit risk is highly diluted and local authorities and state bodies for which the recovery period is long.

Finally, in France, net trade receivables past due over 6 months total €123.5 million at the end of 2012 (€188.1 million at the end of 2011), representing 3.2% of customer outstandings (including €71.5 million past due over one year). The majority of this balance concerns amounts invoiced on behalf of local authorities and public bodies, receivables on local authorities and public bodies and VAT.

Financial assets maturity schedules as of December 31, 2011 and 2010:

		As of December 31, 2011						
						Assets past due but not impaired		
(€ million)	Note	Gross carrying amount	Impairment	Net carrying amount	Assets not yet due	0-6 months	6 months – 1 year	More than 1 years
Non-current and current operating financial assets	10	5,493.5	(48.2)	5,445.3	5,422.5	11.8	7.4	3.6
Trade receivables	13	9,097.6	(604.7)	8,492.9	6,230.9	1,478.8	344.7	438.5
Other current operating receivables	13	870.7	(65.9)	804.8	585.3	89.8	65.1	64.6
Other non-current financial assets in loans and receivables	11	764.6	(70.4)	694.2	694.2	-	-	-
Current financial assets in loans and receivables	11	134.8	(32.0)	102.8	66.4	23.0	10.8	2.6
LOANS AND RECEIVABLES		**16,361.2**	**(821.2)**	**15,540.0**	**12,999.2**	**1,603.4**	**428.0**	**509.4**
Other non-current financial assets	11	**64.0**	**(21.7)**	**42.3**	**42.3**	**-**	**-**	**-**
Other current financial assets	11	**11.9**	**(0.1)**	**11.8**	**5.2**	**0.1**	**0.2**	**6.3**

(€ million)	Note	As of December 31, 2010				Assets past due but not impaired		
		Gross carrying amount	Impairment	Net carrying amount	Assets not yet due	0-6 months	6 months – 1 year	More than 1 years
Non-current and current operating financial assets	10	5,690.6	(62.0)	5,628.6	5,596.8	21.4	4.4	6.0
Trade receivables	13	9,852.8	(600.4)	9,252.4	6,956.5	1,555.2	287.3	453.4
Other current operating receivables	13	1,187.5	(77.9)	1,109.6	867.0	81.1	80.8	80.7
Other non-current financial assets in loans and receivables	11	787.0	(72.3)	714.7	714.7	-	-	-
Current financial assets in loans and receivables	11	134.8	(31.6)	103.2	77.7	14.3	6.9	4.3
LOANS AND RECEIVABLES		**17,652.7**	**(844.2)**	**16,808.5**	**14,212.7**	**1,672.0**	**379.4**	**544.4**
Other non-current financial assets	11	**81.0**	**(22.6)**	**58.4**	**58.4**	**-**	**-**	**-**
Other current financial assets	11	**29.3**	**(0.2)**	**29.1**	**15.8**	**-**	**1.8**	**11.5**

27.4.2 Counterparty risk relating to investment and hedging activities

The Group is exposed to credit risk relating to the investment of its surplus cash and its use of derivative instruments in order to manage interest rate and currency risk. Credit risk corresponds to the loss that the Group may incur should a counterparty default on its contractual obligations. In the case of derivative financial instruments, this risk corresponds to the fair value of all the instruments contracted with a counterparty insofar as this value is positive.

The Group minimizes counterparty risk through internal control procedures limiting the choice of banking counterparties to leading banks and financial institutions (banks and financial institutions with a minimum Moody's, Standard & Poor's or Fitch's rating of A1/P1/F1 respectively for transactions with a term of less than one year and of A2/A/A respectively for transactions with a term of more than one year, except where justified). Limits are determined for each counterparty based primarily on the rating awarded by the rating agencies, the size of their equity and commitments given to the Group and are reviewed monthly. In addition, new derivative transactions must only be entered into with counterparties with whom the Group has an ISDA or FBF framework agreement.

Counterparty risk on financial transactions is monitored on an ongoing basis by the middle-office. The Group is not exposed to any risk as a result of material concentration.

As of December 31, 2012, Veolia Environnement SA outstandings exposed to credit risk total €4,349.6 million with regard to investments and €171.5 million with regard to derivative instruments (sum of the fair values of assets and liabilities). These counterparties are investment grade for 99.5% of the total exposure.

Veolia Environnement SA cash surpluses (€4.3 billion as of December 31, 2012) are managed with a profitability objective close to that of the money market, avoiding exposure to capital risk and maintaining a low level of volatility.

They were injected into the following types of investment:

- Non-dynamic monetary UCITS (with the AMF Monetary classification of short-term monetary or monetary) for €3,210 million;
- Certificates of deposit with a maturity of less than three months or term deposit accounts classified as cash equivalents with leading French banks with a short-term rating from Standard & Poor's, Moody's or Fitch of A1+/P1/F1, for €725 million;
- Monetary notes issued by leading French banks with a short-term rating from Standard & Poor's or Fitch of A1+/P1/F1 for €299 million.

Note 28 Derivatives

The Group uses derivatives to manage and reduce its exposure to fluctuations in interest rates, exchange rates and commodity prices (see Note 27, Financial Risk Management).

The fair value of derivatives in the Consolidated Statement of Financial Position breaks down as follows:

		As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	**28.1**	**269.5**	**145.5**	**716.0**	**131.3**	**560.6**	**86.8**
Fair value hedges		190.6	-	654.3	-	531.4	-
Cash flow hedges		75.6	131.7	56.6	109.8	26.7	63.5
Derivatives not qualifying for hedge accounting		3.3	13.8	5.1	21.5	2.5	23.3
Foreign currency derivatives	**28.2**	**44.9**	**112.5**	**38.4**	**118.9**	**32.4**	**126.0**
Net investment hedges		4.3	21.4	11.6	30.1	3.6	49.6
Fair value hedges		3.7	3.5	6.0	11.9	2.6	1.0
Cash flow hedges		3.3	1.8	2.3	4.7	9.6	1.3
Derivatives not qualifying for hedge accounting		33.6	85.8	18.5	72.2	16.6	74.1
Commodity derivatives	**28.3**	**8.4**	**48.9**	**36.5**	**46.7**	**62.7**	**34.0**
TOTAL DERIVATIVES		**322.8**	**306.9**	**790.9**	**296.9**	**655.7**	**246.8**
o/w non-current derivatives		**277.6**	**235.1**	**742.8**	**215.4**	**621.1**	**195.1**
o/w current derivatives		**45.2**	**71.8**	**48.1**	**81.5**	**34.6**	**51.7**

The fair value of derivatives recognized in the Consolidated Statement of Financial Position is determined (as described in Note 1.26) and breaks down as follows:

	As of December 31, 2012		Level 2 (%)		Level 3 (%)	
(€ million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	269.5	145.5	100.0%	100.0%	-	-
Foreign currency derivatives	44.9	112.5	100.0%	100.0%	-	-
Commodity derivatives	8.4	48.9	31.0%	37.8%	69.0%	62.2%
TOTAL DERIVATIVES	**322.8**	**306.9**	**98.2%**	**90.1%**	**1.8%**	**9.9%**

Derivatives valued using internal models integrating certain non-observable data are primarily electricity derivatives for which there are no quoted prices in an active market (mainly electricity purchase options with extremely long maturity) or observable market data (forward prices for component materials), in particular for distant maturities. In such cases, data is estimated by Veolia Environnement experts.

	As of December 31, 2011		Level 2 (%)		Level 3 (%)	
(€ million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	716.0	131.3	100%	100%	-	-
Foreign currency derivatives	38.4	118.9	100%	100%	-	-
Commodity derivatives	36.5	46.7	55.1%	66.8%	44.9%	33.2%
TOTAL DERIVATIVES	**790.9**	**296.9**	**97.9%**	**94.8%**	**2.1%**	**5.2%**

	As of December 31, 2010		Level 2 (%)		Level 3 (%)	
(€ million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives	560.6	86.8	100%	100%	-	-
Foreign currency derivatives	32.4	126.0	100%	100%	-	-
Commodity derivatives	62.7	34.0	48.5%	61.5%	51.5%	38.5%
TOTAL DERIVATIVES	**655.7**	**246.8**	**95.1%**	**94.7%**	**4.9%**	**5.3%**

28.1 Interest-rate derivatives

The fair value of interest rate derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

		As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	Note	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives		**269.5**	**145.5**	**716.0**	**131.3**	**560.6**	**86.8**
Fair value hedges	28.1.1	190.6	-	654.3	-	531.4	-
Cash flow hedges	28.1.2	75.6	131.7	56.6	109.8	26.7	63.5
Derivatives not qualifying for hedge accounting	28.1.3	3.3	13.8	5.1	21.5	2.5	23.3

28.1.1 Fair value hedges

The risk of volatility in the value of debt is hedged by fixed–rate receiver/floating-rate payer swaps which change bond issues to floating-rate debt (see Notes 27 and 17).

Fair value hedging swaps represent a notional outstanding amount of €1,472.6 million as of December 31, 2012, with a net fair value in the Consolidated Statement of Financial Position of €190.6 million, as follows:

Fixed-rate receiver / floating-rate payer swaps	**Notional contract amount by maturity**				**Fair value of derivatives**	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
As of December 31, 2012	**1,472.6**	**386.6**	**622.5**	**463.5**	**190.6**	**-**
As of December 31, 2011	5,582.3	200.0	2,679.2	2,703.1	654.3	-
As of December 31, 2010	6,853.9	-	2,576.7	4,277.2	531.4	

The movement in the nominal value of the fair value hedging portfolio is mainly due to:

- The expiry on maturity of swaps hedging the 2012 EMTN in the amount of €200 million;
- The early cancellation, for a total amount of €3,906 million, of certain swaps hedging the 2014, 2015, 2016, 2017, 2018, 2020 and 2022 euro EMTN issues and the 2015 and 2018 US dollar EMTN issues;
- The impact of exchange rate fluctuations on the nominal amount of swaps denominated in pound sterling and U.S. dollar of -€3.8 million.

28.1.2 Cash flow hedges

Cash flow hedges comprise floating-rate receiver/fixed-rate payer swaps mainly on debt secured to finance BOT (Build Operate Transfer) contracts, to the extent the underlying assets generate fixed-rate flows.

Floating-rate receiver / fixed-rate payer swaps / purchase of caps	**Notional contract amount by maturity**				**Fair value of derivatives**	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
As of December 31, 2012	**2,089.5**	**10.4**	**1,818.3**	**260.8**	**75.6**	**131.7**
As of December 31, 2011	1,678.5	-	1,417.1	261.4	56.6	109.8
As of December 31, 2010	850.4	193.7	342.0	314.7	26.7	63.5

-€73 million, net of tax, was recorded directly in equity in respect of cash flow hedge interest-rate derivatives as of December 31, 2012.

Contractual flows on interest rate swaps are paid at the same time as contractual flows on floating-rate borrowings and the amount recorded in other comprehensive income is released to net income in the period in which interest flows on the debt impact the Consolidated Income Statement.

The increase in the cash-flow hedging portfolio is mainly due to:

- The set-up of new swaps in the amount of €463 million and primarily swaps hedging the inflation-indexed bond issue and the syndicated loan facility denominated in Polish zloty;
- The expiry or cancellation of operations in the amount of €97.5 million;
- The increase in the nominal of certain swaps hedging project financing in the Water Division in the amount of €34 million and primarily the current Oman project.

The decrease in the fair value of fixed-rate payer swaps is mainly due to the decrease in euro interest rates which decreased the fair value of these swaps, partially offset by the expiry on maturity of a certain number of transactions.

28.1.3 Interest-rate derivatives not qualifying for hedge accounting

A certain number of derivatives do not qualify as hedges under IAS 39. The Group does not, however, consider these transactions to be of a speculative nature and views them as necessary for the effective management of its exposure to interest rate risk.

	Notional amount as of December 31, 2012				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	616.5	616.5	-	-	0.8	-
Floating-rate receiver / fixed-rate payer swaps	429.0	332.7	44.7	51.6	2.5	13.8
Floating-rate receiver / floating-rate payer swaps	-	-	-	-	-	-
Total firm financial instruments	**1,045.5**	**949.2**	**44.7**	**51.6**	**3.3**	**13.8**
Purchases of caps	122.5	-	122.5	-	-	-
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**122.5**	**-**	**122.5**	**-**	**-**	**-**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**1,168.0**	**949.2**	**167.2**	**51.6**	**3.3**	**13.8**

The variation in the portfolio of interest rate derivatives not qualifying for hedge accounting between 2012 and 2011 is mainly due to:

- The early termination of the majority of the options portfolio held by Veolia Environnement SA and certain swaps not qualified as hedges, in the total amount of €1,420 million;
- Expiry at maturity of short-term financial instruments hedging cash investments of approximately €1,800 million;
- The set-up of new transactions in the amount of €878 million and primarily short-term swaps hedging cash investments in the amount of €830 million.

Recap: the breakdown as of **December 31, 2011 and 2010** is as follows:

	Notional amount as of December 31, 2011				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	246.0	209.6	36.4	-	0.9	-
Floating-rate receiver / fixed-rate payer swaps	1,743.9	1,593.5	97.5	52.9	2.1	11.0
Floating-rate receiver / floating-rate payer swaps	250.0	-	250.0	-	1.7	-
Total firm financial instruments	**2,239.9**	**1,803.1**	**383.9**	**52.9**	**4.7**	**11.0**
Purchases of vanilla and structured caps	1,290.2	300.0	990.2	-	0.4	10.5
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**1,290.2**	**300.0**	**990.2**	**-**	**0.4**	**10.5**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**3,530.1**	**2,103.1**	**1,374.1**	**52.9**	**5.1**	**21.5**

	Notional amount as of December 31, 2010				Fair value of derivatives	
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total assets**	**Total liabilities**
Fixed-rate receiver / floating-rate payer swaps	358.6	293.7	56.9	8.0	2.5	-
Floating-rate receiver / fixed-rate payer swaps	431.7	247.7	128.1	55.9	-	10.7
Floating-rate receiver / floating-rate payer swaps	250.0	-	250.0	-	-	3.3
Total firm financial instruments	**1,040.3**	**541.4**	**435.0**	**63.9**	**2.5**	**14.0**
Purchases of vanilla and structured caps	952.4	30.0	722.4	200.0	-	9.3
Sales of caps	-	-	-	-	-	-
Sales of swaptions	-	-	-	-	-	-
Total optional financial instruments	**952.4**	**30.0**	**722.4**	**200.0**	**-**	**9.3**
TOTAL INTEREST-RATE DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**1,992.7**	**571.4**	**1,157.4**	**263.9**	**2.5**	**23.3**

28.2 Foreign currency derivatives

The fair value of foreign currency derivatives recognized in the Consolidated Statement of Financial Position breaks down as follows:

		As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	**Note**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
FOREIGN CURRENCY DERIVATIVES		**44.9**	**112.5**	**38.4**	**118.9**	**32.4**	**126.0**
Net investment hedges	28.2.1	4.3	21.4	11.6	30.1	3.6	49.6
Fair value hedges	28.2.2	3.7	3.5	6.0	11.9	2.6	1.0
Cash flow hedges	28.2.3	3.3	1.8	2.3	4.7	9.6	1.3
Derivatives not qualifying for hedge accounting	28.2.4	33.6	44.7	18.5	47.9	16.6	47.6
Embedded derivatives		-	41.1	-	24.3	-	26.5

28.2.1 Hedge of a net investment in a foreign operation

Financial instruments designated as net investment hedges break down as follows:

Financial instrument		Notional amount as of December 31, 2012 by currency and maturity				Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
	CZK	200.5	200.5	-	-	0.4	-
	SEK	63.1	63.1	-	-	-	0.2
	HKD	255.3	255.3	-	-	1.0	0.7
	HUF	38.2	38.2	-	-	-	0.1
	ILS	19.6	19.6	-	-	-	0.1
	PLN	216.9	216.9	-	-	-	2.9
Currency payer swaps	Other	102.8	102.8	-	-	2.0	-
Embedded derivatives (forward sale)	KRW	82.4	15.1	63.2	4.1	0.9	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	60.0	-	60.0	-	17.4
Total foreign currency derivatives		**1,098.8**	**971.5**	**63.2**	**64.1**	**4.3**	**21.4**
USD borrowings	USD	1,070.1	352.5	-	717.6	N/A	N/A
GBP borrowings	GBP	796.5	-	-	796.5	N/A	N/A
Syndicated loan facility	PLN	392.7	-	392.7	-	N/A	N/A
Total financing		**2,259.3**	**352.5**	**392.7**	**1,514.1**	**N/A**	**N/A**
TOTAL		**3,358.1**	**1,324.0**	**455.9**	**1,578.2**	**N/A**	**N/A**

The above currency swaps are short-term but are generally renewed at maturity, until financing of an appropriate term is secured in the currency of the related country.

Fair value movements compared with December 31, 2011 are mainly due to:

- The increase in the fair value of euro/Chinese renminbi yuan cross currency swaps for €5.8 million;
- The decrease in the fair value of the Korean won embedded derivative for €5.2 million.

Inter-company loans and receivables forming part of a foreign investment (IAS 21) are nearly systematically hedged by foreign currency external financing or foreign currency derivatives (cross currency swaps. currency forwards) meeting IAS 39 criteria for hedge accounting. Foreign exchange gains and losses recorded in foreign exchange translation reserves in respect of hedging instruments are systematically offset by foreign exchange gains and losses recognized in foreign exchange translation reserves on loans forming part of the net investment, unless:

- The inter-company loan forming part of the net investment in a foreign operation is not hedged;
- The hedge is partially ineffective due to a difference between the nominal amount of the hedge and the amount of the hedged net asset;
- Only the net assets of the foreign subsidiary (excluding the loan forming part of the net investment) are hedged.

Net foreign exchange gains recorded in Group foreign exchange translation reserves as of December 31, 2012 of €114.8 million mainly comprise:

- The impact of exchange rate fluctuations on hedges of Water Division investments, particularly in China, Korea, the Czech Republic, Japan and the United States of €18.3 million;
- The €86.6 million impact of exchange rate fluctuations on hedges of Veolia Environnement SA investments in the United States (€80.4 million) and the United Kingdom (€6.2 million).

Recap: the breakdown as of **December 31, 2011 and 2010** is as follows:

Financial instrument		Notional amount as of December 31, 2011 by currency and maturity				Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
	CZK	195.2	195.2	-	-	-	0.2
	SEK	60.4	60.4	-	-	-	0.4
	HKD	255.5	255.5	-	-	0.3	4.8
	HUF	36.0	36.0	-	-	0.7	-
	ILS	19.6	19.6	-	-	0.1	-
	JPY	78.9	78.9	-	-	-	1.5
	PLN	246.5	246.5	-	-	4.3	-
Currency payer swaps	Other	17.2	17.2	-	-	-	-
Embedded derivatives (forward sale)	KRW	85.9	12.9	53.3	19.7	6.2	-
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	-	60.0	60.0	-	23.2
Total foreign currency derivatives		**1,115.2**	**922.2**	**113.3**	**79.7**	**11.6**	**30.1**
USD borrowings	USD	1224.5	-	326.3	898.2	N/A	N/A
GBP borrowings	GBP	778.2	-	-	778.2	N/A	N/A
Syndicated loan facility	PLN	307.3	307.3	-	-	N/A	N/A
Total financing		**2,310.0**	**307.3**	**326.3**	**1,676.4**	N/A	N/A
TOTAL		**3,425.2**	**1,229.5**	**439.6**	**1,756.1**	N/A	N/A

Financial instrument		Notional amount as of December 31, 2010 by currency and maturity				Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
	CZK	199.2	199.2	-	-	-	1.6
	GBP	73.8	73.8	-	-	0.2	1.6
	HKD	218.2	218.2	-	-	3.1	0.3
	HUF	39.5	39.5	-	-	-	0.5
	ILS	29.5	29.5	-	-	0.2	0.3
	JPY	73.9	73.9	-	-	-	0.2
	PLN	85.8	85.8	-	-	-	1.4
Currency payer swaps	Other	17.0	17.0	-	-	0.1	-
Embedded derivatives (forward sale)	KRW	98.5	14.7	51.4	32.4	-	1.6
Cross currency swaps: fixed-rate payer / fixed-rate receiver	CNY	120.0	-	60.0	60.0	-	42.1
Total foreign currency derivatives		**955.4**	**751.6**	**111.4**	**92.4**	**3.6**	**49.6**
USD borrowings	USD	1,499.9	-	630.1	869.8	N/A	N/A
GBP borrowings	GBP	755.2	-	-	755.2	N/A	N/A
Syndicated loan facility	PLN	257.1	257.1	-	-	N/A	N/A
Total financing		**2,512.2**	**257.1**	**630.1**	**1,625.0**	**N/A**	**N/A**
TOTAL		**3,467.6**	**1,008.7**	**741.5**	**1,717.4**	**N/A**	**N/A**

28.2.2 Fair value hedges

Financial instruments designated as fair value hedges break down as follows:

Financial instrument		Notional amount as of December 31, 2012 by currency and maturity				Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Forward purchases	GBP	17.6	17.4	0.2	-	0.3	0.4
Forward purchases	SEK	6.6	6.1	0.5	-	0.6	0.3
Forward sales	HKD	31.4	26.0	5.4	-	0.5	0.8
Forward sales	KWD	14.4	12.6	1.8	-	0.4	0.6
Forward sales	NOK	9.9	4.2	5.7	-	0.3	0.8
Forward sales	PLN	3.1	0.2	2.9	-	0.3	0.3
Forward sales	USD	47.5	45.9	1.6	-	1.2	0.2
Other currencies		7.1	6.7	0.4	-	0.1	0.1
TOTAL FOREIGN CURRENCY DERIVATIVES						**3.7**	**3.5**

The fair value hedges presented above mainly consist of foreign currency hedges in respect of construction contracts.

28.2.3 Cash flow hedges

Financial instruments designated as cash flow hedges break down as follows:

Financial instrument		Notional amount as of December 31, 2012 by currency and maturity				Fair value of derivatives	
(€ million)	Currency	Amount	Less than 1 year	1 to 5 years	More than 5 years	Total assets	Total liabilities
Forward purchases	CZK	54.8	48.8	6.0	-	0.1	0.5
Forward purchases	PLN	15.9	14.6	1.3	-	0.7	-
Forward sales	USD	4.0	4.0	-	-	0.1	-
Forward sales	GBP	186.1	51.9	134.2	-	1.7	1.3
Forward sales	RON	5.6	-	5.6	-	0.7	-
TOTAL FOREIGN CURRENCY DERIVATIVES						**3.3**	**1.8**

The cash flow hedges presented above mainly consist of forward purchases/sales of foreign currencies different from the functional currencies of the entities concerned, in connection with their own activities and particularly hedges entered into in respect of Private Finance Initiatives (PFI) in the United Kingdom. These projects concern in particular the districts of Southwark, West Berkshire, Staffordshire and Leeds.

28.2.4 Hedges of currency exposure in the Consolidated Statement of Financial Position by derivatives not qualifying for hedge accounting

Fair value	As of December 31, 2012						
(€ million)	**Total**	**USD**	**GBP**	**NOK**	**HKD**	**KRW**	**Other**
Forward purchases	8.7	-	-	8.2	-	-	0.5
Currency receiver swaps	(31.2)	(28.5)	(2.6)	-	-	-	(0.1)
Total currency swaps and forward purchases	**(22.5)**	**(28.5)**	**(2.6)**	**8.2**	**-**	**-**	**0.4**
Forward sales	(41.8)	0.1	0.2	(0.1)	-	(41.8)	(0.2)
Currency payer swaps	12.2	0.3	8.0	(0.1)	4.2	-	(0.2)
Total currency swaps and forward sales	**(29.6)**	**0.4**	**8.2**	**(0.2)**	**4.2**	**(41.8)**	**(0.4)**
Call options	-	-	-	-	-	-	-
Put options	(0.1)	0.3	-	-	-	(0.4)	-
Total currency options	**(0.1)**	**0.3**	**-**	**-**	**-**	**(0.4)**	**-**
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(52.2)**	**(27.8)**	**5.6**	**8.0**	**4.2**	**(42.2)**	**-**

Recap: Hedges as of **December 31, 2011 and 2010** are as follows:

Fair value	As of December 31, 2011						
(€ million)	**Total**	**USD**	**GBP**	**NOK**	**HKD**	**KRW**	**Other**
Forward purchases	2.8	0.2	0.1	3.0	-	-	(0.5)
Currency receiver swaps	2.0	1.8	0.1	-	-	-	0.1
Total currency swaps and forward purchases	**4.8**	**2.0**	**0.2**	**3.0**	**-**	**-**	**(0.4)**
Forward sales	(25.4)	(1.5)	(0.1)	-	(0.1)	(24.3)	0.6
Currency payer swaps	(30.2)	(3.7)	(20.5)	-	(8.5)	-	2.5
Total currency swaps and forward sales	**(55.6)**	**(5.2)**	**(20.6)**	**-**	**(8.6)**	**(24.3)**	**3.1**
Call options	-	-	-	-	-	-	-
Put options	(2.9)	-	-	-	-	(2.9)	-
Total currency options	**(2.9)**	-	-	-	-	**(2.9)**	**-**
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(53.7)**	**(3.2)**	**(20.4)**	**3.0**	**(8.6)**	**(27.2)**	**2.7**

Fair value	As of December 31, 2010						
(€ million)	**Total**	**USD**	**GBP**	**NOK**	**SEK**	**KRW**	**Other**
Forward purchases	(0.8)	(0.6)	(0.6)	-	-	0.1	0.3
Currency receiver swaps	3.0	1.4	1.8	0.1	0.1	-	(0.4)
Total currency swaps and forward purchases	**2.2**	**0.8**	**1.2**	**0.1**	**0.1**	**0.1**	**(0.1)**
Forward sales	(34.0)	0.7	-	(0.4)	(0.7)	(30.1)	(3.5)
Currency payer swaps	(25.1)	0.2	(12.5)	(4.5)	(2.4)	-	(5.9)
Total currency swaps and forward sales	**(59.1)**	**0.9**	**(12.5)**	**(4.9)**	**(3.1)**	**(30.1)**	**(9.4)**
Call options	-	-	-	-	-	-	-
Put options	(0.6)	-	-	-	-	(0.6)	-
Total currency options	**(0.6)**	**-**	**-**	**-**	**-**	**(0.6)**	**-**
TOTAL DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING	**(57.5)**	**1.7**	**(11.3)**	**(4.8)**	**(3.0)**	**(30.6)**	**(9.5)**

The above portfolio of foreign currency derivatives was mainly contracted by Veolia Environnement SA to hedge its foreign currency-denominated net financial debt (comprising foreign currency-denominated borrowings and foreign currency-denominated inter-company loans and borrowings).

28.3 Commodity derivatives

As of December 31, 2012, the fair value of commodity derivatives totals €8.4 million in assets and €48.9 million in liabilities. The €30.3 million decrease in fair value on December 31, 2011 is mainly due to the impact of:

- A €25.1 million decrease in the fair value of electricity instruments, mainly due to the expiry of profitable positions in 2012 and the fall in electricity prices;
- A €5.9 million decrease in the fair value of CO_2 transactions, due to the expiry of forward sales of phase 2 allowances;
- A €0.6 million decrease in the fair value of gas/crude oil/coal transactions, due to the expiry of gas/crude oil positions in 2012, the fall in the price of coal and the increase in the crude oil - gas price differential.

	As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**8.4**	**48.9**	**36.5**	**46.7**	**62.7**	**34.0**
Electricity	7.3	31.8	22.2	21.6	42.2	22.9
Petroleum products*	0.9	1.5	4.3	0.3	4.9	0.7
Gas*	-	9.2	-	15.9	8.9	-
CO_2	0.1	0.1	8.9	3.0	0.7	0.5
Coal*	0.1	6.3	1.1	4.6	6.0	8.4
Other	-	-	-	1.3	-	1.5

(*) Transactions concerning gas, coal or other petroleum products are primarily swaps maturing in 2014.

Pursuant to IAS 39, these derivatives break down as follows:

	As of December 31, 2012		As of December 31, 2011		As of December 31, 2010	
(€ million)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Commodity derivatives	**8.4**	**48.9**	**36.5**	**46.7**	**62.7**	**34.0**
Fair value hedges	-	-	-	1.3	-	0.5
Cash flow hedges	0.8	16.3	12.4	20.6	20.1	10.4
Derivatives not qualifying for hedge accounting	7.6	32.6	24.1	24.8	42.6	23.1

Material contract notional amounts (electricity – see Note 1.23) are as follows:

28.3.1 Electricity

	Notional contract amounts as of December 31, 2012 by maturity			
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	9,535	868	2,239	6,428
• in € million	580	47	135	398
Electricity sales instruments:				
• in Gwh	1,178	953	225	-
• in € million	58	47	11	-

Electricity purchase instruments covering the period 2013 to 2025 have a market value of -€27 million (based on valuation assumptions at the year-end) and sales instruments maturing in 2014 have a net market value of +€2 million. These transactions are recorded in the Consolidated Statement of Financial Position at fair value based on the quoted price of commodities with similar maturities and using internal models integrating non-observable data in the absence of a liquid market.

A 10% increase or decrease in the price of electricity (all other things being equal) would have an impact on net income of +€4.2 million and -€3.8 million, respectively.

	Notional contract amounts as of December 31, 2011 by maturity			
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	11,420	774	2,293	8,353
• in € million	734	43	147	544
Electricity sales instruments:				
• in Gwh	831	831	-	-
• in € million	58	58	-	-

	Notional contract amounts as of December 31, 2010 by maturity			
(€ million)	**Total**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Electricity purchase instruments:				
• in Gwh	11,186	700	2,100	8,386
• in € million	770	41	140	589
Electricity sales instruments:				
• in Gwh	1,512	735	777	-
• in € million	111	55	56	-

28.3.2 Greenhouse gas emission rights

In 2010 and 2011 the market value of CO_2 transactions mainly reflected forward purchases and sales designated as cash flow hedges and other transactions not qualifying for hedge accounting relating to contracts swapping greenhouse gas emission rights (EUA) for Carbon Emission certificates.

These transactions had expired at the end of 2012, explaining the immaterial value of CO_2 transactions.

Note 29 Employee benefit obligation

29.1 Share-based compensation

Veolia Environnement share purchase and subscription option plans

Veolia Environnement has implemented several standard fixed share purchase and subscription option plans, as well as a variable plan for management.

Outstanding option plans at the end of 2012 were as follows:

	N°8	N°7	N°6	N°5
	2010	2007	2006	2004
Grant date	09/28/2010	07/17/2007	03/28/2006	12/24/2004
Number of options granted	2,462,800	2,490,400	4,044,900	3,341,600
Number of options not exercised	0***	548,600*	3,032,495	0
Plan term	8 years	8 years	8 years	8 years
Vesting conditions	4 years' service plus performance conditions	4 years' service plus performance conditions	4 years' service	3 years' service plus performance conditions for certain plans
Vesting method	After 4 years	After 4 years	After 4 years	By tranches of 1/3 over 3 years
Strike price (in euros)	22.50	57.05	44.03**	24.32**

* *Given the performance criteria, the number of options effectively exercisable was reduced by 1,742,650 in 2008.*

*** *Strike price adjusted to take account of transactions impacting the share capital of the Company (issue of share subscription warrants on December 17, 2001 and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2007). The initial strike prices for plans no.4, no.5 and no.6 were €22.50. €24.72 and €44.75, respectively*

*** *Following the failure to achieve performance criteria, to be validated by the Board of Directors' meeting of March 14, 2013.*

2011 and 2012

The Group did not grant any share options in 2011 or 2012.

2010

In 2010, the Group granted 2,462,800 share options to members of the Executive Committee (excluding the Chief Executive Officer) and three employee groups. The first group comprised Veolia Environnement Group key management, including members of the Executive Committee. The second group comprised other Group management members and the third one included high-performing executive and non-executive employees. The estimated fair value of each option granted in 2010 was €1.86. This value was calculated using the Black and Scholes model, based on the following underlying assumptions: share price of €19.72, volatility of 26.6% based on share prices over a 6-year period in line with the estimated maturity of the plan, expected annual yield of 6.14%, risk-free interest rate of 1.97% and estimated exercise maturity of six years.

The options granted under the plan may only be exercised after a period of four years commencing the grant date, that is from September 29, 2014, provided the Group return on capital employed as of December 31, 2012 is at least equal to 8.4% (application of this performance criteria varies according to the employee category).

This condition would not appear to be satisfied at the 2012 year end and the Board of Directors' meeting of March 14, 2013 should take due note that the options cannot be exercised.

2008 and 2009

The Group did not grant any share options in 2008 or 2009.

2007

In 2007, the Group granted 2,490,400 share options to two employee groups. The first group comprised Veolia Environnement Group management, including members of the Executive Committee. The second group comprised senior managers of Veolia Environnement Group companies and employees recognized for their excellent performance in 2006. The estimated fair value of each option granted in 2007 was €13.91. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €57.26, historical volatility of 21.75%, expected dividend yield of 2%, risk-free interest rate of 4.59% and estimated exercise maturity of 6 years.

In 2007, the Group granted 333,700 free shares to employees recognized for their excellent performance in 2006. In France, rights vest after two years, followed by a two year lock-in period and are subject to performance conditions. Outside France, rights vest after four years subject to performance conditions. The estimated fair value of each free share granted in 2007 was €57.26, net of dividends not received during the vesting period and for shares granted to French employees, a discount for non-transferability.

Finally, in 2007 the Group granted 205,200 stock appreciation rights (SAR) on ordinary shares to three employee groups: firstly, Veolia Environnement Group management, secondly senior managers of Veolia Environnement Group companies and thirdly employees recognized for their excellent performance in 2006. Rights vest after four years subject to performance conditions. As of December 31, 2010, the estimated fair value of each option granted in 2007 was €0.03. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €21.86, historical volatility of 32.38%, expected dividend yield of 5.48%, risk-free interest rate of 1.12%, estimated exercise maturity of two years, subscription price of €57.20.

The performance condition determining the number of options granted under the three 2007 plans (share options, free shares and SAR) was the increase in net earnings per share between December 31, 2006 and December 31, 2008. This was taken into account in the calculation of the number of options vested and the compensation expense.

2006

In 2006, the Group granted 4,044,900 share options to three employee groups. The first group comprised Veolia Environnement Group management, including members of the Executive Committee. The second group comprised senior management of Veolia Environnement Group companies. The third group comprised Group employees recognized for their excellent performance. The estimated fair value of each option granted in 2006 was €10.01. This value was calculated using the Black and Scholes model based on the following underlying assumptions: share price of €44.75, historical volatility of 22.6%, expected dividend yield of 1.92%, risk-free interest rate of 3.69% and estimated exercise maturity of 6 years.

Information on share purchase and subscription options granted since 2001 is presented below, with a breakdown of movements in 2007, 2008, 2009, 2010, 2011 and 2012 (share option plans excluding free share plans and SAR plans (settled in cash):

	Number of options	Weighted average strike price *(in euros)*
As of December 31, 2007	**15,421,173**	**37.71**
Granted	-	-
Exercised	(886,095)	28.36
Cancelled	(242,056)	46.78
Expired	(1,804,495)*	56.17
As of December 31, 2008	**12,488,527**	**35.53**
Granted		
Exercised	(31,011)	25.06
Cancelled	(148,418)	46.05
Expired	(1,382,525)	40.59
As of December 31, 2009	**10,926,573**	**34.78**
Granted	2,462,800	22.50
Exercised	(71,113)	29.46
Cancelled	(310,576)	45.43
Expired	(1,895,041)	36.65
As of December 31, 2010	**11,112,643**	**31.48**
Granted	-	-
Exercised	(64,197)	22.14
Cancelled	(287,140)	38.30
Expired	(1,480,043)	22.14
As of December 31, 2011	**9,281,263**	**32.82**
Granted	-	-
Exercised	-	-
Cancelled	(514,480)	34.08
Expired	(5,185,688)**	23.57
As of December 31, 2012	**3,581,095**	**46.02**

* *Including 1,742,650 due to failure to meet performance conditions.*

** *Including 2,127,400 due to failure to meet performance conditions.*

No options were exercised in 2012.

Details of Veolia Environnement share purchase and subscription options outstanding as of December 31, 2012 are as follows:

Strike price	Number of options outstanding	Weighted average strike price *(in euros)*	Average residual term *(in years)*	Number of options vested
40-45	3,032,495	44.03	1.24	3,032,495
55-60	548,600	57.05	2.54	548,600
Total	**3,581,095**	**46.02**	**1.44**	**3,581,095**

As of December 31, 2012, 3,581,095 options can be exercised.

Employee savings plans

Veolia Environnement has set-up standard and leveraged savings plans which enable a large number of employees of Veolia Environnement and its subsidiaries to subscribe for Veolia Environnement shares. Shares subscribed by employees under these plans are subject to certain restrictions regarding their sale or transfer by employees.

No savings plans were set up in 2011 or 2012.

Shares subscribed by Veolia Environnement employees in 2010:

	2010
Number of shares	855,335
Subscription price	€17.74
Amount subscribed *(€ million)*	15.2

In 2010, a compensation expense of €8.2 million was recorded in accordance with IFRS 2 on share-based payments. This compensation includes a discount for non-transferability applied to the standard plan of €1.2 million.

Veolia Group applies the recommendations of the CNC (press release of December 21, 2004 on Company Savings Plans and supplementary notice of February 2, 2007). The discount for non-transferability was determined by calculating the difference between the value of a five-year forward sale of shares and the spot purchase of the same number of shares, financed by a loan.

The following assumptions were adopted in 2010:

	2010
Risk-free interest rate	1.81 %
Interest rate for calculating the carrying cost	5.74 %
Notional cost of non-transferability of shares (as a percentage of the spot rate of the shares at the grant date)	17 %

29.2 Pension plans and other post-employment benefits

a- Description of plans

In accordance with the regulatory environment and collective agreements, the Group has established defined benefit and defined contribution pension plans (company or multi-employer) in favor of employees and other post-employment benefits.

Defined contribution plans

As described in Note 1.15, defined contribution plans are plans under which the Group (or a Group entity) pays an agreed contribution to a separate entity, relieving it of any liability for future payments. These obligations are expensed in the Consolidated Income Statement when due. Basic mandatory pension plans in the various countries where the Group operates are generally defined contribution plans.

Supplementary defined contribution plans have been set up in certain subsidiaries. Expenses incurred by the Group under these plans total €76 million for 2012 and €70 million for 2011.

Defined benefit plans

Some Group companies have established defined benefit pension plans and/or offer other post-employment benefits (mainly retirement termination payments).

The tables in Note 29.2 § b present the obligations in respect of defined benefit pension plans (see Note 1.15) and other post-employment benefits.

The measurement of these obligations is reflected by the DBO (Defined Benefit Obligation) or actuarial liability. These future outflow commitments may be partially or fully funded ("plan assets").

The greatest obligations are located in the United Kingdom and France.

United Kingdom

In the United Kingdom, defined benefit pension plans are mainly final salary plans. Most of these plans are closed to new employees and the majority is also closed to the acquisition of new rights. These plans are financed by employer and employee contributions paid to an independent pension fund (the Trustee). Local regulations ensure the independence of the pension fund, which has 13 members (including 7 employer representatives, 5 representatives of active and retired employees and 1 independent member). The investment policy is defined by the pension fund. Funding levels and the contribution payment schedule is negotiated by the employer and the Trustee, based on three-yearly actuarial valuations. The payment schedule encompasses both the funding of the deficit associated with past rights and service costs of future years. Plan rules authorize the employer to recover excess funds paid at the end of the plans.

The defined benefit obligation in the United Kingdom is €883 million as of December 31, 2012 (compared with €1,178 million as of December 2011) and is funded by plan assets of €777 million at this date (compared with €1,057 million in 2011).

The decrease in the defined benefit obligation between December 31, 2011 and December 31, 2012 is mainly due to the divestiture of regulated Water activities (-€398.5 million), the discounting of the obligation (€47.0 million) and actuarial losses (€49 million).

The average duration of these plans is approximately 21 years.

France

In France, the defined benefit obligation for all plans totaled €535 million as of December 31, 2012 (€466 million as of December 31, 2011) and is funded by plan assets of €117 million as of December 31, 2012 (€119 million as of December 31, 2011).

Approximately 75% of the obligation relates to retirement indemnities (legally required payments) paid in a lump sum. These indemnities represent a number of months' salary based on Group seniority and are legally required by the applicable collective-bargaining agreement to be paid on an employee's retirement. A portion of these obligations is covered by insurance contracts, but this funding is at the discretion of the employer.

The average duration of these plans is approximately 11 years.

The risk associated with this type of plan is legislative risk, in terms of potential adjustments to redundancy payments to which retirement indemnities are linked in certain collective bargaining agreements. Furthermore, the renegotiation of collective bargaining agreements could also generate adjustments to indemnities granted.

With respect to executive plans, Chapter 15 sets out the terms and conditions of the main plan covering members of the Executive Committee.

Multi-employer plans

Under collective agreements, some Group companies participate in multi-employer defined benefit pension plans. However, these plans are unable to provide a consistent and reliable basis for the allocation of the obligation, assets and costs between the different participating entities. They are therefore recorded as defined contribution plans in accordance with IAS 19. The main multi-employer plans are located in Germany and the Netherlands and concern approximately 4,500 employees in 2012. The corresponding expense recorded in the consolidated income statement is equal to annual contributions and totals approximately €12 million in 2012 and €13 million in 2011. Multi-employer plans in the Netherlands are funded by capitalization; German multi-employer plans are funded by redistribution.

The Group also offers post-employment benefits and notably health insurance plans in France and the United States.

b - Obligations in respect of defined benefit pension plans and other post-employment benefits.

Change in the Defined Benefit Obligation (DBO)

	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
Change in the defined-benefit obligation						
(€ million)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Defined benefit obligation at beginning of year	**1,957.3**	2,062.7	1,770.1	**14.0**	53.2	41.5
Restatement of the defined benefit obligation of the Transportation business, in the course of divestiture in 2011 and add-back of the defined benefit obligation of SNCM in 2012	**7.8**	(172.1)		**15.0**	(37.6)	
Defined benefit obligation at beginning of year	**1,965.1**	1,890.6	1,770.1	**29.0**	15.6	41.5
Current service cost	**45.9**	49.3	57.1	**1.1**	0.9	1.5
Interest cost	**78.0**	86.9	92.9	**1.2**	0.6	2.3
Plan participants' contributions	**3.2**	4.3	5.4	**-**	-	-
Benefit obligation assumed on acquisition of subsidiaries *	**5.0**	3.4	64.7	**-**	2.4	-
Benefit obligation transferred on divestiture of subsidiaries **	**(402.0)**	(20.6)	(14.5)	**(1.3)**	-	(1.8)
Curtailments	**(22.1)**	(8.8)	(3.6)	**-**	-	-
Liquidations***	**(2.3)**	(23.0)	(10.3)	**-**	(5.6)	-
Actuarial losses (gains)	**134.0**	3.1	106.2	**6.4**	1.8	3.8
Benefits paid	**(75.8)**	(79.2)	(86.6)	**(1.1)**	(1.6)	(3.3)
Plan amendments	**2.6**	10.1	10.6	**-**	-	3.8
Other (incl. changes in consolidation scope and foreign exchange translation)	**28.3**	41.2	70.7	**(1.8)**	(0.1)	5.4
(A) DEFINED BENEFIT OBLIGATION AT END OF YEAR	**1,759.9**	**1,957.3**	**2,062.7**	**33.5**	**14.0**	**53.2**
o/w Defined benefit obligation at end of year in respect of partially or fully funded plans	***1,369.2***	***1,614.1***	***1,652.8***		**-**	**-**
o/w Defined benefit obligation at end of year in respect of unfunded plans	***390.7***	***343.2***	***409.9***	***33.5***	***14.0***	***53.2***

* *In 2010, primarily plan assets acquired by the Group following the Phoenix contract win in the United States in the amount of €56.8 million.*

** *In 2012, this line includes the decrease in the DBO associated with the divestiture of regulated Water activities in the United Kingdom of €398.5 million. In 2011, the divestiture of Proxiserve (Energy Services) generated a decrease in the DBO of €12.8 million.*

*** *Primarily in 2011, the early termination of the management agreement between the City of Indianapolis and Veolia leading to a reduction in the DBO (liquidation) of €15.0 million.*

In 2012, the divestiture of regulated Water activities in the United Kingdom on June 28, 2012 generated a decrease in the defined benefit obligation of €398.5 million and impacted all obligation movement lines (particularly interest cost).

Other changes in the defined benefit obligation for pension plans and other post-employment benefits (excluding health insurance coverage of retirees) primarily concern the impact of foreign exchange translation (€35 million in 2012 and €38 million in 2011).

c- Change in plan assets

The following table presents plan assets funding obligations in respect of defined benefit pension plans and other post-employment benefits.

	As of December 31,					
Change in plan assets	**Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)**			**Health insurance coverage of retirees**		
(€ million)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Fair value of plan assets at beginning of year	**1,281.8**	1,290.3	1,101.9	-	-	-
Restatement in 2011 of the fair value of plan assets of the Transportation business. in the course of divestiture	**-**	71.3	-	-	-	-
Fair value of plan assets at beginning of year	**1,281.8**	1,219.0	1,101.9	-	-	-
Actual return on plan assets	**80.5**	50.2	103.0			
o/w Expected return on plan assets	***55.6***	*66.7*	*67.4*	-	-	-
o/w Actuarial gains (losses)	***24.9***	*(16.5)*	*35.6*	-	-	-
Group contributions	**58.9**	37.5	58.4	-	-	-
Plan participants' contributions	**3.2**	4.3	5.4	-	-	-
Plan assets acquired on acquisition of subsidiaries *	**-**	0.2	38.5	-	-	-
Plan assets transferred on divestiture of subsidiaries **	**(404.9)**	(2.7)	(6.7)	-	-	-
Liquidations	**(0.5)**	(13.6)	(8.4)	-	-	-
Benefits paid	**(44.6)**	(48.2)	(52.8)	-	-	-
Other (incl. changes in consolidation scope and foreign exchange translation)	**35.2**	35.1	51.0	-	-	-
(B) FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**1,009.6**	1,281.8	1,290.3	-	-	-

* *Primarily plan assets acquired by the Group following the Phoenix contract win in the United States in the amount of €38.4 million.*

** *Plan assets transferred mainly concern the divestiture of regulated Water activities in the United Kingdom in the amount of €404.2 million*

Other changes in plan assets primarily concern the impact of foreign exchange translation (€35 million in 2012, €34 million in 2011 and €48 million in 2010).

The actual return on plan assets in 2012, 2011, and 2010 was 7.02%, 4.0%, and 8.6%, respectively and reflects market performance based on the asset investment profile.

The Group plans to make contributions of €21.8 million to defined benefit plans in 2013.

Group pension plan assets (excluding the Transportation business) were invested as follows as of December 31, 2012, 2011 and 2010:

	As of December 31, 2012 (*)	**As of December 31, 2011 (*)**	**As of December 31, 2010 (*)**
Shares	**23%**	30%	47%
Bonds and debt instruments	**41%**	38%	45%
Diversified funds	**15%**	9%	-
Insurance risk-free funds	**6%**	9%	5%
Liquid assets	**1%**	-	2%
Other	**14%**	14%	1%

(*) A more detailed breakdown of investments is now presented, to better reflect the risk mitigation policy through the diversification of asset categories adopted in the United Kingdom.

Assets in the United Kingdom are primarily invested in shares, bonds and diversified funds via a trust and expected long-term rates of return are based on long-term market performance statistics.

Group assets in France are primarily invested with insurance companies and the expected long-term return on these assets is directly linked to past rates of return.

d- Actuarial assumptions

Actuarial assumptions used for calculation purposes vary depending on the country in which the plan is implemented.

The benefit obligation in respect of pension plans and post-employment benefits as of December 31, 2012, 2011 and 2010 is based on the following average assumptions:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Discount rate	**3.78%**	4.54%	4.76%
- United Kingdom	***4.40%***	4.70%	5.10%
- Euro zone	***3.20%***	4.70%	4.60%
Expected rate of salary increase	**2.97%**	3.58%	3.44%

Average residual active life expectancy assumptions are as follows:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Average residual active life expectancy (in years)	**13.1**	12.2	12.9

Expected returns on plan assets in 2012, 2011 and 2010, as defined at the start of each year to determine the amount recorded in the income statement, are as follows:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Expected return on plan assets	**5.1%**	5.7%	5.9%
- United Kingdom	***5.4%***	*6.1%*	*6.2%*

The expected return on plan assets in the United Kingdom (representing the vast majority of Group plan assets) is determined individually for each plan based on market expectations and depends in particular on the investment strategy of each Division.

Additional assumptions concerning health insurance plans for retirees (excluding the Transportation business)

Additional assumptions concerning health insurance plans are as follows:

Average rate of increase in health insurance costs	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Assumed rate of increase in health costs in the coming year	4.01%	5.36%	5.6%
Target rate of increase in costs	3.5%	3.7%	3.9%
Year long-term rate is expected to stabilize	2020	2019	2020

Sensitivity of the benefit obligation and the current service cost

The Group benefit obligation (excluding the Transportation business) is especially sensitive to discount and inflation rates.

A 1% increase in the discount rate would decrease the benefit obligation by €246 million and the current service cost of the next year by €6 million. A 1% decrease in the discount rate would increase the benefit obligation by €293 million and the current service cost of the next year by €8 million.

Conversely, a 1% increase in the inflation rate would increase the benefit obligation by €236 million and the current service cost of the next year by €7 million. A 1% decrease in the inflation rate would decrease the benefit obligation by €204 million and the current service cost by €6 million.

Assumptions concerning the growth in health insurance costs have little impact on the defined benefit obligation and the current service cost.

e- Change in the funding status of post-employment benefit obligations and the provision

	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Funding status = (B) – (A)	**(750.3)**	(675.5)	(772.4)	**(33.5)**	(14.0)	(53.2)
Unrecognized past service cost	**67.8**	79.9	93.3	**-**	-	2.9
Other	**-**	-	-	**-**	-	-
NET OBLIGATION	**(682.5)**	(595.6)	(679.1)	**(33.5)**	(14.0)	(50.3)
Provisions	**(701.3)**	(606.1)	(686.2)	**(33.5)**	(14.0)	(50.3)
Prepaid benefits (regimes with a funding surplus)	**18.8**	10.5	7.1	**-**	-	-

Provisions for post-employment benefits total €734.8 million, compared with €620.1 million in 2011. In 2012, this amount includes in particular provisions of €10.4 million reclassified in the Consolidated statement of financial position in Liabilities directly associated with assets held for sale (including Moroccan activities in the Water Division and Citelum) i.e. an amount of €724.4 million recorded in the Consolidated statement of financial position.

f- Change in right to reimbursement

Change in right to reimbursement *(€ million)*	**2012**	**2011**	**2010**
Fair value of right to reimbursement at beginning of year	**3.8**	**24.2**	**22.4**
Restatement of the fair value of the right to reimbursement of the Transportation business in the course of divestiture in 2011 and add back of the fair value of the SNCM right to reimbursement in 2012	**8.7**	(19.2)	
Fair value of right to reimbursement at beginning of year	**12.5**	5.0	22.4
Expected return on right to reimbursement	**0.6**	0.3	0.9
Actuarial gains (losses)	**1.8**	(0.8)	1.4
Right to reimbursement acquired on acquisition of subsidiaries	**-**	-	0.8
Repayments	**(0.2)**	(0.7)	(1.4)
Other (incl. new right to reimbursements)	**1.0**	-	0.1
FAIR VALUE OF RIGHT TO REIMBURSEMENT AT END OF YEAR	**15.7**	**3.8**	**24.2**

Right to reimbursement is recorded in assets as of December 31, 2012 at a value of €15.7 million. Right to reimbursement concerns the portion of employee rights to post-employment benefits corresponding to periods during which the employee was employed by a previous employer or where the operating contract stipulates that employee entitlement to post-employment benefits is assumed by a third party.

g- Impact on the consolidated income statement

The net benefit cost is presented excluding the Transportation business in 2012 and breaks down as follows:

	As of December 31,					
	Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)			Health insurance coverage of retirees		
(€ million)	**2012**	**2011(*)**	**2010**	**2012**	**2011(*)**	**2010**
Current service cost	45.9	49.9	57.1	1.1	1.4	1.5
Interest cost	78.0	87.4	92.9	1.2	1.7	2.3
Expected return on plan assets	(55.6)	(66.7)	(67.4)	-	-	-
Expected return on right to reimbursement	(0.2)	(0.3)	-	(0.4)	(0.7)	(0.9)
Past service costs recognized in the year	9.7	10.6	11.1	-	-	1.5
Curtailments / liquidations	(16.8)	(15.5)	(3.0)	-	(5.6)	-
Other	(0.7)	2.0	(0.9)	(1.6)		-
NET BENEFIT COST	**60.3**	**67.4**	**89.8**	**0.3**	**3.2**	**4.4**

(*) 2011 figures have been adjusted to include amounts relating to SNCM (Group share of 50%).

These costs are recorded in full in operating income, except for the interest cost, expected return on plan assets and right to reimbursement, which are recorded in net finance costs.

h- Actuarial gains (losses)

Experience adjustments for the current and four prior periods are as follows:

Pension plans and other post-employment benefits (excluding health insurance coverage of retirees)	**2012**	**2011**	**2010**	**2009**	**2008**
Benefit obligation at year end	**(1,759.9)**	(1,957.3)	(2,062.7)	(1,770.1)	(1,522.0)
Fair value of plan assets at year end	**1,009.6**	1,281.8	1,290.3	1,101.9	901.1
Funding status	**(750.3)**	(675.5)	(772.4)	(668.2)	(620.9)
Actuarial gains (losses) / experience adjustments on obligations	**6.7**	(20.0)	0.3	(11.7)	8.8
% of the benefit obligation	***(0.38%)***	*1.02%*	*(0.02 %)*	*0.66 %*	*(0.58 %)*
Actuarial gains (losses) / experience adjustments on plan assets	**24.8**	(16.5)	35.6	79.2	(219.6)

Health insurance coverage of retirees	**2012**	**2011**	**2010**	**2009**	**2008**
Benefit obligation at year end	**(33.5)**	(14.0)	(53.2)	(41.5)	(41.7)
Fair value of plan assets at year end	-	-	-	-	-
Funding status	(33.5)	(14.0)	(53.2)	(41.5)	(41.7)
Actuarial gains (losses) / experience adjustments on obligations	(0.4)	(0.2)	0.7	0.5	1.9
% of the benefit obligation	1.2%	1.4%	*(1.25 %)*	*(1.20 %)*	*(4.56 %)*
Actuarial gains (losses) / experience adjustments on plan assets	-	-	-	-	-

Cumulative amounts of actuarial gains and losses on obligations and plan assets recognized in other comprehensive income and the change in the asset ceiling are as follows:

	2012	**2011**	**2010**
Cumulative amounts as of January 1	(332.9)	(320.5)	(247.5)
Change in the period	(105.4)	(12.4)	(73.0)
Cumulative amounts as of December 31	**(438.3)**	**(332.9)**	**(320.5)**

Note 30 Main acquisitions

30.1 Acquisitions in 2012

There were no acquisitions in 2012 with related net cash flows of more than €100 million.

Acquisitions in 2012 with related net cash flows of less than €100 million represent transaction costs of €55.3 million. These acquisitions contributed €13.3 million to Group revenue in 2012.

These transactions were recognized in accordance with the standard on business combinations (IFRS 3 revised).

Under IFRS 3 revised, the Group has a period of 12 months commencing the acquisition date during which to finalize the accounting recognition of the business combination considered. Asset and liability fair values adopted at the year-end may, therefore, change.

In general, goodwill balances are justified by synergies with existing operations in the Group and future developments.

Acquisition of control of Azaliya in the Water Division

On June 4, 2012, following the meeting of the Board of Directors of Azaliya, a joint venture created by Veolia Eau and Mubadala Development Company for the implementation of a long-term strategic plan, encompassing all water supply and wastewater treatment services in Veolia Water Middle East and North African portfolio, a Share Purchase Agreement was signed for the sale to Veolia Eau of the 49% stake in Azaliya held by Mubadala for a consideration of €48 million and an enterprise value of €247 million.

This transaction was completed on August 2, 2012, bringing Veolia's interest in Azaliya to 100%.

The completion of this transaction triggered the termination of all agreements between Mubadala and Veolia Eau and particularly the Azaliya shareholders' agreement.

This transaction was recognized in accordance with the standard on business combinations (IFRS 3 revised).

Acquisition costs are immaterial and were recorded in operating income.

Following completion of the transaction the Group launched a divesture process and a letter of intent was signed with a potential buyer in the third-quarter of 2012. In view of progress achieved with the divestiture process as of December 31, 2012, Water Division activities in Morocco were classified in discontinued operations as of December 31, 2012.

The additional stake acquired in Azaliya (Water activities in the Middle East) contributed revenue of €12.9 million in 2012. Had it been acquired at January 1, 2012, it would have contributed €25.8 million to Group revenue in 2012.

30.2 Acquisitions in 2011

The fair values of assets and liabilities acquired recognized at the 2011 year-end in the non-definitive opening balance sheets of fiscal year 2011 (SPEC in the Energy Services Division in Poland) were not materially changed during the 12-month period following their acquisition dates.

Note 31 Construction contracts

As described in Note 1.22. Veolia Group recognizes its construction contracts under the percentage of completion method. At each period-end, a contract statement compares the amount of costs incurred, plus profits (including any provisions for losses to completion) with intermediary billings: "Construction contracts in progress / Assets" therefore represents contracts for which the costs incurred and profits recognized exceed amounts billed.

(€ million)	**As of December 31, 2012**	**As of December 31, 2011**	**As of December 31, 2010**
Construction contracts in progress / Assets (A)	675.8	622.4	500.0
Construction contracts in progress / Liabilities (B)	248.0	294.1	238.1
Construction contracts in progress / net (A) – (B)	**427.8**	**328.3**	**261.9**
Costs incurred plus income and losses recognized to date (C)	4,249.9	5,798.1	5,757.4
Amounts billed (D)	3,822.1	5,469.8	5,495.5
Construction contracts in progress / net (C) – (D)	**427.8**	**328.3**	**261.9**
Customer advances	**69.5**	**88.4**	**55.0**

Note 32 Operating leases

The Group enters into operating leases (mainly for transportation equipment and buildings).

Future minimum lease payments under operating leases amount to €2,583.9 million as of December 31, 2012, compared with €2,686.7 million as of December 31, 2011 and €3,108.1 million as of December 31, 2010.

As of December 31, 2012, future minimum lease payments under these contracts were as follows:

(€ million)	**Operating lease**
2013	594.5
2014 & 2015	827.1
2016 & 2017	482.5
2018 and thereafter	679.8
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**2,583.9**

Lease payments for the period

(€ million)	**As of December 31, 2012**	**As of December 31, 2011**	**As of December 31, 2010**
Minimum lease payments expensed in the year	742.1	640.2	732.7
Contingent rent expensed in the year	24.5	19.2	18.7
TOTAL LEASE PAYMENTS FOR THE YEAR	**766.6**	**659.4**	**751.4**
Including total lease payments for the year for the Veolia Transdev group	189.4	165.8	262.9

Sub-lease revenue is not material.

Assets leased under operating leases

The value of assets concerned by operating leases within the Group is not material.

Note 33 Proportionately consolidated companies

Summarized financial information in respect of proportionately consolidated companies is set out below (Group share):

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Non-current assets	5,744.6	8,154.4	8,421.2
Current assets	2,841.7	3,848.3	4,021.6
TOTAL ASSETS	**8,586.3**	**12,002.7**	**12,442.8**
Equity attributable to owners of the Company	3,049.6	2,794.4	3,256.5
Equity attributable to non-controlling interests	306.6	1,008.5	1,065.3
Non-current liabilities	1,592.9	3,161.7	3,295.2
Current liabilities	3,637.2	5,038.1	4,825.8
TOTAL EQUITY AND LIABILITIES	**8,586.3**	**12,002.7**	**12,442.8**

(€ million)	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Income Statement data			
Revenue	5,721.4	5,665.6	5,767.6
Operating income	314.0	201.0	710.7
Net income for the year	5.4	(108.8)	311.6
Financing data			
Operating cash flows	614.9	779.5	671.1
Investing cash flows	2,083.0	(583.5)	(193.7)
Financing cash flows	(392.7)	(363.4)	(213.5)

The most material proportionately consolidated entities are as follows:

- The Veolia Transdev group, proportionately consolidated from March 3, 2011, was retained in discontinued operations as of December 31, 2012 (see Note 23);
- BWB (Berlin Water) in the Water Division in Germany, consolidated 50% up to October 30, 2012, contributed revenue of €452.4 million and operating income of €125.6 million;
- In China, in the Water Division:
  - The Shenzhen contracts, consolidated 25%, contributed revenue of €189.6 million and net assets of €406.9 million;
  - The VW Pudong contracts, consolidated 50%, contributed revenue of €92.8 million and net assets of €192 million;
  - The Tianjin Shibei contracts, consolidated 49%, contributed revenue of €70.5 million and net assets of €291.2 million;
- Dalkia International is 75.81% consolidated and contributed revenue of €3,689.8 million, operating income of €61.5 million and net assets of €3,070 million;
- The Proactiva Group in South America is 50% consolidated and contributed revenue of €270.3 million, operating income of €32.2 million and net assets of €190.1 million.

As described in Note 30, on June 4, 2012, following the meeting of the Azaliya Board of Directors, Mubadala and Veolia Eau signed a Share Purchase Agreement for the sale to Veolia Water of the Azaliya shares held by Mubadala. The transaction was completed on August 2, 2012, bringing Veolia's interest in Azaliya to 100%.

Note 34 Tax audits

In the normal course of their business, the Group entities in France and abroad are subjected to regular tax audits. Revised assessments and identified uncertain tax positions in respect of which a revised assessment has not yet been issued are adequately provided, and provision amounts are regularly reviewed in accordance with IAS 37 criteria.

The tax authorities have carried out various tax audits in respect of both consolidated tax groups and individual entities, including Veolia Environnement SA. To date, none of these reviews have led to material liabilities to the tax authorities in excess of amounts estimated during the review of tax risks.

In Italy, in the Energy Services Division, Siram received revised tax assessments in respect of fiscal years 2004 and 2005. Litigation proceedings were initiated with respect to these tax assessments. The liabilities arising from this litigation have been anticipated and provided for in accordance with IAS 37.

On March 10, 2010, Veolia Environnement through its subsidiary VENAO received notices of proposed adjustments ("NOPAs") from the U.S. Internal Revenue Service (IRS) relating to a number of tax positions concerning its U.S. subsidiaries, including primarily tax losses resulting from the reorganization of the former US Filter (Worthless Stock Deduction), in the amount of USD 4.5 billion (tax base). They also relate to certain other issues relating to tax losses for the 2004, 2005 and 2006 tax years, in an aggregate amount of a similar order of magnitude as the Worthless Stock Deduction. The NOPAs are preliminary assessments that do not reflect a definitive audit position and are subject to change. These NOPA's were received following the request by the Group for a pre-filing agreement from the Internal Revenue Service (IRS) in order to validate the amount of tax losses as of December 31, 2006.

During 2010, 2011 and 2012, the Group continued to discuss these NOPAs with the IRS with a view to resolving or narrowing the issues and the issuance of a formal assessment notice for any unresolved issues, which could be appealed within the IRS or in court. As of December 31, 2012 and 2011, the remaining NOPAs, before any penalties, relate to the Worthless Stock Deduction for USD 4.5 billion (tax base) as well as other issues for an estimated aggregate amount of USD 0.7 billion (tax base). As the NOPAs are still subject to the continuing IRS audit process, there is no requirement at this time for any payment of taxes.

In the context of this audit, the IRS issued several summons in reply to which VENAO submitted a number of documents. Nonetheless, on January 5, 2013, considering the response to the summons inadequate, the US Department of Justice brought an action against VENAO before the US District Court of the State of Delaware for enforcement of the summons.

Based on information available to the Company, Veolia Environnement has not recorded any provisions in its consolidated financial statements in respect of the NOPAs and had recorded a deferred tax asset relating to these tax losses.

Furthermore, an audit was performed by the US tax authorities in respect of fiscal years 2007 and 2008 for all the Group's US entities. As of December 31, 2012, this audit is still ongoing. No major risks have been identified to date.

In estimating the risk as of December 31, 2012, the Group took account of the expenses that could arise as a consequence of these audits, based on a technical analysis of the positions defended by the Group before the tax authorities. The Group periodically reviews the risk estimate in view of developments in the audits and legal proceedings.

Note 35 Off-balance sheet commitments and collateral

Commitments given

Off-balance sheet commitments given break down as follows:

(€ million)	As of December 31, 2010	As of December 31, 2011	As of December 31, 2012	Maturity		
				Less than 1 year	1 to 5 years	More than 5 years
Commitments relating to operating activities	**8,259.5**	**9,404.8**	**9,364.7**	**4,140.5**	**2,691.6**	**2,532.6**
Operational guarantees including performance bonds	8,149.3	8,999.0	9,027.1	4,011.4	2,543.2	2,472.5
Purchase commitments	110.2	405.8	337.6	129.1	148.4	60.1
Commitments relating to the consolidation scope	**772.0**	**885.0**	**908.8**	**237.6**	**376.0**	**295.2**
Vendor warranties	469.4	731.6	874.5	217.7	365.1	291.7
Purchase commitments	192.9	83.4	20.2	16.1	2.7	1.4
Sale commitments	3.7	2.5	1.7	1.4	0.3	-
Other commitments relating to the consolidation scope	106.0	67.5	12.4	2.4	7.9	2.1
Financing commitments	**904.1**	**493.3**	**611.7**	**277.8**	**216.2**	**117.7**
Letters of credit	486.4	321.4	309.9	172.3	130.7	6.9
Debt guarantees	417.7	171.9	301.8	105.5	85.5	110.8
TOTAL COMMITMENTS GIVEN	**9,935.6**	**10,783.1**	**10,885.2**	**4,655.9**	**3,283.8**	**2,945.5**

In addition to commitments given, Veolia Environnement has also granted commitments of unlimited amount concerning:

- A performance bond given by certain Water Division subsidiaries in respect of a shareholders' agreement entered into on the acquisition of a municipal company in Germany;
- Operational performance bonds given by certain subsidiaries of Water Division in respect of a construction contract and operating contract for a sludge incinerator in Hong Kong.

These commitments are limited to the duration of the related contracts and were approved in advance by the Board of Directors of Veolia Environnement.

Commitments given relating to operating activities

Operational guarantees: operational or operating guarantees encompass all commitments not relating to the financing of operations, required in respect of contracts and markets and more generally the operations and activities of Group companies. Such guarantees include bid bonds accompanying tender offers, advance payment bonds and completion or performance bonds given on the signature of contracts or concession arrangements.

The main categories of commitments include:

- Commitments related to site rehabilitation:

Pursuant to environmental texts and legislation concerning the operation of waste storage facilities, the Group is obliged to provide financial guarantees to local authorities/government agencies. These guarantees notably encompass the rehabilitation and supervision of the site during 30 years or more, depending on national legislation (currently 60 years in the United Kingdom), following its operation.

In this context, performance bonds and letters of credit are issued to local authorities and other public bodies.

Depending on the contract, these guarantees cover the costs necessary for the rehabilitation of all or part of the site and the supervision of the site during 30 years.

These guarantees are quantified in accordance with legal or contractually-defined procedures. These guarantees, which are given in their total amount from the start of operations, expire at the end of the commitment (termination of rehabilitation work and site supervision).

Therefore, the amount of our commitment for the rehabilitation and supervision of waste storage facilities is in general different from the amount of the provision recorded in the Group accounts (see Note 1.13 and Note 16).

Provisions calculated by the Group are based on different valuations (based on internal policies regarding site security and designed for optimal environmental protection), which take into account the progressive nature of the obligation: operation of the storage facility results in progressive damage to the site and, as such, a related liability is recognized as the facility is operated.

If the amount of the commitment is less than the provision at the balance sheet date, an off-balance sheet commitment is not disclosed. Conversely, if the amount of the commitment is greater than the provision, an off-balance sheet commitment is disclosed in the amount not provided.

- Commitments related to engineering and construction activities:

Total commitments given in respect of construction activities in the Water Division (Veolia Water Solutions & Technologies) amount to €3,449.3 million as of December 31, 2012, compared with €3,205.4 million as of December 31, 2011 and €3,024.6 million as of December 31, 2010.

Total commitments received (see below) in respect of these same activities amount to €617.5 million as of December 31, 2012, €679.1 million as of December 31, 2011 and €740.3 million as of December 31, 2010.

Commitments given and received in respect of the three main contracts account for approximately 49% of total commitments.

- Commitments given in respect of concession contracts:

Pursuant to public service contracts with a public entity, the Group may be called on/obliged to invest in infrastructures that will then be operated and remunerated in accordance with contractual terms and conditions.

The contractual commitment may concern both the financing of installations and infrastructures to be used in operations and also the maintenance and replacement of infrastructures necessary to operations.

An analysis of the accounting treatment of these commitments is presented in Notes 1.21, 1.14 and 17.

Expenditure relating to the replacement or restoration of installations is monitored and recognized through any timing differences between the total contractual commitment over the contract term and its realization, in accordance with IAS 37 on Provisions.

Expenditure relating to the construction, maintenance and restoration of concession assets is reviewed with respect to IFRIC 12 and detailed in Note 1.20.

- Firm commodity purchase commitments:

As part of supply management and cost optimization, certain Group subsidiaries may be required, depending on their activities, to set-up derivatives to fix the cost of commodity supplies where the contracts do not offer appropriate protection (see Note 27.1.3) or contract forward purchases or sales of commodities.

Firm commodity purchase commitments mainly concern:

- Gas in the Energy Services Division (mainly in France) and in the Water Division (commitments mature in less than 5 years);
- Electricity in the Water Division (purchase commitments mature in less than 3 years due to poor liquidity in the electricity market);

  With regard to both gas and electricity, the number of contracts signed enables the Group to significantly reduce political and counterparty risk;
- Coal and biomass in the Energy Services Division in Central European countries.

In parallel, firm electricity sales contracts are entered into to secure selling prices over a period of less than 3 years. These commitments concern production activities exposed to the electricity wholesale market and primarily:

- The Energy Services Division in Central Europe (mainly Poland and the Czech Republic);
- The Environmental Services Division in the United Kingdom (electricity produced by waste incineration);
- The Water Division in Germany.

Commitments given relating to the consolidation scope

Vendor warranties: these mainly include:

- Warranties linked to the sale in 2004 of Water activities in the United States in the amount of €269.0 million;
- Warranties given to Caisse des dépôts et consignations concerning Veolia Transport in connection with the March 3, 2011 combination of Veolia Transport and Transdev, estimated at approximately €208.8 million;
- Warranties given in connection with the divestiture of regulated Water activities in the United Kingdom in the amount of €118.0 million. In addition, Veolia granted the buyer vendor warranties covering tax risks up to the amount of the acquisition price for a 4-year period
- Warranties given in connection with the divestiture of solid waste activities in the amount of €72.0 million;
- Warranties given in connection with the divestiture of American wind energy activities in the amount of €61.0 million;

Purchase commitments: these include commitments given by Group companies to purchase shares in other companies or to invest. As of December 31, 2012, these commitments mainly concern the Water Division (€9.2 million).

Agreements with EDF: Veolia Environnement granted EDF a call option covering all of its Dalkia shares in the event an EDF competitor takes control of the company.

Likewise EDF granted Veolia Environnement a call option covering all of its Dalkia shares, exercisable in the event of a change in the legal status of EDF and should a Veolia Environnement competitor, acting alone or in concert, take control of EDF. Failing an agreement on the share transfer price, this would be decided by an expert.

Agreements with Caisse des dépôts et consignations: Veolia Environnement granted Caisse des dépôts et consignations a call option covering all its Veolia Transdev shares exercisable in the event of a change in control of Veolia Environnement.

Financing commitments given

Debt guarantees: these relate to guarantees given to financial institutions in connection with the financial debts of non-consolidated companies, equity associates, or the non-consolidated portion of financial debts of proportionately consolidated companies when the commitment covers the entire amount.

Letters of credit: letters of credit delivered by financial institutions to Group creditors, customers and suppliers guaranteeing operating activities.

Commitments given break down by Division as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Water	7,122.6	7,044.1	6,541.1
Environmental Services	577.3	625.1	797.0
Energy Services	1,097.8	1,086.9	838.2
Other	2,087.5	2,027.0	1,759.3
TOTAL	**10,885.2**	**10,783.1**	**9,935.6**

Commitments on lease contracts entered into by the Group are analyzed in Notes 17 and 32.

Collateral guaranteeing borrowings

As of December 31, 2012, the Group has given €513 million of collateral guarantees in support of borrowings. The breakdown by type of asset is as follows (€ million):

Type of pledge / mortgage *(€ million)*	**Amount pledged (a)**	**Total consolidated statement of financial position amount (b)**	**Corresponding % (a)/(b)**
Intangible assets	7	1,143	0.6%
Property, plant and equipment	122	6,838	1.8%
Financial assets *	336		
TOTAL NON-CURRENT ASSETS	**465**		
Current assets	48	22,038	0.2%
TOTAL ASSETS	**513**		

* *As a majority of financial assets pledged as collateral are shares of consolidated subsidiaries and other financial assets, the ratio is not significant.*

The breakdown by maturity is as follows:

				Maturity		
(€ million)	As of December 31, 2010	As of December 31, 2011	As of December 31, 2012	Less than 1 year	1 to 5 years	More than 5 years
Intangible assets	**7**	8	**7**	-	2	5
Property, plant and equipment	**156**	**168**	**122**	**6**	**94**	**22**
Mortgage pledge	44	29	21	2	9	10
Other PP&E pledge[(1)]	112	139	101	4	85	12
Financial assets[(2)]	**336**	**301**	**336**	**19**	**53**	**264**
Current assets	**20**	**70**	**48**	**24**	**23**	**1**
Pledges on receivables	20	55	47	23	23	1
Pledges on inventories	-	15	1	1	-	-
TOTAL	**519**	**547**	**513**	**49**	**172**	**292**

(1) Mainly equipment and traveling systems.

(2) Including non-consolidated investments of €139 million and other financial assets (primarily operating financial assets) of €197 million as of December 31, 2012.

Collateral of the Veolia Transdev group (presented in discontinued operations as of December 31, 2012, see Note 23) included in Group collateral presented above, breaks down as follows:

(€ million)	As of December 31, 2010	As of December 31, 2011	As of December 31, 2012	Maturity		
				Less than 1 year	1 to 5 years	More than 5 years
Intangible assets	-	-	-	-	-	-
Property, plant and equipment	**47**	**112**	**76**	**1**	**71**	**4**
Mortgage pledge	2	1	1	-	1	-
Other PP&E pledge (1)	45	111	75	1	70	4
Financial assets	**6**	-	-	-	-	-
Current assets	-	**23**	**23**	-	**23**	-
Pledges on receivables	-	23	23	-	23	-
Pledges on inventories	-	-	-	-	-	-
TOTAL	**53**	**135**	**99**	**1**	**94**	**4**

(1) Mainly equipment and traveling systems.

Commitments received

Off-balance sheet commitments received break down as follows:

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Guarantees received	**1,859.9**	**1,862.0**	**1,861.6**
Operational guarantees	1,105.8	1,119.7	1,108.7
Guarantees relating to the consolidation scope	166.8	258.4	120.4
Financing guarantees	587.3	483.9	632.5

Commitments mainly consist of commitments received from our partners in respect of construction contracts.

The change in 2012 was mainly due to:

- An increase in undrawn credit facilities granted (+€117 million);
- Guarantees relating to Ridgeline and its subsidiaries contracted between Veolia Environnement and Atlantic Power in respect of the divestiture on December 31, 2012 (+€58 million);
- The expiry of vendor warranties received on the combination with Caisse des dépôts et consignations (-€70 million).

They also include vendor warranties given by Caisse des dépôts et consignations concerning Transdev, in connection with the March 3, 2011 combination of Veolia Transport and Transdev, estimated at approximately €115 million.

In addition, the Group has undrawn medium and short-term credit lines and syndicated loan facilities in the amount of €4.0 billion (see Note 27.3.2).

Note 36 Contingent assets and liabilities

In accordance with IAS 37 criteria, management does not consider appropriate to record a provision or, as the case may be, an additional provision, or to recognize deferred income in respect of the following legal or arbitration proceedings as of December 31, 2012, due to the uncertain nature of their outcome.

The main contingent assets and liabilities relating to legal or arbitration proceedings are presented below:

Water - Berliner Wasserbetriebe A.ö.R

In March 2010, the German Federal Cartel Office ("FCO") launched an administrative investigation into Berliner Wasserbetriebe A.ö.R ("BWB"), a company held at 100% by the Land of Berlin but on which RWE-Veolia Berlinwasser Beteiligungs GmbH ("RVB") (a company formerly jointly controlled by Veolia Wasser GmbH and RWE and now jointly controlled by Veolia Wasser GmbH and, indirectly, by the Land) has indirect economic rights, alleging an abuse of dominant position in water distribution, supposedly characterized by charging excessive rates. Upon completion of its investigation, on December 5, 2011, the FCO addressed a statement of objections (draft decision) to BWB for comment, in which it demanded a reduction in its average annual proceeds. BWB and Veolia Wasser GmbH (as third party intervener) addressed their comments to the FCO at the end of January 2012. A second statement of objections was notified to BWB on April 2, 2012, which once again raised comments from BWB and Veolia Wasser GmbH. The FCO then delivered a final decision on June 5, 2012, ordering a decrease in BWB's average annual proceeds (i.e. fresh water tariff excluding any public charges) per cubic meter generated from the sale of drinking water to end customers of 17 to 18% as compared to 2011 (reference year), for the next four years. This decrease for 2012 will be implemented through the issuance of accrued credit notes to users (recorded for 59 million euros in BWB's accounts) at the time of invoicing in 2013. BWB initiated a proceeding on the merits before the Court of Appeal of Düsseldorf on June 11, 2012.

In addition, in March 2011, BWB contested the FCO's jurisdiction before the administrative court; this court declared it lacked jurisdiction to hear the proceedings. An appeal was lodged before the Münster regional administrative high court, which confirmed the decision of the administrative court on July 12, 2012.

Furthermore, in April 2009, RVB brought an action before an arbitration court against the Land of Berlin for recognition of its method of recalculation of depreciation on replacement values at market price (« Wiederbeschaffungszeitwerte » or « WBZW ») and for which it seeks compensation.

In parallel, on March 12, 2012, Veolia Wasser GmbH and RVB also lodged a constitutional complaint against the Berlin Public Disclosure Act ("Offenlegungsgesetz") before the German federal constitutional court which requires the disclosure of the partial privatization contracts of BWB dated January 18, 1999 and their subsequent amendments.

Finally, after the announcement by RWE of its intention to dispose of its shares in RVB to the Land of Berlin (and, as a consequence, of its indirect economic rights in BWB), Veolia Wasser GmbH sought a preliminary injunction against the disposal. On May 30, 2012, the court rejected the motion of Veolia Wasser GmbH. Veolia Wasser GmbH appealed the decision on June 1, 2012 but its claim was dismissed on August 29, 2012. On July 18, 2012, the Land of Berlin and RWE entered into a share purchase agreement, for a purchase price of €618 million plus €34 million interests. On October 25, 2012, this purchase was approved by the Land's parliament and became effective on October 30, 2012. On August 10, 2012, Veolia Wasser GmbH also initiated arbitration proceedings against RWE seeking compensation for the intended transfer of the share held by RWE in RVB to the Land of Berlin, which it finally withdrew early January 2013.

At this point, the Company is unable to assess whether these proceedings are likely to have a material impact on its financial position or results.

Water – European Commission investigation

On January 18, 2012, following unannounced inspections carried out in April 2010, the European Commission opened investigative proceedings aimed at determining whether behavior in the French water and wastewater markets has been coordinated, in conjunction with the French water trade association, the *Fédération Professionnelle des Entreprises de l'Eau* ("FP2E"), and in particular with respect to price components invoiced to customers. The opening of these proceedings in no way suggests that the results of the investigation are a foregone conclusion. Depending on the results of the investigation, the European Commission will consider either closing the case or sending the companies concerned and the FP2E a statement of objections. In the latter case, Veolia will use all means of defense at its disposal.

At this point, the Company is unable to assess whether these proceedings are likely to have a material impact on its financial position or results.

Environmental Services – Italy

TEC

In April and May 2008, three actions were initiated against the Calabria region or the Extraordinary Commissioner of Calabria ("the Commissioner") for payments due in relation to a concession agreement for the TEC 1 incinerator in Calabria:

- An action by Termo Energia Calabria ("TEC"), a 98.76% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. ("VSAT") against the Calabria region for non-payment of subsidies in the amount of €26.9 million. In February 2011, an Italian administrative court ordered the Calabria region to pay the subsidies. The decision has been appealed by the region before the Rome Supreme Court. Following a hearing held on April 24, 2012, the Rome Supreme Court dismissed the appeal of the region on October 23, 2012 and confirmed the decision of the administrative court dated February 28, 2011. The region now has to decide whether it will accept to pay a new *Contributo*. If not, it must provide a clear basis on which why it has refused to pay.
- An action by TEC against the Commissioner for €62.2 million in operating fees, cost reimbursement and other amounts due under the concession agreement. In July 2010, a Rome arbitration court awarded €27 million to TEC (excluding "gate fees" and statutory interest), and dismissed the counterclaims of the Commissioner. The decision was declared enforceable by the Rome Civil Court on September 17, 2010.
- An action by Termomeccanica Ecologia S.p.a. ("TME"), which sold to Veolia Propreté and Veolia Servizi Ambientali S.p.a. ("VSA") a 75% interest in VSAT in 2007 and remained minority partner through SIEE until July 2011, in the name of TEC, against the Commissioner for payments due in respect of the construction of the TEC 1 incinerator. This action was taken over directly by TEC in July 2011. On October 11, 2010, an award of €28 million was made in favor of TEC (excluding statutory interest).

The Commissioner and the Italian State have appealed these two arbitration awards (second and third actions above) to the Rome Court of Appeals, which rejected a request for stay of execution on June 23, 2011, and has scheduled a hearing for January 14, 2014. In December 2011, €94 million was placed in an escrow account with the Bank of Italy, representing the awards (including interest) plus an additional 50%. On July 19, 2012, the provisional payment of €65 million to TEC was authorized by the Rome civil court and effectively credited to TEC's account on August 27, 2012 by the Bank of Italy.

In December 2011, TEC also made a formal claim against the Commissioner (concession authority) seeking payment of €139.8 million (the subsidies, the amount of the two arbitration awards). TEC notified the Commissioner that, in the absence of payment by January 31, 2012, the concession agreement would be terminated with retroactive effect as a result of the authority's breach. On January 13, 2012, the Commissioner requested that TEC ensure the continuation of public service. On January 31, 2012, TEC formally notified the Commissioner of the termination of the concession agreement, and agreed to provide the public service on a transitional basis under a "*prorogatio"* against reimbursement of its costs. The Commissioner agreed to this transitional arrangement and made an initial payment in February 2012. On March 8, 2012, the Commissioner challenged the termination of the concession agreement.

In the meantime, TEC filed a request for a voluntary liquidation plan, known as a "*Concordato Preventivo*", with a court in La Spezia on February 10, 2012, which was admitted on February 23, 2012. This procedure allows for a proposal of full payment of preferential creditors and partial payment of all other creditors (in full and final settlement).

TEV

Following an order issued by the Public Prosecutor's Office of Lucca on July 1, 2010, operations at the Falascaia facility were suspended on the alleged grounds of an improper administrative operating license and discharges of polluted wastewater. Despite the decision by the Lucca Public Prosecutor's Office to lift the closure order on the plant, on October 19, 2011, the operating license for the Falascaia plant was cancelled by the Province of Lucca on November 10, 2011. Termo Energia Versilia ("TEV"), a 98.99% subsidiary of VSAT and the license holder, filed an appeal against the cancellation decision before the Florence administrative court on January 23, 2012. In its decision dated October 22, 2012, the administrative court dismissed TEV's appeal. On January 23, 2013, TEV further appealed to the administrative Supreme Court.

On March 21, 2012, TEV made a formal claim against the concession authorities:

- seeking payment of €22 million due under the contract for (i) services provided by TEV from 2006 to 2010, (ii) pricing adjustment, (iii) non provision of solid urban waste and (iv) non provision of waste from selective sorting; and
- seeking a pricing adjustment for 2012.

The formal claim also provided notice that, in the absence of such payment and adjustment by May 15, 2012, the contract would be terminated with retroactive effect as a result of the authorities' breach. On May 15, 2012, TEV acknowledged the termination of the contract. On June 29, 2012, TEV surrendered the facility to the authorities.

Concordato Preventivo di Grupo

Simultaneously to the admission of TEC's Concordato Preventivo, some creditors of TEV and VSAT launched judicial procedures for recovery.

As a consequence, a request for a group voluntary liquidation plan, i.e. a "Concordato Preventivo di Grupo" ("CPG"), was filed on April 18, 2012, with the La Spezia Civil Court, in relation to the VSAT group, which includes TEC and TEV. On April 20, 2012, the request for CPG was admitted by the court. One of the advantages of the CPG is that it allows the procedures to be joined before a single judge, the same court appointed administrator(s) and uses a single mass of debts and receivables for all concerned entities. From the date of admission (and concomitant revocation of its Concordato Preventivo) onwards, TEC is part of the CPG and all legal proceedings involving the VSAT group (as detailed above) are now under the control of two court-appointed administrators.

Following the revocation of the CPG filed on April 18, 2012 consecutive to the promulgation in August 2012 of a decree-law amending the legal framework of the "Concordato Preventivo" (which allowed abstention of a creditor to be considered as a vote in favor of the Concordato), a new request for CPG was filed on September 17, 2012. The court admitted the CPG on December 5, 2012 and set the vote date initially on January 21, 2012. However, following a request of the court appointed administrators, the date of the vote was postponed to February 11, 2013 (plus 20 days for postal vote) for administrative reasons related to the Concordati. If the majority of creditors vote in favor of the CPG, the Court could approve the CPG in the spring of 2013. If however the vote of the creditors is not favorable or if the Court does not approve the CPG, two options are available, either:

1. another request for CPG will be filled; or
2. VSAT and its subsidiaries will be liquidated.

In 2011, the Company recorded substantial impairment charges in respect of VSAT and its subsidiaries. The above described events did not have a material financial impact on its consolidated financial statements for the year ended December 31, 2012.

Other segments – Société Nationale Maritime Corse Méditerranée

Corsica Ferries has brought a number of legal proceedings against Société Nationale Maritime Corse Méditerranée ("SNCM"), a subsidiary of Veolia Transdev. Corsica Ferries requested the invalidation of the June 7, 2007 decision awarding a contract (a public service delegation agreement) for marine service to Corsica to the SNCM/CMN group for the 2007-2013 period. This request was denied by a judgment of the Bastia administrative court on January 24, 2008. Corsica Ferries appealed this decision to the Marseille administrative court of appeals. In an order dated November 7, 2011, the administrative court of appeals cancelled the judgment of the Bastia administrative court, instructing the concession authority either to negotiate a voluntary agreement for the termination of the public service delegation agreement from September 1, 2012, or to institute proceedings before the Bastia administrative court within six months of the notification (i.e. before May 7, 2012) to take the appropriate measures. As a consequence, on February 24, 2012, the concession authority filed a motion with the Bastia administrative court for termination of the public service delegation agreement, which it finally withdrew on January 14, 2013. SNCM, for its part, appealed the order to the French administrative Supreme Court on January 5, 2012. On July 13, 2012, the French administrative Supreme Court quashed the decision of the Marseille administrative court of appeals dated November 7, 2011 and remanded the matter back to that court.

Veolia Transport's acquisition of an interest in SNCM from Compagnie Générale Maritime et Financière ("CGMF") was notably conditioned on the concession authority maintaining the marine service to Corsica under a public service delegation agreement. In the absence of an appeal by the concession authority, Veolia Transport notified CGMF on January 13, 2012 of its decision to exercise the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. On January 25, 2012, CGMF contested the exercise of this cancellation clause. In the absence of a reaction from CGMF to a proposal for the out-of-court settlement of the dispute, Veolia Transport notified CGMF on February 7, 2012 of its intention to submit the case to the competent legal authority. On May 11, 2012, Veolia Transport brought an action against CGMF before the Paris commercial court. A first procedural hearing was held on May 31, 2012 for production of documents by the plaintiff, followed by another hearing on September 24, 2012 during which CGMF delivered its statement of defense and documents. A new hearing has been scheduled for April 8, 2013.

On February 17, 2012, the French competition authority recommended that the concession authority assess its needs in terms of marine service to Corsica in order to limit the scope of a future public service delegation to the minimum necessary.

A call for tenders on a new public service delegation for sea transport (both passengers and freight) between Marseille and Corsica, starting January 1, 2014. SNCM and CMN made a joint bid on January 14, 2013.

Corsica Ferries has also contested the validity of a European Commission decision of July 8, 2008, which held that certain payments by the French Government in connection with the SNCM privatization process did not constitute State aid within the meaning of article 107 of the Treaty on the Functioning of the European Union ("TFEU") and authorized other payments made by the French Government prior to the privatization. Under the TFEU, governments may only provide subsidies (known as "State aid") to commercial entities in limited circumstances, with European Commission authorization. On September 11, 2012, the General Court of the European Union partially annulled the European Commission decision of July 8, 2008. As a result, the reconsideration of the measures provided (which includes the measures provided within the context of the privatization process and part of the measures provided prior to the privatization) was remanded to the European Commission, which will open a new examination procedure of the matter. On November 22, 2012, SNCM and the French Republic each appealed this judgment of the General Court of the European Union. The Company estimates that, should the measures provided be found to constitute State aid incompatible with the TFEU after reconsideration by the European Commission, the maximum amount potentially at risk for SNCM is approximately €222 million, excluding interest.

Furthermore, on June 27, 2012, the European Commission announced that it had opened investigative proceedings aimed at determining whether the payments received by SNCM and CMN for the maritime service from Marseille to Corsica, in the context of the public service delegation for the 2007-2013 period, were in line with the European Union state aid rules.

In an action brought before the French Competition Council, Corsica Ferries has contended that SNCM and CMN had formed an unjustified grouping that constituted an anti-competitive cartel, that this grouping constituted an abuse of a dominant position and, lastly, that presenting a bid requesting excessive subsidies (suggesting the existence of cross-subsidies) also constituted an abuse of a dominant position. On April 6, 2007, the French Competition Council dismissed the two claims concerning the grouping. Proceedings on the merits and the investigation of the French Competition Authority (the successor to the French Competition Council) on the claim of excessive subsidies are underway. The investigation is also focusing on the performance terms of the public service delegation agreement (monitoring the application of the guaranteed receipts clause and the corresponding changes in the amount of subsidies received by the parties being awarded the contract). As of this date, no complaint has been served.

Other segments – State aid on airports

The European Commission is currently conducting several investigations on potential State aid within the meaning of article 107 of the TFEU in the air transport sector. In this context, the European Commission opened on April 4, April 25 and May 30, 2012 several investigative proceedings on certain measures taken in favor of customer airlines and of the successive operators of the Carcassonne, Nimes and Beauvais airports, including companies partly or wholly owned by Veolia Transdev. Following the publication of the opening of these investigative proceedings in the Official Journal of the European Union, the concerned subsidiaries of Veolia Transdev submitted their comments to the European Commission as third party intervener.

At this point, the Company is not able to assess the consequences of these proceedings on its financial position or results of operations.

Note 37 Greenhouse gas emission rights

The process governing the grant and valuation of these rights is presented in Note 1.24, Greenhouse gas emission rights.

The position in **2012** is as follows:

Volume (in thousands of metric tons)	As of January 1, 2012	Changes in consolidation scope	Granted	Purchased/ sold/ cancelled	Used in 2012	As of December 31, 2012
TOTAL	**2,748**	**0**	**14,396**	**(4,722)**	**(9,746)**	**2,676**

As in previous years, the Group entered into new swaps of EUA II and CER in order to benefit from market opportunities.

At the end of December 2012, the CER allowance loan transactions entered into by the Group in 2008 expired and the allowances were returned. The commission received on these loans continued to be recognized on a straight-line basis over the loan term until December.

Following the expiry of phase II rights at the end of 2012, the rights granted free of charge vested in full. These rights may be carried forward to phase III and will cover a portion of our requirements.

The European Union decided to extend the allowance trading system to the period 2013 – 2020 and plans a progressive reduction in free allowance grants and new allocation procedures. Accordingly, rights will only be granted for combustion installations. Electricity production installations and allowance shortfalls will need to be acquired at auction.

The preliminary free allocations, set out in the plans published by Member States in respect of phase III (2013/2020) are estimated at €259 million. Future allocations were measured using the spot price as of December 31, 2012. These allocations will not be definitive until validated by the European Commission (not validated to date).

Note 38 Related party transactions

38.1 "Related party" concept

The Group identifies related parties in accordance with the provisions of paragraph 9 of IAS 24 revised, *Related Party Disclosures*.

38.2 Compensation and related benefits of key management personnel

Group Executive Committee members and directors represent the key management personnel of the Group.

The following table summarizes amounts paid by the Group in respect of compensation and other benefits granted to key management personnel.

(€ million)	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Short-term benefits, excluding employer contributions[(a)]	4.7	6.9	6.1
Employer contributions	1.7	2.4	2.2
Post-employment benefits[(b)]	1.5	1.4	1.1
Other long-term benefits[(c)]	-	-	-
Share-based payments	-	0.1	0.2
Contract termination payments	-	-	-
TOTAL	**7.9**	**10.8**	**9.6**

(a) Fixed and variable compensation, employee benefits and directors' fees. Variable compensation comprises amounts paid during the concerned fiscal year. The decrease in "short-term benefits excluding employer contributions" between December 31, 2011 and December 31, 2012 is mainly due to the new composition of the Group Executive Committee.

(b) Current service cost.

(c) Other compensation vested but payable in the long-term.

As of December 31, 2012, total pension obligations in respect of members of the Executive Committee amount to €31.1 million, compared with €32.7 million as of December 31, 2011.

With the exception of the Chairman and Chief Executive Officer, the members of the Board of Directors receive no compensation other than directors' fees from the Company and, if applicable, from controlled companies. The total gross amount of directors' fees (before withholding tax) paid by the Company and controlled companies to directors and the censor was €734,150 in 2012 (excluding the Chairman), €870,661 in 2011 (excluding the Chairman) and €797,261 in 2010 (excluding the Chairman and the Chief Executive Officer).

Chapter 15 of the Registration Document contains detailed disclosures on the various compensation and benefits paid to key management personnel of the Group.

38.3 Transactions with other related parties

38.3.1 Relations with proportionately consolidated companies and equity associates

In 2012, the Group granted a loan of €1,722.6 million to Dalkia International and its subsidiaries Siram and Dalkia Poland, which are proportionately consolidated at 75.81%. The non-group portion of this loan is recorded in assets in the Group consolidated statement of financial position in the amount of €416.7 million (see Note 11, Other non-current and current financial assets).

In December 2009, the Group sold its investment in Compagnie Méridionale de Navigation (CMN) which was consolidated using the equity method.

In addition, given the Group's businesses, operating flows between companies are generally limited to companies operating in the same country. As such, the level of operating transactions between the Group and proportionately consolidated companies is not material.

However, certain contractual agreements within the Water Division, particularly in Asia and Central Europe, impose the existence of a holding company (generally equity accounted or proportionately consolidated) and companies carrying the operating contract (generally fully consolidated). These complex legal arrangements generate "asset supply" flows between the companies generally jointly controlled or subject to significant influence and the companies controlled by the Group. Assets are generally supplied for a specific remuneration that may or may not include the maintenance of the installations in good working order or the technical improvement of the installations.

38.3.2 Relations with other related parties

Caisse des dépôts et consignations (9.3% shareholding as of December 31, 2012)

The Caisse des dépôts et consignations, considered a related party, sits on the Board of Directors of Veolia Environnement as a legal entity.

The financing agreements between the two groups bear interest at market conditions.

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

This combination was effectively completed on March 3, 2011. From this date and in accordance with IAS/IFRS, Veolia Environnement through its reduced 50% stake exercises joint control together with Caisse des dépôts et consignations over Veolia Transdev, which is proportionately consolidated (see Note 23).

The combination gave rise on the same date to contract amendments and agreements resulting from the shareholders' agreement between Veolia Environnement and Caisse des dépôts et consignations.

This shareholders' agreement determines in particular the financing policy of the new entity and the terms and conditions of the call option granted to Caisse des dépôts et consignations over all shares in Veolia Transdev and its subsidiaries held by Veolia Environnement, exercisable in the event of a change in control of this latter (see Note 35, Off-balance sheet commitments and collateral).

Three agreements were signed by Veolia Environnement and Caisse des dépôts et consignations in 2012:

- On March 30, 2012, an agreement for negotiation was signed that envisions the transfer of Veolia Transdev's 66% shareholding in SNCM to Veolia Environnement, for a consideration of €1;
- On October 22, 2012, Veolia Environnement and Caisse des dépôts et consignations signed a new agreement for negotiation under which Caisse des dépôts et consignations and Veolia Environnement would subscribe to a €800 million share capital increase by conversion of existing shareholder loans. Following this transaction, the Caisse des dépôts et consignations would hold 60% of the share capital of Veolia Transdev and would take exclusive control of that company. Veolia Environnement would retain a 40% shareholding. The agreement also provides for asset disposals by Veolia Transdev and refinancing to repay the Veolia Environnement shareholder loan. Concomitantly to the signature of this agreement, Veolia Environnement and Caisse des Dépôts et Consignations agreed to negotiate in good faith a decrease in Veolia Environnement's stake in Veolia Transdev to 20%, through the purchase by Caisse des dépôts et consignations of Veolia Transdev shares held by Veolia Environnement within a period of two years from the completion of the above transaction;
- Finally, on October 31, 2012, a memorandum of understanding concerning the new Group headquarters project in Aubervilliers and the terms of cooperation between the parties was signed by Veolia Environnement and Icade SA, a subsidiary of Caisse des dépôts et consignations. This memorandum led to the signature on January 31, 2013 of two concomitant agreements defining the terms of compensation of Icade should Veolia Environnement withdraw from this project and the terms of a nine-year firm lease for premises to be completed.

All these relations are subject to normal market terms and conditions.

Electricité de France (4.2% shareholding as of December 31, 2012)

On November 25, 2009, Mr. Proglio was appointed Chairman and Chief Executive Officer of EDF Group by ministerial decree; he also acted as Chairman of the Veolia Environnement Board of Directors from November 27, 2009 (publication date of the decree) to December 12, 2010. Mr. Proglio was a director of the Company from that date to October 10, 2012 when he resigned his office.

EDF Group has a 4.2% shareholding in Veolia Environnement, a 34% shareholding in Dalkia and a 25% shareholding in Dalkia International. In accordance with Decree 97-07, EDF purchases electricity produced in France by Dalkia cogeneration power plants at market conditions. Electricity sold by Dalkia to EDF in 2010, 2011 and 2012 totaled €559.7 million, €624.4 million and €638.7 million, respectively.

There are under certain conditions cross-call options between Veolia Environnement and EDF covering all subsidiary shares held by each party and exercisable in the event of the takeover of either party (see Note 35, Off-balance sheet commitments).

Relations with BNP Paribas, Lazard, Groupama, ENI and Saint-Gobain

These Groups and Veolia Environnement have common directors.

Any business relations, including financing and advisory relations, between these groups and Veolia are at normal market conditions.

Relations with Soficot

Soficot provides services for the benefit of Veolia Environnement and the Group. The Chairman of the company is Serge Michel who is a member of the Veolia Environnement Board of Directors. The remuneration of these services is at normal market conditions.

Note 39 Consolidated employees

Consolidated employees* break down as follows:

By Division	As of December 31, 2012 (**)	As of December 31, 2011 (**)	As of December 31, 2010 (**)
Water	77,979	79,684	78,746
Environmental Services	68,756	71,365	77,974
Energy Services	44,130	46,752	44,204
Other	57,940	60,599	86,119
CONSOLIDATED EMPLOYEES (*)	**248,805**	**258,400**	**287,043**

By company	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Fully consolidated companies	154,288	158,667	235,941
Proportionately consolidated companies	94,517	99,733	51,102
CONSOLIDATED EMPLOYEES (*)	**248,805**	**258,400**	**287,043**

(*) Consolidated employees equal the average number of full-time equivalent employees. Employees of proportionately consolidated companies are included according to their percentage of consolidation. Employees of equity associates are not included.

(**) The above figures include employees of discontinued operations of 58,220 in 2012, 64,027 in 2011 and 89,790 in 2010

The decrease in the average number of employees in 2012 was mainly due to the impact of changes in Group structure and in particular the divestiture of Proxiserve in December 2011, the divestiture of transportation activities in Morocco in 2011, the divestiture of regulated Water activities in the United Kingdom and activity stoppages in the Environmental Services Division (Senegal, Egypt and Morocco).

The decrease in the average number of employees in 2011 was primarily due to changes in the scope of consolidation, and, in particular, the change in consolidation method of the Transportation business (from full consolidation to proportionate consolidation), see Notes 3 and 23.

Note 40 Reporting by operating segment

Since January 1, 2009, the Group has identified and presented segment reporting in accordance with IFRS 8, *Operating segments*.

Financial reporting by operating segment is governed by the same rules as those used for the condensed consolidated financial statements and described in the Accounting Policies note to the Financial Statements.

Following the announcement at the end of 2011 of the Group's withdrawal from the Transportation business and changes to the Group's Executive Committee, the internal organizational structure of the Group was modified, with consequently a change in the preparation of the operating segments to be presented.

In accordance with the provisions of IFRS 8 on the identification of operating segments and after taking account of regrouping criteria, the following segments are now presented:

- The **Water** segment integrates drinking water and wastewater activities such as water distribution, water and wastewater treatment, industrial process water, manufacturing of water treatment equipment and systems.
- The **Environmental Services** segment collects, processes and disposes of household, trade and industrial waste.
- The **Energy Services** segment includes heat production and distribution, energy optimization and related services, and electricity production.
- **"Other Segments"** groups together the activities of SNCM, ProActiva MedioAmbiente (joint venture with FCC) and the various Group holding companies.

Segmenting reporting for prior years was re-presented for this change.

Pursuant to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the income statements of:

- The entire contribution of Veolia Transdev, excluding the activities of the Société Nationale Maritime Corse Méditerranée (SNCM) Group;
- Water activities in Morocco;
- Wind energy activities, partially divested as of December 31, 2012, through the divestiture of Ridgeline on December 31, 2012;
- Urban lighting activities (Citelum) in the Energy Services Division;
- Regulated Water activities in the United Kingdom in the Water Division, divested in June 2012;
- Solid waste activities in the United States in the Environmental Services Division, divested in November 2012;
- Norwegian activities in the Environmental Services Division, divested in March 2011;
- German activities in the Energy Services Division, divested in May and August 2011;
- Household assistance services (Proxiserve) held jointly by the Water and Energy Services Divisions, divested in December 2011;
- Water activities in the Netherlands, divested in December 2010;

were reclassified to "Net income from discontinued operations", for fiscal year 2012 and fiscal years 2011 and 2010 presented for comparison purposes (see Note 23).

Reporting by operating segment

Revenue by segment *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	12,078.2	11,921.3	11,594.0
Environmental Services	9,082.9	9,010.8	8,622.3
Energy Services	7,664.6	7,138.2	7,060.4
Other Segments	612.8	506.2	574.9
REVENUE AS PER THE CONSOLIDATED INCOME STATEMENT	**29,438.5**	**28,576.5**	**27,851.6**

The breakdown of revenue from transactions with non-Group customers does not identify any single non-Group customer representing 10% or more of Group revenue.

INTER-SEGMENT REVENUE *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	60.8	58.5	65.7
Environmental Services	98.0	90.4	78.0
Energy Services	46.7	46.4	51.8
Other Segments	18.1	78.5	57.4
INTER-SEGMENT REVENUE	**223.6**	**273.8**	**252.9**

Operating cash flow before changes in working capital by segment *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	1,208.4	1,416.7	1,492.3
Environmental Services	1,147.3	1,151.2	1,265.6
Energy Services	547.4	595.2	665.4
Other Segments	(11.1)	29.5	(12.1)
Total operating segments	**2,892.0**	**3,192.6**	**3,411.2**
Unallocated operating cash flow before changes in working capital	192.7	160.3	307.5
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL AS PER THE CONSOLIDATED CASH FLOW STATEMENT	**3,084.7**	**3,352.9**	**3,718.7**

Operating income by segment *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	617.7	790.4	916.7
Environmental Services	343.1	268.3	484.6
Energy Services	287.3	(36.4)	520.8
Other Segments	(153.1)	(193.2)	(146.0)
OPERATING INCOME AS PER THE CONSOLIDATED INCOME STATEMENT	**1,095.0**	**829.1**	**1,776.1**

Adjusted operating cash flow by segment *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	1,172.2	1,279.4	1,337.6
Environmental Services	1,048.2	1,020.8	1,083.8
Energy Services	544.4	588.9	647.8
Other Segments	(42.0)	(36.5)	(87.0)
ADJUSTED OPERATING CASH FLOW BY SEGMENT	**2,722.8**	**2,852.6**	**2,982.2**

Adjusted operating cash flow reconciles to operating income as follows:

Year ended December 31, 2012 *(€ million)*	Adjusted OP CF	Net operating provisions	Net depreciation andamortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	OP INCOME
Water	1,172.2	(5.3)	(522.3)	(56.2)	63.3	(34.0)	617.7
Environmental Services	1,048.2	(68.8)	(639.4)	(12.9)	10.1	5.9	343.1
Energy Services	544.4	10.1	(258.3)	(16.5)	6.9	0.7	287.3
Other Segments	(42.0)	(52.9)	(59.8)	-	4.0	(2.4)	(153.1)
TOTAL	**2,722.8**	**(116.9)**	**(1,479.8)**	**(85.6)**	**84.3**	**(29.8)**	**1,095.0**

Year ended December 31, 2011 *(€ million)*	Adjusted OP CF	Net operating provisions	Net depreciation and amortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	OP INCOME
Water	1,279.4	37.3	(492.6)	(26.2)	11.6	(19.1)	790.4
Environmental Services	1,020.8	(120.6)	(610.9)	(78.1)	54.4	2.7	268.3
Energy Services	588.9	(36.5)	(232.0)	(366.1)	11.3	(2.0)	(36.4)
Other Segments	(36.5)	(102.2)	(53.4)	-	(0.2)	(0.9)	(193.2)
TOTAL	**2,852.6**	**(222.0)**	**(1,388.9)**	**(470.4)**	**77.1**	**(19.3)**	**829.1**

Year ended December 31, 2010 *(€ million)*	Adjusted OP CF	Net operating provisions	Net depreciation and amortization	Impairment losses on goodwill and negative goodwill	Capital gains (losses) on disposal of non-current assets	Other	OP INCOME
Water	1,337.6	(21.3)	(442.2)	0.4	60.2	(18.0)	916.7
Environmental Services	1,083.8	(26.0)	(612.9)	(0.2)	40.3	(0.4)	484.6
Energy Services	647.8	(5.7)	(222.5)	-	99.5	1.7	520.8
Other Segments	(87.0)	28.2	(78.1)	-	(1.0)	(8.1)	(146.0)
TOTAL	**2,982.2**	**(24.8)**	**(1,355.7)**	**0.2**	**199.0**	**(24.8)**	**1,776.1**

Net charge to operating depreciation, amortization and provisions by segment[1] *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	(547.3)	(424.0)	(489.1)
Environmental Services	(711.4)	(770.1)	(639.9)
Energy Services	(311.0)	(257.7)	(234.4)
Other Segments	(113.1)	(163.4)	(54.5)
NET CHARGE TO OPERATING DEPRECIATION, AMORTIZATION AND PROVISIONS	**(1,682.8)**	**(1,615.2)**	**(1,417.9)**

(1) Including movements in working capital provisions.

Industrial investments by segment *(€ million)*	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Water	607	638	695
Environmental Services	725	807	630
Energy Services	571	544	351
Other Segments	458	312	431
INDUSTRIAL INVESTMENTS[1]	**2,361**	**2,301**	**2,107**

(1) In accordance with IFRS 8, industrial investments presented in segment reporting include investments financed by finance lease in the amount of €59.0 million. This industrial investment is presented net of such financing in industrial investments in the consolidated cash flow statement.

Assets by segment as of December 31, 2012 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total assets in the Consolidated Statement of Financial Position
Goodwill, net	2,022.3	2,018.3	743.6	10.8	4,795.0
Intangible assets and Property, plant and equipment, net	5,159.1	3,556.6	3,386.2	397.5	12,499.4
Operating financial assets	1,459.8	718.1	571.0	103.8	2,852.7
Working capital assets, including DTA	5,640.4	2,632.1	3,586.1	708.8	12,567.4
Total segment assets	**14,281.6**	**8,925.1**	**8,286.9**	**1,220.9**	**32,714.5**
Investments in associates	288.9	50.9	100.2	1.5	441.5
Other unallocated assets	-	-	-	11,456.1	11,456.1
TOTAL ASSETS	**14,570.5**	**8,976.0**	**8,387.1**	**12,678.5**	**44,612.1**

Assets by segment as of December 31, 2011 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total assets in the Consolidated Statement of Financial Position
Goodwill, net	2,368.3	2,653.2	743.8	30.6	5,795.9
Intangible assets and Property, plant and equipment, net	6,600.9	4,247.5	3,154.4	395.4	14,398.2
Operating financial assets	4,089.5	748.6	502.8	104.4	5,445.3
Working capital assets, including DTA	6,489.1	2,785.7	3,779.9	657.6	13,712.3
Total segment assets	**19,547.8**	**10,435.0**	**8,180.9**	**1,188.0**	**39,351.7**
Investments in associates	174.6	37.0	99.7	13.9	325.2
Other unallocated assets				10,728.7	10,728.7
TOTAL ASSETS	**19,722.4**	**10,472.0**	**8,280.6**	**11,930.6**	**50,405.6**

Assets by segment as of December 31, 2010 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total assets in the Consolidated Statement of Financial Position
Goodwill, net	2,408.0	2,691.1	1,161.6	579.5	6,840.2
Intangible assets and Property, plant and equipment, net	6,332.2	4,228.3	2,679.6	2,133.6	15,373.7
Operating financial assets	4,087.0	745.2	598.4	198.0	5,628.6
Working capital assets, including DTA	6,318.1	2,748.5	4,043.8	2,258.5	15,368.9
Total segment assets	**19,145.3**	**10,413.1**	**8,483.4**	**5,169.6**	**43,211.4**
Investments in associates	173.5	45.4	90.0	2.8	311.7
Other unallocated assets				7,904.2	7,904.2
TOTAL ASSETS	**19,318.8**	**10,458.5**	**8,573.4**	**13,076.6**	**51,427.3**

Liabilities by segment as of December 31, 2012 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total liabilities in the Consolidated Statement of Financial Position
Provisions for contingencies and losses	817.5	985.8	534.9	297.5	2,635.7
Working capital liabilities including DTL	6,573.7	2,603.4	3,281.3	532.7	12,991.1
Total segment liabilities	**7,391.2**	**3,589.2**	**3,816.2**	**830.2**	**15,626.8**
Other unallocated liabilities	-	-	-	28,985.3	28,985.3
TOTAL LIABILITIES	**7,391.2**	**3,589.2**	**3,816.2**	**29,815.5**	**44,612.1**

Liabilities by segment as of December 31, 2011 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total liabilities in the Consolidated Statement of Financial Position
Provisions for contingencies and losses	874.7	1,081.8	509.2	216.2	2,681.9
Working capital liabilities including DTL	7,904.1	2,897.0	3,263.0	425.6	14,489.7
Total segment liabilities	**8,778.8**	**3,978.8**	**3,772.2**	**641.8**	**17,171.6**
Other unallocated liabilities	**-**	**-**	**-**	33,234.0	33,234.0
TOTAL LIABILITIES	**8,778.8**	**3,978.8**	**3,772.2**	**33,875.8**	**50,405.6**

Liabilities by segment as of December 31, 2010 *(€ million)*	Water	Environmental Services	Energy Services	Other Segments	Total liabilities in the Consolidated Statement of Financial Position
Provisions for contingencies and losses	879.4	1,075.6	526.9	521.9	3,003.8
Working capital liabilities including DTL	7,734.6	2,743.1	3,291.4	2,106.2	15,875.3
Total segment liabilities	**8,614.0**	**3,818.7**	**3,818.3**	**2,628.1**	**18,879.1**
Other unallocated liabilities				32,548.2	32,548.2
TOTAL LIABILITIES	**8,614.0**	**3,818.7**	**3,818.3**	**35,176.3**	**51,427.3**

Reporting by geographical area

Year ended December 31, 2012 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,982.3**	**2,458.1**	**2,383.8**	**3,071.2**	**2,617.8**	**1,801.7**	**1,109.4**	**2,037.9**	**523.6**	**1,452.7**	**29,438.5**

Year ended December 31, 2011 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,580.7**	**2,739.0**	**2,303.0**	**2,790.0**	**2,744.0**	**1,678.0**	**993.0**	**1,911.7**	**479.5**	**1,357.6**	**28,576.5**

Year ended December 31, 2010 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
REVENUE	**11,589.2**	**2,541.5**	**2,050.0**	**2,617.6**	**2,806.9**	**1,689.5**	**909.7**	**1,664.5**	**664.8**	**1,317.9**	**27,851.6**

Breakdown of non-current assets (excluding deferred tax assets and non-current derivatives) by geographical area

As of December 31, 2012 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**6,482.0**	**1,703.0**	**2,541.8**	**2,897.0**	**1,447.5**	**1,084.6**	**470.4**	**3,410.4**	**428.0**	**588.3**	**21,053.0**

As of December 31, 2011 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**6,572.9**	**4,385.6**	**3,803.0**	**2,856.3**	**1,527.6**	**2,379.1**	**471.7**	**3,340.0**	**322.5**	**791.7**	**26,450.4**

As of December 31, 2010 (€ million)	France	Germany	United Kingdom	Central and Eastern Europe	Rest of Europe	United States	Oceania	Asia	Middle East	Rest of the world	Total
TOTAL	**7,651.5**	**4,595.3**	**3,505.2**	**2,817.7**	**2,358.9**	**2,869.1**	**569.2**	**3,129.5**	**341.0**	**847.3**	**28,684.7**

Note 41 Subsequent events

Issuance of subordinated perpetual hybrid debt in Euros and Pound Sterling

At the beginning of January 2013, Veolia Environnement launched the issuance of deeply subordinated perpetual hybrid debt in euros and pound sterling (1 billion at 4.5% yield for the tranche in euros and £400 million at a 4.875% yield for the tranche in sterling). This transaction enables the Group to reinforce its financial structure in conjunction with its transformation while strengthening its credit ratios. This issuance will be treated as equity under the Group's consolidated IFRS accounts.

Icade

As described in note 38, on October 31, 2012, a memorandum of understanding concerning the new Group headquarters project in Aubervilliers and the terms of cooperation between the parties was signed by Veolia Environnement and Icade SA, a subsidiary of Caisse des dépôts et consignations. This memorandum led to the signature on January 31, 2013 of two simultaneous agreements defining the terms of compensation of Icade should Veolia Environnement withdraw from this project and the terms of a nine-year firm lease for premises to be completed.

Eolfi Europe

Pursuant to the divestment of Eolfi renewable energies activities in the United States to Atlantic Ridgeline Holdings, Asah, a holding company notably involved with renewable energy projects made an offer to Veolia Environnement setting out a proposal to obtain control of Eolfi's European activities. This offer was accepted by Veolia Environnement on October, 30, 2012.

On January 21, 2013, a memorandum of understanding was signed which provides the terms of transfer of Eolfi European activities to Asah, for a total amount of € 23,5 million and repayment of its current account debt to Veolia Environnement.

Agreement reached on financing of Dalkia's international operations

On February 8, 2013, a memorandum of understanding regarding the financing of Dalkia International was signed amongst Veolia Environnement, EDF and Dalkia International.

The memorandum of understanding provides (i) for the issuance of €600 million in super-subordinated bonds by Dalkia International, to which its shareholders will subscribe in proportion to their direct interest in the capital i.e. respectively €144 million for EDF and €456 million for Dalkia, financed by a long-term loan from Veolia Environnement, as well as (ii) for increased information rights for the shareholders of Dalkia International notably through the creation of an audit committee.

Note 42 Main companies included in the 2012 consolidated financial statements

In 2012, Veolia Environnement Group consolidated or accounted for a total of 2,728 companies, of which the main companies are:

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Veolia Environnement SA 36-38, avenue Kléber – 75116 Paris	40 321 003 200 047	FC	100.00	100.00
Société d'Environnement et de Services de l'Est SAS Oehmichen BP 21100 Technoland 25461 Etupes Cedex	44 459 092 100 052	FC	100.00	100.00
EOLFI SA and its subsidiaries 25, place de la Madeleine – 75008 Paris	477 951 644 00020	FC	71.49	71.49
PROACTIVA Medio Ambiente SA Calle Cardenal Marcelo Spinola 8 – 3A 28016 Madrid (Spain)		PC	50.00	50.00
Thermal North America Inc. 99 summer street; suite 900 Boston Massachusetts 02110 (United States)		FC	100.00	100.00
WATER				
Veolia Eau – Compagnie Générale des Eaux 52, rue d'Anjou – 75008 Paris	57 202 552 600 029	FC	100.00	100.00
Veolia Water 52, rue d'Anjou – 75008 Paris	42 134 504 200 012	FC	100.00	100.00
Including the following companies in France:				
Compagnie des Eaux et de l'Ozone 52, rue d'Anjou – 75008 Paris	77 566 736 301 597	FC	100.00	100.00
Société Française de Distribution d'Eau 7, rue Tronson-du-Coudray – 75008 Paris	54 205 494 500 382	FC	99.56	99.56
Compagnie Fermière de Services Publics 3, rue Marcel-Sembat – Immeuble CAP 44 44100 Nantes	57 575 016 100 342	FC	99.87	99.87
Compagnie Méditerranéenne d'Exploitation des Services d'Eau – CMESE 12, boulevard René-Cassin – 06100 Nice	78 015 329 200 112	FC	99.72	99.72
Société des Eaux de Melun Zone Industrielle – 198/398, rue Foch 77000 Vaux Le Pénil	78 575 105 800 047	FC	99.29	99.29
Société des Eaux de Marseille 25, rue Edouard-Delanglade 13000 Marseille	5 780 615 000 017	FC	97.74	97.74
Sade-Compagnie Générale de Travaux d'Hydraulique (CGTH-SADE) and its subsidiaries 28, rue de la Baume – 75008 Paris	56 207 750 300 018	FC	99.36	99.36
Veolia Water Solutions & Technologies and its subsidiaries l'Aquarène 1, place Montgolfier 94417 St Maurice Cedex	41 498 621 600 037	FC	100.00	100.00
OTV France l'Aquarène – 1 place Montgolfier 94417 St Maurice Cedex	433 998 473 000 14	FC	100.00	100.00
Société Internationale de Dessalement (SIDEM) 20-22 rue de Clichy – 75009 Paris	342 500 956 000 20	FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Including the following foreign companies:				
Veolia Water UK PLC and its subsidiaries Kings Place – 5th Floor – 90 York Way London N19AG (United Kingdom)		FC	100.00	100.00
Affinity Water Acquisitions (Holdco) Limited Tamblin Way – Hatfield Hertfordshire AL109EZ (United Kingdom)		EA	10.00	10.00
Veolia Water North America and its subsidiaries 101 W. Washington Street, Suite 1400E Indianapolis, IN 46204 (United States)		FC	100.00	100.00
Veolia Wasser GmbH and its subsidiaries Lindencorso Unter den linden 21 10 117 Berlin (Germany)		FC	100.00	100.00
Berliner Wasserbetriebe Anstalt des Offentlichen Rechts Neue Jüdenstrasse 1 10179 Berlin (Germany)		EA	49.90	24.95
Braunschweiger Versorgungs- AG &Co.KG Taubenstrasse 7 38 106 Braunschweig (Germany)		FC	74.90	74.90
Aquiris SA Avenue de Vilvorde-450 1130 Brussels (Belgium)		FC	99.00	99.00
Apa Nova Bucuresti Srl Strada Aristide Demetriade nr 2, Sector 1 Bucarest (Romania)		FC	73.69	73.69
Veolia Voda and its subsidiaries 52, rue d'Anjou – 75 008 Paris	434 934 809 00016	FC	82.12	82.12
Prazske Vodovody A Kanalizace a.s. 11 Parizska 11 000 Prague 1 (Czech Republic)		FC	100.00	82.12
Severoceske Vodovody A Kanalizace a.s. 1 689 Pritkovska 41 550 Teplice (Czech Republic)		FC	50.10	41.14
Shenzhen Water (Group) Co. Ltd and its subsidiaries Water Building, N°1019 Shennan Zhong Road 518031 SHENZHEN, GuangDong (China)		PC	45.00	25.00
Shanghai Pudong Veolia Water Corporation Ltd No. 703 Pujian Road, Pudong New District 200127 SHANGHAI (China)		PC	50.00	50.00
Changzhou CGE Water Co Ltd No.12 Juqian Road, CHANGZHOU Municipality, Jiangsu Province 213000 (China)		PC	49.00	24.99
Kunming CGE Water Supply Co Ltd No.6 Siyuan Road, Kunming Municipality, Yunnan Province 650231 (China)		PC	49.00	24.99
Veolia Water Korea Investment Co Ltd and its subsidiaries 10F Yeonsei Jaeden Severance Bldg.84-11, Namdaemunno 5-ga Jung-gu, Seoul, 100-753 (South Korea)		FC	100.00	100.00
Veolia Water Australia and its subsidiaries Level 4, Bay Center, 65 Pirrama Road, Pyrmont NSW 2009 (Australia)		FC	100.00	100.00
Société d'Énergie et d'Eau du Gabon Avenue Felix Eboué – BP 2082 – Libreville (Gabon)		FC	51.00	41.08
AZALIYA 52, rue d'Anjou 75008 Paris	505 190 801 00017	FC	100.00	100.00
Veolia Water Middle East North Africa (Veolia Water MENA) and its subsidiaries 52, rue d'Anjou – 75 008 Paris	403 105 919 00019	FC	80.55	80.55

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Amendis 23, rue Carnot – 90 000 Tanger (Morocco)		FC	100.00	76.52
REDAL SA 6 Zankat Al Hoceima, BP 161 – 10 000 Rabat (Morocco)		FC	100.00	76.76
Lanzhou Veolia Water (Group) Co LTD No. 2 Hua Gong Street, Xigu District, LANZHOU, Gansu Province (China)		PC	45.00	22.95
Sharqiyah Desalination Co. SAOC PO Box 685, PC 114 Jibroo, Sultanate of Oman	1 011 277	FC	55.00	55.00
Biothane Systems International Holdings B.V. Thanthofdreef 21 – PO BOX 5068 2623 EW Delft (Netherlands)	27267973	FC	100.00	100.00
Tianjin Jinbin Veolia Water Co No2 Xinxiang Road, Bridge 4 Jin Tang Expressway, Dongli District Tianjin Municipality (China)		PC	49.00	49.00
Changle Veolia Water Supply Co Ltd (N° 2 Water Plant) Pan Ye Village, Hang Cheng Jie Dao, Changle Municipality, Fujian Province (China)		PC	49.00	49.00
Veolia Water – Veolia Environmental Service Ltd (Hong Kong) 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong		FC	100.00	100.00
Sofiyska Voda AD 4 Kuzman Shapkarev street, Sredetz Minicipality, Sofia (Bulgaria)		FC	77.10	63.32
Environmental Services				
Veolia Propreté Parc des Fontaines – 163/169, avenue Georges Clémenceau 92000 Nanterre	57 222 103 400 778	FC	100.00	100.00
Société d'Assainissement Rationnel et de Pompage (SARP) and its subsidiaries 52 avenue des Champs Pierreux 92000 Nanterre	77 573 481 700 387	FC	100.00	99.56
SARP Industries and its subsidiaries 427, route du Hazay – Zone Portuaire Limay-Porcheville – 78520 Limay	30 377 298 200 029	FC	100.00	99.85
Routière de l'Est Parisien 26 avenue des Champs Pierreux 92000 NANTERRE	61 200 696 500 174	FC	100.00	100.00
ONYX Auvergne Rhône-Alpes 105 avenue du 8 mai 1945 69140 Rillieux-La-Pape	30 259 089 800 524	FC	100.00	100.00
Onyx Est ZI de la Hardt – Route de Haspelschiedt 57 230 Bitche	30 520 541 100 070	FC	95.00	95.00
Paul Grandjouan SACO 6 rue Nathalie Sarraute – TSA 70 505 44 2050 Nantes Cedex 2	86 780 051 800 609	FC	100.00	100.00
OTUS 26, avenue des Champs Pierreux 92000 NANTERRE	62 205 759 400 336	FC	100.00	100.00
Bartin Recycling Group and its subsidiaries 5 rue Pleyel 93 200 Saint Denis	48 141 629 500 014	FC	100.00	100.00
Including the following foreign companies:				
Veolia ES Holding Ltd and its subsidiaries 8th floor – 210 Pentonville Road LONDON - N19JY (United Kingdom)		FC	100.00	100.00
Veolia Environmental Services North America Corp. 200 East Randolph Street – Suite 7900 Chicago –IL 60601 (United States)		FC	100.00	100.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
VES Technical Solutions LLC Butterfield Center 700 East Butterfield Road, #201 60148 LOMBARD (United States)		FC	100.00	100.00
Veolia ES Industrial Services, Inc. 2525 South Shore Blvd, Suite 410 LEAGUE CITY 77573 Texas (United States)		FC	100.00	100.00
Veolia ES Canada Services Industriels Inc. 1705, 3ème avenue H1B 5M9 Montreal – Québec (Canada)		FC	100.00	100.00
Veolia Environmental Services Australia Pty Ltd Level 4, Bay Center – 65 Pirrama Road NSW 2009 – Pyrmont (Australia)		FC	100.00	100.00
Veolia Environmental Services Asia Pte Ltd 5 Loyang Way 1-WMX Technologies Building 508706 Singapore		FC	100.00	100.00
Veolia Environnmental Services China LTD Rm 4114 Sun Hung Kai Center – 30 Harbour Road Wanchai - HONG-KONG		FC	100.00	100.00
Veolia Umweltservice GmbH and its subsidiaries Hammerbrookstrasse 69 20097 Hamburg (Germany)		FC	100.00	89.15
Marius Pedersen/Veolia Miljservice HoldingA/S Danemark and its subsidiaries Ørbaekvej 851 - 5863 FERRITSLEV (Denmark)		FC	65.00	65.00
Veolia Servizi Ambientali SpA (and its subsidiaries) Via Privata O.T.O. 57 – 19136 La Spezia (Italy)		FC	100.00	100.00
ENERGY SERVICES				
Dalkia – Saint-André 37, avenue du Mal-de-Lattre-de-Tassigny 59350 St André les Lille	40 321 129 500 023	FC	66.00	66.00
Dalkia France 37, avenue du Mal-de-Lattre-de-Tassigny 59350 St André les Lille	45 650 053 700 018	FC	99.94	65.96
Dalkia Investissement 37, avenue du Mal-de-Lattre-de-Tassigny 59350 St André les Lille	40 443 498 700 073	PC	50.00	33.00
Dalkia International 37, avenue du Mal-de-Lattre-de-Tassigny 59350 St André les Lille	43 353 956 600 011	PC	75.80	50.03
Citelum and its subsidiaries 37, rue de Lyon – 75012 Paris	38 964 385 900 019	FC	99.94	65.96
Including the following foreign companies:				
Dalkia PLC and its subsidiaries Elizabeth House – 56-60 London Road Staines TW18 4BQ (United Kingdom)		PC	75.80	50.03
Dalkia NV and its subsidiaries 52, quai Fernand-Demets 1070 – Anderlecht (Belgium)		PC	75.80	50.03
Siram SPA and its subsidiaries Via Bisceglie, 95 – 20152 Milano (Italy)		PC	75.80	50.03
Dalkia Espanaand its subsidiaries Cl Juan Ignacio Luca De tgna, 4 28 027 Madrid (Spain)		PC	75.80	50.03
Dalkia SGPS SA and its subsidiaries Estrada de Paço d'Arcos 2770 – 129 Paco d'Arços (Portugal)		PC	75.80	50.03

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Dalkia Limitada and its subsidiaries Rua Funchal 418 – 14 andar, Vila Olimpia -60 Sao Paulo SP (Brazil)		PC	75.80	50.03
Dalkia Polska and its subsidiaries Ul Mysia 5 – 00 496 Warsaw (Poland)		PC	75.80	30.02
Zespol Elektrocieplownl w Lodziand its subsidiary Ul.Jadzi. Andrzejewskiej Street 90-975 Lodz (Poland)		PC	75.80	27.64
Dalkia Term SA and its subsidiaries UL B.Czecha 36 – 04 -555 Warszawa (Poland)		PC	75.80	30.02
Dalkia Warszawa and its subsidiary UI Stefana Batorego 2 02-591 Warszawa (Poland)		PC	75.80	25.52
Dalkia AB and its subsidiaries Hälsingegatan 47 – 113 31 Stockholm (Sweden)		PC	75.80	50.03
UAB Vilnius Energija Joconiu St. 13 – 02300 VILNIUS (Lithuania)		PC	75.80	44.47
Dalkia Energia Zrt. and its subsidiaries Budafoki út 91-93 – H-1117 Budapest (Hungary)		PC	75.80	50.01
Dalkia a.s and its subsidiaries Kutlíkova 17 – Technopol 851 02 Bratislava 5 (Slovakia)		PC	75.80	50.03
Dalkia Ceska Republika and its subsidiaries 28.Rijna 3123/152 709 74 Ostrava (Czech Republic)		PC	75.80	36.55
TRANSPORTATION				
Veolia Transdev 32, boulevard Galliéni, Immeuble Sereinis 92130 Issy-les-Moulineaux	521 477 851 00013	PC	50.00	50.00
Société européenne pour le développement des transports public - Transdev 32, Boulevard Galliéni 92130 Issy les Moulineaux	542 104 377 00610	PC	50.00	50.00
Veolia Transport 32, Boulevard Galliéni 92130 Issy les Moulineaux	383 607 090 00016	PC	50.00	50.00
Société Nationale Maritime Corse-Méditerranée (SNCM) 61, boulevard des Dames – 13002 Marseille	775 558 463 00011	PC	50.00	33.00
CFTI (Compagnie Française de Transport Interurbain) Parc des Fontaines 32, Boulevard Galliéni 92130 Issy les Moulineaux	552 022 063 01075	PC	49.97	49.97
Veolia Transport Urbain Parc des Fontaines 32, Boulevard Galliéni 92130 Issy les Moulineaux	344 379 060 00082	PC	50.00	50.00
VT Eurolines 163/169, avenue Georges-Clémenceau 92000 Nanterre	434 009 254 00021	PC	50.00	50.00
Including the following foreign companies:				
Veolia Transportation Inc. 720 E Butterfield Road Suite 309 Lombard 60148 IL (United States)		PC	50.00	50.00
Super Shuttle International Inc., and its subsidiaries 14500 N. Northsight boulevard, Suite 329 Scottsdale, AZ 85260 (United States)		PC	50.00	50.00
Veolia Transport Australasia Level 12, 114 William Street Melbourne, Victoria 3000 (Australia)		PC	50.00	50.00

Company and address	French company registration number (Siret)	Consolidation Method	% control	% interest
Veolia Transport Sweden Holding AB Englundavägen 9, Box 1820 SE-171 24 Solna (Sweden)		PC	50.00	50.00
Connexxion holding NV, and its subsidiaries Laapersveld 75 1213 VB Hilversum (Netherlands)		PC	50.00	25.00
Transdev PLC, and its subsidiaries 401 King Street Hammersmith London, W6 9NJ (United Kingdom)		PC	50.00	50.00
Transdev Participações SGPS SA, and its subsidiaries Avenida D. Afonso Henriques, 1462 – 1º 4450-013 Matosinhos (Portugal)		PC	50.00	50.00
Veolia Transport Nederland Holding BV and its subsidiaries Mastbosstraat 12 – Postbus 3306 4800 GT Breda (Netherlands)		PC	50.00	50.00
Veolia Transport Belgium nv and its subsidiaries Groenendaallaan 387 2030 Antwerp (Belgium)		PC	50.00	50.00
Veolia Transport Central Europe GmbH and its subsidiaries Georgenstrasse 22 10117 Berlin (Germany)		PC	50.00	32.50
Veolia Verkehr GmbH and its subsidiaries Georgenstrasse 22 10117 Berlin (Germany)		PC	50.00	50.00
Veolia Transport Ceska Republica a.s. K Hutim 664/7 198 00 Praha 9 (Czech Republic)		PC	50.00	32.50
Veolia Transdev Canada INC, and its subsidiaries St-Jean-sur-Richelieu (Quebec)		PC	50.00	50.00

Consolidation method:
FC: Full Consolidation; PC: Proportionate Consolidation; EA: Equity Associate

Note 43 Audit fees

Audit fees incurred by the Group during fiscal years 2012, 2011 and 2010 total €50.7 million, €52.6 million and €50.1 million, respectively, including €40.6 million in 2012, €41.8 million in 2011 and €40.5 million in 2010 in respect of the statutory audit of the accounts and €10.1 million in 2012, €10.8 million in 2011 and €9.6 million in 2010 in respect of services falling within the scope of diligences directly related to the audit engagement.

Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2012

To the Shareholders,

In compliance with the assignment entrusted to us at your Annual General Meetings, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying consolidated financial statements of Veolia Environnement;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2012 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

2 Justification of our assessments

Accounting estimates underlying the preparation of the accounts were made in an uncertain economic and financial environment (volatile financial markets, government austerity measures, etc.) making economic forecasting more difficult. Such is the context in which we made our own assessments and we bring to your attention the following matters in accordance with the requirements of article L.823-9 of the *Code de commerce* (French Commercial Code):

Management's significant judgments and estimations, disclosed in Note 2 to the consolidated financial statements, are determined based on past experience and other factors considered as reasonable given the circumstances. As a result, those estimates may not accurately reflect reality.

These judgments and estimates relate principally to:

- Goodwill and other intangible assets with an indefinite useful life which are subject to regular annual impairment tests, or when a triggering event occurs as described in Notes 1-11 and 4 to the consolidated financial statements. We have analyzed the implementation procedures for these tests and the assumptions used to compute future cash flows and have verified that the information disclosed in Notes 4 and 6 to the financial statements is appropriate.
- Fixed assets and other intangible assets with a definite useful life (Notes 1-11, 1-20, 5, 6 and 7), financial assets (Notes 10 and 11), Operating receivables (Note 1-14, 13, 27), income taxes (Notes 1-19, 12 and 22), provisions and post-employment benefits (Notes 1-13, 1-15, 16 and 29) and financial instruments (Notes 1-14, 1-26, 26, 27 and 28). Our work consisted in assessing the financial information and assumptions underlying these judgments and estimates, reviewing, on a test basis, the calculations made by the Company and verifying that the information disclosed in the notes to the consolidated financial statements is appropriate.
- Assets and liabilities available for sale and methods of determining possible impairments are described in Notes 1.5.3, 3-2 and 23 to the consolidated financial statements. We have analyzed the classification criteria and the valuation and have verified that the information disclosed in Notes 3.2 and 23 to the financial statements is appropriate.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verification

As required by law, we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

The Auditors

French original signed by

Paris-La Défense, March 21, 2013

KPMG Audit		ERNST & YOUNG et Autres	
A division of KPMG S.A.			
Jean-Paul Vellutini	Karine Dupré	Gilles Puissochet	Nicolas Pfeuty

20.2 Company Financial Statements

Balance Sheet as of December 31, 2012

(in € thousands)	12/31/2012			12/31/2011
ASSETS	**GROSS**	**DEP., AMORT. & PROV.**	**NET**	**NET**
SHARE CAPITAL SUBSCRIBED BUT NOT CALLED	-	-	-	-
NON-CURRENT ASSETS				
Intangible assets				
Preliminary expenses	-	-	-	-
Research & development expenditure	-	-	-	-
Concessions, patents, licenses, trademarks, processes, software, rights and similar	1,298	1,234	64	304
Purchased goodwill[1]	-	-	-	-
Other intangibles	-	-	-	-
Intangible assets under construction	2,716	-	2,716	1,986
Property, plant and equipment				
Land	-	-	-	-
Buildings	-	-	-	-
Industrial and technical plant	-	-	-	-
Other plant and equipment	358	280	78	112
PP&E under construction	-	-	-	-
Payments on account - PP&E	-	-	-	-
Long-term loans and investments[2]				
Equity investments	15,474,419	2,617,759	12,856,660	14,393,856
Loans to equity investments	7,480,231	-	7,480,231	7,445,363
Long-term portfolio investments (TIAP)	-	-	-	-
Other long-term investment securities	3,476	-	3,476	52,268
Loans	272,867	-	272,867	99,904
Other long-term loans and investments	300,133	225,223	74,910	73,235
TOTAL (I)	**23,535,498**	**2,844,496**	**20,691,002**	**22,067,028**

(in € thousands)	12/31/2012			12/31/2011
ASSETS	**GROSS**	**DEP., AMORT. & PROV.**	**NET**	**NET**
CURRENT ASSETS				
Inventories and work-in-progress				
Raw materials & supplies	-	-	-	-
Work in process - goods and services	-	-	-	-
Semi-finished and finished goods	-	-	-	-
Bought-in goods	-	-	-	-
Payments on account – inventories	1,271	-	1,271	1,774
Receivables(3)				
Trade receivables				
Trade receivables and related accounts	208,387	-	208,387	230,434
Other receivables	2,570,770	56,953	2,513,817	1,507,811
Miscellaneous receivables				
Share capital subscribed and called but not paid in	-	-	-	-
Marketable securities				
Treasury shares	134,115	82,132	51,983	50,819
Other securities	3,608,910	-	3,608,910	3,548,375
Treasury instruments - Assets	144,756	-	144,756	210,251
Cash at bank and in hand	508,371	-	508,371	661,311
Prepayments(4)	8,361	-	8,361	14,359
TOTAL (II)	**7,184,941**	**139,085**	**7,045,856**	**6,225,133**
ACCRUED INCOME AND DEFERRED CHARGES				
Deferred charges **(III)**	100,118	-	100,118	34,748
Bond redemption premiums **(IV)**	96,008	-	96,008	113,186
Unrealized foreign exchange losses **(V)**	211,113	-	211,113	211,377
GRAND TOTAL (I+II+III+IV+V)	**31,127,678**	**2,983,581**	**28,144,096**	**28,651,472**
(1) Of which leasehold rights			-	-
(2) Portion due in less than one year			*284,417*	*128,229*
(3) Portion due in more than one year			*51,312*	*112,833*
(4) Portion due in more than one year			*2,422*	*7,017*

EQUITY AND LIABILITIES	12/31/2012	12/31/2011
SHAREHOLDERS' EQUITY		
Share capital (of which paid in: 2,610,434,245)	2,610,434	2,598,265
Additional paid-in capital	8,278,993	9,608,895
Revaluation reserves	-	-
Equity accounting revaluation reserve	-	-
Reserves		
Reserve required by law	239,251	239,251
Reserves required under the bylaws or contractually	-	-
Special long-term capital gains reserve	-	-
Other reserves	-	343,226
Retained earnings	-	86,449
Net income (loss) for the period	(352,913)	(1,417,507)
SUB-TOTAL: Shareholders' equity	**10,775,765**	**11,458,578**
INVESTMENT SUBSIDIES	-	-
TAX-DRIVEN PROVISIONS	550	442
TOTAL (I)	**10,776,315**	**11,459,021**
EQUITY EQUIVALENTS		
Proceeds from issues of equity equivalent securities	-	-
Subordinated loans	-	-
Other		-
TOTAL (I B)	**-**	**-**
PROVISIONS		
Provision for contingencies	187,973	143,833
Provisions for losses	15,400	36,307
TOTAL (II)	**203,373**	**180,140**
LIABILITIES[1]		
Convertible bonds	-	-
Other bond issues	11,302,666	13,048,795
Bank borrowings[2]	451,907	364,664
Other borrowings[3]	4,431,732	2,874,211
Payments received on account for work-in-progress		
Operating liabilities		
Trade payables and related accounts	87,506	85,262
Tax and employee-related liabilities	155,932	106,966
Other operating liabilities	-	-
Other liabilities		
Amounts payable in respect of PP&E and related accounts	26	2,863
Tax liabilities (income tax)	-	-
Other miscellaneous liabilities	30,578	89,504
Treasury instruments - Liabilities	159,311	207,259
DEFERRED INCOME AND MISCELLANEOUS		
Deferred income	444,953	155,558
TOTAL (III)	**17,064,611**	**16,935,083**
UNREALIZED FOREIGN EXCHANGE GAINS **(IV)**	**99,797**	**77,228**
GRAND TOTAL (I+II+III+IV)	**28,144,096**	**28,651,472**
(1) Portion due in more than one year	10,982,539	12,360,939
Portion due in less than one year	5,995,027	4,418,585
(2) Of which overdrafts and current bank facilities	55,195	13,505
(3) Of which equity equivalent loans	-	-

Income Statement for the year ended December 31, 2012

(in € thousands)	**2012**	**2011**
OPERATING REVENUE[1]		
Sales of bought-in goods	-	-
Sales of own goods and services	231,333	243,996
NET SALES	231,333	243,996
Of which export sales		
Changes in inventory of own production of goods and services	-	-
Own production capitalized	2,658	8,835
Operating subsidies	-	-
Write-back of provisions (depreciation and amortization) and expense reclassifications	16,279	3,227
Other revenue	235,761	228,067
TOTAL (I)	**486,031**	**484,125**
OPERATING EXPENSES[2]		
Purchases of bought-in goods	-	-
Change in inventories of bought-in goods	-	-
Purchases of raw materials and other supplies	-	-
Change in inventories of raw materials and other supplies	-	-
Other purchases and external charges[*]	190,328	206,544
Duties and taxes other than income tax	13,702	10,510
Wages and salaries	105,832	110,067
Social security contributions	45,023	39,477
Depreciation, amortization and charges to provisions		
On non-current assets: depreciation and amortization	11,697	8,457
On non-current assets: charges to provisions	-	-
On current assets: charges to provisions	-	-
For contingencies and losses: charges to provisions	19,584	6,886
Other expenses	248,147	243,376
TOTAL (II)	**634,313**	**625,317**
1. OPERATING LOSS (I – II)	**(148,282)**	**(141,193)**
JOINT VENTURE OPERATIONS		
Profits transferred in or losses transferred out **(III)**	-	-
Profits transferred out or losses transferred in **(IV)**	-	-
(*) Of which: Equipment finance lease installments	-	-
Real estate finance lease installments	-	-
(1) Of which income relating to prior periods	-	-
(2) Of which expenses relating to prior periods	-	-

(in € thousands)	**2012**	**2011**
FINANCIAL INCOME[3]		
Financial income from equity investments	1,107,065	957,711
Financial income from other securities and long-term receivables	7,870	9,470
Other interest and similar income	393,128	292,426
Write-back of provisions and expense reclassifications	344,246	514,223
Foreign exchange gains	2,465,923	2,189,025
Net proceeds from sales of marketable securities	11,016	33,758
TOTAL (V)	**4,329,248**	**3,996,612**
FINANCIAL EXPENSES		
Amortization and charges to provisions for financial items	1,311,025	2,105,752
Interest and similar expenses[4]	726,934	746,821
Foreign exchange losses	2,460,826	2,198,029
Net expenses on sales of marketable securities	9	-
TOTAL (VI)	**4,498,794**	**5,050,603**
2. NET FINANCIAL INCOME (EXPENSE) (V–VI)	**(169,546)**	**(1,053,990)**
3. NET INCOME/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAX (I-II+III-IV+V-VI)	**(317,828)**	**(1,195,183)**
EXCEPTIONAL INCOME		
Exceptional income from non-capital transactions	-	102
Exceptional income from capital transactions	11,310	706,086
Write-back of provisions and expense reclassifications	33,552	-
TOTAL (VII)	**44,862**	**706,189**
EXCEPTIONAL EXPENSES		
Exceptional expenses on non-capital transactions	529	4
Exceptional expenses on capital transactions	137,591	1,062,954
Exceptional depreciation, amortization and charges to provisions	26,639	21,598
TOTAL (VIII)	**164,759**	**1,084,555**
4. NET EXCEPTIONAL ITEMS (VII–VIII)	(119,897)	(378,367)
STATUTORY EMPLOYEE PROFIT-SHARING **(IX)**	-	-
INCOME TAX EXPENSE **(X)**	84,812	156,043
TOTAL INCOME (I+III+V+VII)	**4,944,953**	**5,186,925**
TOTAL EXPENSES (II+IV+VI+VIII+IX-X)	**5,297,866**	**6,604,432**
NET INCOME / (LOSS)	**(352,913)**	**(1,417,507)**
(3) Of which income from related parties	*2,107,149*	*1,848,831*
(4) Of which interest charged by related parties	*54,149*	*29,907*

Proposed Appropriation of 2012 Net Income

(in euros)	**2012**
2012 accounting net loss	**(352,912,627)**
Prior year retained earnings	-
2012 retained deficit after reducing prior year retained earnings to zero	**(352,912,627)**
Proposed appropriation and distribution "Additional paid-in capital" after reducing the 2012 retained deficit to zero by offset	**7,926,079,952**
Distributable amounts after reducing the 2012 retained deficit to zero	
Additional paid-in capital	7,926,079,952
Other reserves	-
Total	**7,926,079,952**
Proposed distribution	**355,494,245**
Dividend payment (€0.70 x 507,848,922 shares)[(1)] by deduction from the following accounts	
Other reserves	
Additional paid-in capital	
Shareholders' equity accounts after appropriation and distribution of the dividend	
Share capital	2,610,434,245
Additional paid-in capital	7,570,585,707
Reserve required by law	239,250,761
Other reserves	-
2012 retained earnings/deficit	-
Total[(2)]	**10,420,270,713**

(1) The total dividend distribution presented in the above table is calculated based on 522,086,849 shares outstanding as of December 31, 2012, including 14,237,927 treasury shares, and may change depending on movements in the number of shares conferring entitlement to dividends up to the ex-dividend date. Consequently, amounts deducted from "Additional paid-in capital" and "Other reserves" may change depending on the definitive dividend amount paid.

(2) After appropriation of the net loss and distribution of the proposed dividend for 2012, the shareholders' equity of the Company shall be €10,420,270,713, including distributable amounts of €7,570,585,707 recorded in "Additional paid-in capital".

Statement of Source and Application of Funds

(in € thousands)	**2012**	**2011**
SOURCE OF FUNDS:		
Operating cash before changes in working capital	628,072	554,030
Disposals or decreases in non-current assets:		
Disposals of intangible assets and PP&E	1,930	15,654
Disposals of equity investments	701,205	32,444
Repayment of financial receivables (long-term advances)	1,136,473	1,797,317
Repayment of other long-term loans and investments	27,668	22,452
Increase in shareholders' equity	-	1,170
New borrowings	137,326	434,834
TOTAL SOURCE OF FUNDS	**2,632,674**	**2,857,901**
APPLICATION OF FUNDS:		
Dividend distribution (excluding withholding tax)(1)	329,902	204,067
Acquisitions or purchases of non-current assets:		
Intangible assets and PP&E	2,657	8,763
Long-term loans and investments:		
Equity investments	121,136	29,968
Long-term financial receivables	1,106,129	1,678,602
Other long-term loans and investments	-	77,668
Decrease in shareholders' equity	-	-
Principal payments on borrowings	2,037,125	583,130
TOTAL APPLICATION OF FUNDS	**3,596,950**	**2,582,198**
Increase / decrease in working capital requirements(2)	(964,276)	275,703
TOTAL	**2,632,674**	**2,857,901**

(1) Dividends paid in 2012 in respect of fiscal year 2011: €353,790 thousand, including dividends of €329,573 thousand paid in cash (excluding registration fees) and dividends of €24,217 thousand paid in shares.

(2) In 2012, the change in working capital requirements was mainly due to an increase in current accounts received from subsidiaries, treasury notes issued and deferred income (balancing cash adjustments received for interest rate swaps).

Notes to the Company Financial Statements

Note 1 Major events of the period

1.1 Company financing

1.1.1 Share capital increase resulting from the payment of the dividend for fiscal year 2012 in shares

Pursuant to the decision of the combined general shareholders' meeting of May 16, 2012 in the fifth resolution, to offer shareholders the option of receiving payment of the dividend for fiscal year 2011 in new Veolia Environnement shares, the Board of Directors, meeting on the same day, sub-delegated to the Chairman of the Board, the necessary powers to perform the share capital increase resulting from the exercise of this option. The option exercise period was set from May 22 to June 6, 2012 inclusive.

At the end of the option exercise period and based on a certificate of deposit prepared by Société Générale, the Chairman of the Board duly noted on June 14, 2012, the performance of a share capital increase of €24,217,195.55.

This led to the issue of 2,433,889 new shares with a par value of €5 each, representing an increase in the share capital of the Company of €12,169,445 and the recognition of additional paid-in capital of €12,047,750.55. The expenses relating to this transaction were deducted from additional paid-in capital for a net of tax amount of €327,545.50.

1.1.2 Events regarding bond issues and syndicated loan facilities

Early redemption of U.S. private placements: On January 9, 2012, Veolia Environnement sent a notice of early redemption to all holders of the U.S. private placement performed in January 2003. Early redemption was effectively performed on February 9, 2012, for a euro-equivalent of €350.2 million.

Repayment of bonds maturing in 2012: The series 7 EMTN issued in February 2002 matured in February 2012 for an overall amount of €671 million.

Bond exchange: Between March 19 and March 27, 2012, Veolia Environnement proceeded with the refinancing by early redemption of a portion of the company's bonds maturing in 2013, 2014, 2017 and 2018 for an amount of €750 million. At the same time, the company issued a new bond line maturing in 2027 for the same amount. This operation enabled the Group to increase the maturity of its debt and smooth the redemption schedule, without significantly impacting the finance cost.

Bond issue in China: On June 26, 2012, as part of its EMTN program, Veolia Environnement issued a new bond line of CNY500 million (€63.3 million at the settlement date) maturing in June 2017, to finance the requirements of its subsidiaries in China.

Repayment of the syndicated loan facility: The draw-down of CZK 1,000 million on the CZK syndicated loan facility was repaid on July 27, 2012.

Partial buyback of USD and euro-denominated bond lines: During the fourth quarter 2012, Veolia Environnement carried out the following transactions:

- full buyback of the USD 50 million private placement under the EMTN program, paying a coupon of 4.685% and maturing in June 2015;
- partial buyback in the amount of €341 million of the EUR bond line paying a coupon of 4.0% and maturing in February 2016;
- partial buyback in the amount of €256 million of the EUR bond line paying a coupon of 4.375% and maturing in January 2017;
- partial buyback in the amount of USD 153 million of the USD bond line paying a coupon of 6.0% and maturing in June 2018.

These partial buybacks reduced the outstandings on these bond lines to €559 million, €744 million and USD 547 million, respectively.

These transactions form part of the active debt management and financing cost optimization strategy adopted by Veolia Environnement to reduce the cost of carry of available cash following the disposals carried out in 2012.

1.2 Subsidiary financing

1.2.1 Veolia Environnement Europe Services SA

On July 19, 2012, Veolia Environnement contributed to the share capital decrease of Veolia Environnement Europe Services SA by means of redemption in the amount of €700 million.

1.2.2 VIGIE 9 AS

On October 1, 2012, Veolia Environnement, the sole shareholder, reduced the share capital of Vigie 9 AS by €1.2 million by redeeming 116,641 shares.

1.2.3 Veolia Environnement Technologies France

On December 21, 2012, Veolia Environnement subscribed to the entire share capital increase performed by Veolia Environnement Technologies France in the fully paid-up amount of €120.3 million in order to offset the liquid debts payable to the company.

1.3 Other major events

1.3.1 Treasury shares

In 2012, due to the rise in its share price, Veolia Environnement recorded a variation to the treasury share impairment provision of €2.8 million, based on the average share price in December 2012 of €8.89, compared to €8.69 in December 2011.

The gross value of the 14,237,927 treasury shares held as of December 31, 2012 is €433.9 million, provided for in the amount of €307.4 million, and representing a net carrying amount of €126.5 million.

Note 2 Accounting principles and methods

2.1 Basis of preparation

The company financial statements for the year ended December 31, 2012 are prepared and presented in accordance with legislative and regulatory provisions applicable in France.

Amounts recorded in the accounts are valued on a historical cost basis.

The accounting period ends on December 31, 2012 and has a duration of 12 months.

2.2 Main accounting policies

Non-current assets: On initial recognition in the accounts, non-current assets are recorded at acquisition cost if acquired for valuable consideration, at market value if acquired for nil consideration or at production cost if produced by the company.

Intangible assets: In the course of major IT projects, the company incurs project costs which it capitalizes when they satisfy certain criteria. These costs are not amortized prior to asset commissioning. At this date, capitalized project costs are transferred at their net carrying amount to Veolia Environnement Technologies France, which is then responsible for providing the corresponding service.

Property, plant and equipment: Depreciation is calculated over the expected period of use. More specifically, fixtures and fittings and installations are depreciated on a straight-line basis over periods of six to ten years. Furniture and office equipment is depreciated on a straight-line basis over periods of between five and ten years. Finally, vehicles are depreciated on a straight-line basis over five years.

Equity investments: This heading records the acquisition cost of securities held by Veolia Environnement in companies over which it exercises control or significant influence, directly or indirectly.

At the date of entry into company assets, the net carrying amount of "Equity investments" is their acquisition cost. The company has elected to capitalize costs relating to the acquisition of equity investments. At all other dates, equity investments are measured at their value in use to the company, determined based on criteria encompassing profitability, growth perspectives, net assets and the stock market value of securities held, where applicable. Where the net carrying amount of an equity investment exceeds its value in use, an impairment provision is recorded in the amount of the difference.

Pursuant to the change in tax regime applicable to equity investment acquisition costs introduced by Article 21 of the 2007 Finance Act and completed by Article 209 of the French General Tax Code and based on Opinion no. 2007-C of June 15, 2007 issued by the Urgent Issues Taskforce of the French National Accounting Institute (Conseil National de la Comptabilité), Veolia Environnement recognizes the tax deferral of security acquisition costs over a period of five years in the accelerated depreciation account since January 1, 2007.

Other long-term loans and investments: Treasury shares are recorded in long-term investment securities when earmarked for external growth operations. They are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Term accounts not classified as cash equivalents are recorded in Other long-term loans and investments.

Marketable securities: Marketable securities comprise treasury shares held in respect of Group Savings Plans and share option plans and other highly liquid investment securities. Treasury shares are classified as marketable securities when purchased for presentation to employees under share option plans and employee savings plans benefiting certain employees. Marketable securities are recognized at acquisition cost and an impairment provision is recorded if their market value is less than their net carrying amount.

Cash at bank and in hand: Term accounts classified as cash equivalents are recorded in Cash at bank and in hand.

Foreign currency-denominated transactions: During the year, foreign currency-denominated transactions are translated into euro at the daily exchange rate.

Liabilities, receivables and cash balances denominated in currencies other than the euro are recorded in the balance sheet at their euro equivalent determined using year-end exchange rates. Gains and losses resulting from the translation of foreign currency liabilities and receivables and related hedge transactions at year-end exchange rates are recorded in Unrealized foreign exchange gains and losses.

In accordance with Article 342-7 of the French General Chart of Accounts, unrealized foreign exchange gains and losses on foreign currency cash accounts are recognized directly in foreign exchange gains and losses. Similarly, foreign exchange gains and losses on subsidiary current accounts equivalent in nature to cash accounts are recognized directly in foreign exchange gains and losses.

Pursuant to Articles 372.2 and 342.6.I of the 1999 French General Chart of Accounts, Veolia Environnement applies hedge accounting to clearly identified and documented matching structural foreign exchange positions, which seek to perfectly hedge the consequences of currency fluctuations. Foreign exchange gains and losses arising on components of this matching exposure are recognized in order to offset the hedged item.

This approach is also applied to equity investments denominated in a foreign currency, hedged by borrowings or currency derivatives.

Other liabilities, receivables and currency derivatives not forming part of matching hedge relationships are included in the overall foreign exchange position per currency, as provided in Article 346 III of the French General Chart of Accounts.

Contingency provisions are recorded in respect of all unrealized foreign exchange losses identified on matching foreign exchange positions and overall foreign exchange positions by currency, in the amount of the total net loss.

Recognition of financial transactions: Financial transactions (loans, borrowings, derivatives, etc.) are recognized at the value date, with the exception of cash pooling transactions with subsidiaries which are recognized at the trade date.

Inflation-linked bond issue: the issue premium is fixed on issue and amortized on a time apportioned basis over the bond term. The redemption premium, equal to the difference between the redemption value and the nominal value is revalued based on the inflation ratio observed at each balance sheet date.

Derivatives: Veolia Environnement manages its market risks resulting from fluctuations in interest rates and foreign exchange rates using derivatives and notably interest rate swaps, interest rate option contracts (caps and floors), currency forwards, currency swaps and currency options. These instruments are primarily used for hedging purposes.

The notional amounts of instruments are recorded in specific off-balance sheet accounts.

Interest-rate derivatives: Income and expenses relating to the use of these instruments are recognized in the Income statement to match income and expenses on the hedged transactions. Certain transactions satisfying the criteria laid down in the Veolia Environnement hedging policy are not recognized as hedges for accounting purposes.

These transactions are recognized as follows:

- unrealized losses, calculated for each instrument traded over-the-counter (otc), are provided in full;
- unrealized gains on otc instruments are recognized in income on the unwinding of the transaction only;
- unrealized gains and losses on instruments traded on organized markets are recognized directly in profit or loss.

Currency derivatives: Firm currency financial instruments are valued by comparison with the closing exchange rate defined by the European Central Bank. The difference between the spot rate of the instrument and the closing rate is recognized in unrealized foreign exchange gains and losses and the difference between the forward rate and the spot rate of the instrument is recorded in a specific financial instruments account entitled “premium/discount”. This distinguishes the interest rate impact from the currency impact.

Currency derivatives hedge either an overall foreign exchange position or an identified structural foreign exchange position.

Movements in provisions for contingencies and losses: These provisions are valued at the best estimate of the outflow of resources necessary to settle the obligation. When valuing a single obligation in the presence of several valuation assumptions concerning the outflow of resources necessary, the best estimate is the most probable assumption.

Valuation of provisions for incentive schemes

Under the current agreement, the unit amount of incentive payments is based on:

- the rate of growth in group adjusted operating income;
- the decrease in the rate of workplace accidents, consolidated at group level;
- the extent of rollout of the environmental management system;
- the decrease in energy consumption at the kléber site.

Based on the observed growth rate and other criteria, the level of incentive payments is determined using a contractually defined chart. The total amount of incentive payments provided is equal to the individual amount determined above multiplied by the number of beneficiaries communicated by the Human Resources Department.

Valuation of provisions for bonuses: This provision is determined based on the amount of bonuses awarded in the previous year multiplied by an estimated percentage increase and changes in employee numbers.

Concept of Income from ordinary activities and Exceptional items: Items concerning the ordinary activities of the company, even if exceptional in amount or frequency, are included in Income from ordinary activities. Only those items that do not concern the ordinary activities of the company are recognized in exceptional items.

Valuation of employee-related commitments: Pursuant to Article L 123-13 of the French Commercial Code, Veolia Environnement has elected not to recognize a provision for retirement benefits and other employee commitments. This information is presented in off-balance sheet commitments in the notes to the financial statements.

Note 3 Balance sheet assets

3.1 Non-current assets

Movements in gross values:

(in € thousands)	Opening balance	Additions	Disposals	Closing balance	Notes
Intangible assets	3,285	2,657	1,928	4,014	**3.1.1**
Property, plant and equipment	360	0	2	358	
Long-term loans and investments					
Equity investments	16,055,314	120,310	701,205	15,474,419	**3.1.2**
Loans to equity investments	7,445,363	1,156,521	1,121,649	7,480,235	**3.1.3**
Other long-term investment securities	52,268	15,844	64,636	3,476	**3.1.4**
Loans	99,905	250,685	77,723	272,868	**3.1.5**
Other long-term loans and investments	300,127	6	0	300,133	**3.1.6**
Total	**23,956,621**	**1,546,024**	**1,967,144**	**23,535,502**	

Movements in depreciation, amortization and non-current asset provisions:

(in € thousands)	Opening balance	Addition Charge	Utilization/ Write-back	Closing balance	Notes
Amortization of intangible assets	995	240	0	1,234	
Depreciation of property, plant and equipment	248	33	2	280	
Equity investment impairment provisions	1,661,459	1,076,000	119,700	2,657,215	**3.1.7**
Treasury share impairment provisions	226,891	0	1,669	225,223	**3.1.7**
Total	**1,889,593**	**1,076,273**	**121,370**	**2,883,952**	
Nature of charges and write-backs:					
. Operating		273	2		
. Financial		1,076,000	121,369		**3.1.7**
. Exceptional		0	0		
Total		**1,076,273**	**121,370**		

3.1.1 Intangible assets

Intangible asset additions concern the capitalization of a migration project towards new IT applications. On commissioning, these IT applications are transferred to Veolia Environnement Technologies France at net carrying amount.

3.1.2 Equity investments

Equity investments total €15,474.4 million as of December 31, 2012.

The **increase** in equity investments breaks down as follows:

(in € thousands)	Amount
Veolia Environnement Technologies France share capital increase	120,300
Acquisition of Veolia Propreté shares	8
Acquisition of Veolia Transdev shares (FNM10 upstream merger)	2
Total	**120,310**

The **decrease** in equity investments breaks down as follows:

(in € thousands)	**Amount**
Veolia Environnement Europe Services share capital reduction	700,000
Veolia PPP Finance share capital reduction	1,166
Veolia Compétition upstream merger	37
VT1 upstream merger	1
FNM10 upstream merger	1
Total	**701,205**

3.1.3 Loans to equity investments

This heading totals €7,480.2 million as of December 31, 2012.

Movements recorded in 2012 break down as follows:

(in € thousands)	**Opening balance**	**Increase**	**Decrease**	**Foreign exchange translation**	**Closing balance**
Veolia Eau (Compagnie Générale des Eaux)	2,374,800	12,117	(311,963)	(7,780)	2,067,176
Veolia Propreté	2,114,973	12,779	(698,180)	(5,016)	1,424,556
Dalkia International	1,214,064	208,874	(1,614)	17,412	1,438,737
Veolia Transdev	902,735	837	(1,372)	-	902,200
Dalkia Holding	247,075	15,618	(4,646)	23,526	281,572
Veolia Environnement Technologies France	162,117	1,416	(81,117)	-	82,416
Collex PTY Ltd	149,357	-	(15,625)	-	133,732
Artelia	97,639	2,750	-	-	100,389
Veolia Water Solutions et Technologies	67,789	155,205	(8)	1,543	224,530
Veolia Environnement CSP	29,418	12,013	(118)	-	41,313
Veolia Environnement Industries	16,815	15,867	(99)	-	32,583
Campus Veolia Environnement	14,966	-	(1,860)	-	13,106
Veolia Environnement Campus VE Centre Est	11,667	5,700	(67)	-	17,300
Veolia Environnement Campus Nord	11,001	4,990	(1)	-	15,990
Association Vecteur Pyrénées	6,951	304	(1)	-	7,254
Veolia Environnement France Régions	5,545	205	-	-	5,750
Centre d'Analyses Environnementales	5,300	-	(400)	-	4,900
Sade	5,069	-	(4,576)	(493)	-
Veolia Environnement Recherche et Innovation	4,000	4,000	-	-	8,000
Veolia Environnement Campus VE Sud Ouest	2,725	58	-	-	2,783
Veolia Environnement Ingénierie (formerly Vigie 32)	1,350	1,495	-	-	2,845
Veolia Environnement UK	-	463,637	-	4,741	468,378
Veolia Water Japan K.K.	-	51,123	-	(940)	50,183
Veolia Water Resource Development Co Ltd	-	39,890	-	(103)	39,787
Veolia Water Mena	-	32,253	-	-	32,253
S.A.R.P.	-	22,000	-	-	22,000
Eolfi	-	16,584	-	90	16,674
Meadow Creek	-	9,613	-	-	9,613
Veolia Water China Ltd	-	8,770	-	(192)	8,577
Société des Eaux de Toulon	-	7,580	-	-	7,580
Veolia Water	-	6,499	-	-	6,499

(in € thousands)	Opening balance	Increase	Decrease	Foreign exchange translation	Closing balance
VES China Ltd	-	6,230	-	(148)	6,082
Veolia Water Asia	-	3,940	-	32	3,972
Société de Logistique et de Préparation pour la Biomasse	-	1,500	-	-	1,500
Total	**7,445,358**	**1,123,848**	**(1,121,649)**	**32,673**	**7,480,230**

3.1.4 Other long-term investment securities

Other long-term investments securities total €3.5 million as of December 31, 2012.

This heading comprises shares in the Demeter venture capital mutual fund of €3.5 million. Veolia Environnement was recognized as a qualified investor in the Demeter mutual fund, within the meaning of Article L.411-2 of the French Monetary and Financial Code.

In May 2012, Veolia Environnement stopped the program of securitization launched in 2002. At the end of 2011, "Other long-term investment securities " comprised €48.7 million (including accrued interest) of subordinated shares issued as part of a securitization program.

3.1.5 Loans

Loans total €272.9 million as of December 31, 2012 and include a guarantee deposit in respect of subsidiary financing arrangements of GBP 18.5 million, or €22.7 million euro-equivalent (including accrued interest) and term accounts not classified as cash equivalents of €250.1 million (including accrued interest).

3.1.6 Other long-term loans and investments

Other long-term loans and investments total €300.1 million as of December 2012 and primarily consist of 8,389,059 treasury shares held by Veolia Environnement with a gross value of €299.8 million.

3.1.7 Financial impairment provisions

Charges to financial impairment provisions of €1,076 million were recognized in 2012, mainly as follows:

- Veolia Eau - Compagnie Générale des Eaux shares: €829.1 million;
- Veolia Environnement Technologies France shares: €107 million;
- Eolfi shares: €56.7 million;
- Veolia Transdev shares: €50 million;
- CODEVE shares: €15.5 million;
- Veolia Environnement Service – RE shares: €10.7 million;
- Campus Veolia Environnement shares: €5.6 million.

Write-backs of financial impairment provisions totaled €121.4 million, as follows:

- treasury shares: €1.7 million,
- Veolia Environnement Energie et Valorisation shares: €119.7 million.

3.2 Trade receivables

Trade receivables total €208.4 million as of December 31, 2012 and primarily concern services billed internally to Veolia Environnement group subsidiaries.

3.3 Other receivables

Other receivables total €2,570.8 million and comprise the following balances:

(in € thousands)	2012	2011
Current accounts with Group subsidiaries	**2,438,219**	**1,435,034**
Other receivables	**110,926**	**157,339**
• Income tax credit	72,462	57,465
• "C" shares relating to the securitization program	-	43,290
• Financial receivables on derivatives	29,453	33,158
• Receivables on non-current asset disposals	523	16,654
• Accrued interest on current accounts	8,488	6,772

3.4 Marketable securities

3.4.1 Treasury shares

Veolia Environnement holds 14,237,927 treasury shares purchased under share purchase programs, including 8,389,059 shares recorded in "Other long-term loans and investments" *(see Note 3.1.6 above)*.

The remaining 5,848,868 shares recorded in marketable securities and earmarked for an Employee Savings Plan have a gross carrying amount of €134.1 million and a net carrying amount of €52 million at the end of 2012.

The impairment provision of €82.1 million represents the difference between the purchase cost of the Veolia Environnement shares and the average stock market price during the twenty trading days preceding December 31, 2012. A charge to provisions of €5.2 million and a provision write-back of €6.3 million were recorded in fiscal year 2012.

3.4.2 Other securities

Other securities total €3,609 million as of December 31, 2012 and break down as follows:

- mutual fund investments (sicav): €3,210 million;
- monetary notes: €295.3 million;
- certificates of deposit: €100 million;
- accrued interest on other portfolio securities: €3.7 million.

3.4.3 Treasury instruments

Treasury instruments total €144.7 million as of December 31, 2012 and break down as follows:

- interest-rate derivative spreads: €59.5 million;
- interest rate derivatives: €0.5 million;
- currency derivatives: €76.8 million;
- premium/discount: €7.9 million.

3.5 Cash at bank and in hand

Liquid assets total €453 million as of December 31, 2012 and include term accounts classified as cash equivalents and related accrued interest in the amount of €375 million.

3.6 Prepayments

Prepaid expenses total €8.4 million and include swap balancing cash adjustments of €5.4 million, operating prepaid expenses of €2.4 million, particularly involving insurance costs and supplier rebates, and interest paid in advance on treasury notes of €0.7 million.

3.7 Accrued income and deferred charges

3.7.1 Deferred charges: bond issue costs

Bond issue costs are spread on a straight-line basis over the bond term. Net deferred charges as of December 31, 2012 total €91.4 million.

Other deferred charges total €8.7 million and mainly comprise credit line issue costs, amortized on a straight-line basis over the repayment term.

3.7.2 Bond redemption premiums

Unamortized bond redemption premiums total €96 million and are amortized on a straight-line basis over the bond term.

3.8 Foreign exchange gains and losses

Foreign exchange gains and losses result from hedges of matching foreign exchange structural positions and overall foreign exchange positions by currency.

(in € thousands)	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Notes
Foreign exchange hedges of structural foreign exchange positions	100,677	51,102	3.8.1
Overall foreign exchange position	110,436	48,696	3.8.2
Total	**211,113**	**99,798**	

The following tables present the foreign exchange positions for the main currencies determined at the balance sheet date.

3.8.1 Unrealized foreign exchange gains and losses on matching foreign exchange positions

Unrealized foreign exchange gains and losses detailed below include not only unrealized gains and losses, but also realized gains and losses neutralized by the application of matching foreign exchange position rules.

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Provision for contingencies
Loans	5,660	13,569		
Borrowings	28,212	-		
Currency derivatives	1,348	9,427		
Total CZK	**35,220**	**22,996**	**12,224**	**12,224**
Borrowings	128,790	-		
Currency derivatives	12,671	53,008		
Total USD on matching positions(*)	**141,461**	**53,008**	**88,453**	**-**
Grand total	**176,681**	**76,004**	**100,677**	**12,224**

(*) A provision was not booked in respect of the U.S. dollar net unrealized foreign exchange loss on matching positions, as it corresponds to a hedge of securities.

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**	**Total net unrealized foreign exchange gain**
Loans	-	-	
Borrowings	8,948	47,190	
Currency derivatives	54,875	16,632	
Total PLN	**63,823**	**63,823**	**0**
Loans	-	-	
Borrowings	54,212	192,157	
Current accounts	46,641	-	
Currency derivatives	389,525	298,377	
Total GBP	**490,378**	**490,534**	**(156)**
Loans	36,225	55,552	
Borrowings	85,304	95,863	
Current accounts	5	21,636	
Currency derivatives	1,927	1,356	
Total USD on matching positions	**123,461**	**174,407**	**(50,946)**
Grand total	**677,662**	**728,764**	**(51,102)**

3.8.2 Unrealized foreign exchange gains and losses on overall foreign exchange positions excluding matching foreign exchange positions

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Total net unrealized foreign exchange gain
Loans	410	-		
Currency derivatives	-	202		
Total AED	**410**	**202**	**208**	**-**
Loans	-	7,156		
Currency derivatives	2,862	-		
Operations	22	-		
Total AUD	**2,884**	**7,156**	**22**	**4,293**
Loans	-	-		
Currency derivatives	-	3		
Total BGN	**-**	**3**	**-**	**3**
Loans	-	-		
Currency derivatives	216	-		
Total BHD	**216**	**-**	**216**	**-**
Loans	2,878	-		
Currency derivatives	-	3,103		
Operations	3	-		
Total CAD	**2,881**	**3,103**	**3**	**225**
Loans	40	-		
Currency derivatives	-	135		
Total CHF	**40**	**135**	**-**	**95**
Loans	340	-		
Borrowings	-	1,678		
Currency derivatives	8	-		
Total CNY	**348**	**1,678**	**-**	**1,330**
Loans	-	1		
Borrowings	-	-		
Currency derivatives	-	137		
Total CZK	**-**	**139**	**-**	**139**
Loans	-	-		
Currency derivatives	-	32		
Total DKK	**-**	**32**	**-**	**32**
Loans	6,833	-		
Borrowings	-	-		
Currency derivatives	21,107	-		
Operations	16	-		
Total GBP	**27,956**	**-**	**27,956**	**-**

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	**Unrealized foreign exchange losses**	**Unrealized foreign exchange gains**	**Total net unrealized foreign exchange loss**	**Total net unrealized foreign exchange gain**
Loans	-	9,280		
Currency derivatives	-	4,551		
Operations	-	-		
Total HKD	**-**	**13,831**	**-**	**13,831**
Loans	3,245	-		
Currency derivatives	-	1,086		
Operations	-	-		
Total HUF	**3,245**	**1,086**	**2,159**	**-**
Loans	-	1,132		
Currency derivatives	12	-		
Operations	-	-		
Total ILS	**12**	**1,132**	**-**	**1,119**
Loans	-	6,082		
Currency derivatives	-	4,687		
Operations	-	-		
Total JPY	**-**	**10,769**	**-**	**10,769**
Loans	103	-		
Currency derivatives	-	610		
Operations	-	-		
Total KRW	**103**	**610**	**-**	**507**
Loans	-	-		
Currency derivatives	25	-		
Total KWD	**25**	**-**	**25**	**-**
Loans	-	-		
Currency derivatives	-	2		
Total LTL	**-**	**2**	**-**	**2**
Loans	-	45		
Borrowings	-	-		
Currency derivatives	-	9		
Total LVL	**-**	**54**	**-**	**54**
Loans	27	-		
Currency derivatives	-	538		
Total MXM	**27**	**538**	**-**	**511**
Loans	-	1,153		
Currency derivatives	171	-		
Total NOK	**171**	**1,153**	**-**	**982**
Loans	-	-		
Currency derivatives	49	-		
Total NZD	**49**	**-**	**49**	**-**
Loans	-	-		
Currency derivatives	-	14		
Total OMR	**-**	**14**	**-**	**14**
Loans	-	26,316		
Borrowings	2,034	-		
Currency derivatives	13,371	-		
Total PLN	**15,405**	**26,316**	**-**	**10,911**

Account heading concerned by the foreign exchange gain/loss *(in € thousands)*	Unrealized foreign exchange losses	Unrealized foreign exchange gains	Total net unrealized foreign exchange loss	Total net unrealized foreign exchange gain
Loans	271	-		
Borrowings	-	-		
Currency derivatives	-	14		
Total QAR	**271**	**14**	**258**	**-**
Loans	345	-		
Currency derivatives	717	-		
Total RON	**1,063**	**-**	**1,063**	**-**
Loans	-	66		
Currency derivatives	59	-		
Total RUB	**59**	**66**	**-**	**8**
Loans	-	2,803		
Currency derivatives	-	132		
Total SEK	**-**	**2,935**	**-**	**2,935**
Loans	-	805		
Currency derivatives	-	83		
Total SGD	**-**	**888**	**-**	**888**
Loans	-	6		
Currency derivatives	-	48		
Total TRY	**-**	**54**	**-**	**54**
Loans	2	-		
Currency derivatives	-	-		
Total TWD	**2**	**-**	**2**	**-**
Loans	6,330	-		
Currency derivatives	29,610	-		
Borrowings	41,452	-		
Operations	82	-		
Total USD	**77,475**	**-**	**77,475**	**-**
Loans	723	-		
Currency derivatives	279	-		
Total ZAR	**1,001**	**0**	**1,001**	**-**
Grand total			**110,436**	**48,700**

Contingency provisions for foreign exchange risk are determined based on the overall foreign exchange position and year of maturity.

Note 4 Balance sheet equity and liabilities

4.1 Share capital and reserves

(in € thousands)	Opening balance	Increase	Decrease	Closing balance
Share capital	2,598,265	12,169	-	2,610,434
Additional paid-in capital	5,477,219	12,048	1,341,950	4,147,316
Additional paid-in capital (2003 share capital reduction)	3,443,099	-	-	3,443,099
Additional paid-in capital in respect of contributions	3,971	-	-	3,971
Additional paid-in capital in respect of bonds convertible into shares	681,881	-	-	681,881
Additional paid-in capital in respect of share subscription warrants	2,725	-	-	2,725
Reserve required by law	239,251	-	-	239,251
Special long-term capital gains reserve	-	-	-	-
Frozen reserves	-	-	-	-
Other reserves	343,226	-	343,226	-
Retained earnings	86,449	1,331,058	1,417,507	-
Prior year net income/(loss)	(1,417,507)	1,417,507	-	-
TOTAL BEFORE NET LOSS FOR THE YEAR	**11,458,579**	**2,772,782**	**3,102,683**	**11,128,678**
Net loss for the year	-	(352,913)	-	(352,913)
TOTAL AFTER NET LOSS FOR THE YEAR	**11,458,579**	**2,419,870**	**3,102,683**	**10,775,765**

The share capital comprises 522,086,849 shares of €5 par value each, compared with 519,652,960 shares of €5 par value each as of December 31, 2011.

The €12.2 million share capital increase is subsequent to the payment in 2012 of the 2011 dividend in shares (net of issue costs).

The €12 million increase in “Additional paid-in capital” is also attributable to this share capital increase.

The net loss for fiscal year 2011 of €1,417.5 million was appropriated to “Retained earnings”, which had a debit balance of €1,331 million. This amount was offset against “Additional paid-in capital.”

The €353.8 million dividend was financed by clearing “Other reserves” for €343.2 million and reducing “Additional paid-in capital” by €10.6 million.

Finally, share capital increase costs were offset against “Additional paid-in capital" for €0.3 million.

As stipulated in Article L. 225-210 of the French Commercial Code (Code de Commerce), Veolia Environnement has frozen reserves of an amount at least equal to treasury shares held. These frozen reserves are not recorded in a separate balance sheet account as authorized by the same article. Note that issue, contribution and merger additional paid-in capital, with the exception of revaluation gains and losses, all constitute reserves targeted by this obligation.

4.2 Provisions for contingencies and losses

Movements in provisions for contingencies and losses:

(in € thousands)	Opening balance	Charge	Utilization	Write-back	Closing balance
Provision for foreign exchange risk	137,577	159,403	137,577	-	159,403
Provisions for other contingencies	35,278	27,838	34,546	-	28,569
Provisions for losses	7,286	18,277	10,163	-	15,400
Total	**180,141**	**205,518**	**182,286**	**-**	**203,373**
Nature of charges and write-backs:					
. Operating		19,584	10,163	-	
. Financial		159,403	138,572	-	
. Exceptional		26,531	33,552	-	
Total		**205,518**	**182,286**	**-**	

4.3 Bond issues

(in € thousands)	Opening balance	Increase	Decrease	Foreign exchange translation	Closing balance
Other bond issues	12,705,666	86,823	1,861,181	95,458	11,026,767
Accrued interest on other bond issues	343,131	275,899	343,131	-	275,899
Total	**13,048,797**	**362,722**	**2,204,312**	**95,458**	**11,302,666**

The €1,861.2 million decrease breaks down as follows:

- the expiry of €671 million of the eur 5.8750% bond line on february 1, 2012;
- the buyback of €18.58 million of the eur 4.875% bond line maturing on may 28, 2013;
- the buyback of €33 million of the eur uspp series a bond line maturing on january 30, 2013;
- the buyback of €10.67 million (gbp 7 million) of the gbp uspp series b bond line maturing on january 30, 2013;
- the buyback of €162.06 million (usd 147 million) of the usd uspp series c bond line maturing on january 30, 2013;
- the buyback of €137.8 million (usd 125 million) of the usd uspp series d bond line maturing on january 30, 2015;
- the buyback of €93.7 million (usd 85 million) of the usd uspp series e bond line maturing on january 30, 2018;
- the buyback of €39.9 million (usd 50 million) of the usd series 14 bond line maturing on may 30, 2015;
- the buyback of €340.8 million of the eur series 17 bond line maturing on february 12, 2016;
- the buyback of €256.3 million of the eur bond line maturing on january 16, 2017;
- the buyback of €97.18 million (usd 153.17 million) of the usd secusd18 bond line maturing on january 1, 2018.

4.4 Bank and other borrowings

Bank and other borrowings total €4,883.6 million and break down as follows:

(in € thousands)	**2012**	**2011**
Current accounts with Group subsidiaries	3,434,036	2,201,256
Treasury note outstandings	944,233	501,224
Syndicated loan facilities	396,711	351,158
Borrowings from subsidiaries	14,418	158,160
Tax group current accounts	39,045	13,571
Bank accounts in overdraft	55,195	13,505
Total	**4,883,638**	**3,238,875**

4.5 Operating liabilities

4.5.1 Tax and employee-related liabilities: €155.9 million

This heading includes:

- accrued expenses (performance bonuses and employee departures): €34.8 million;
- social welfare organizations: €22 million;
- vat: €46.9 million;
- french state - accrued expenses: €3.6 million;
- tax liability: €48.6 million.

4.6 Miscellaneous liabilities

4.6.1 Treasury instruments – Liabilities: €159.3 million

This heading includes:

- interest-rate derivative spreads: €8.5 million;
- currency derivatives: €140.8 million;
- stock option premiums: €1.1 million;
- premium/discount: €8.9 million.

4.6.2 Deferred income: €444.9 million

Deferred income mainly concerns financial instruments:

- balancing payments on derivatives of €441.1 million;
- bond issue premiums: €0.8 million;
- deferred income relating to operating items: €3 million.

Note 5 Receivables and debt maturity analysis

(in € thousands)	Amount	Falling due in one year	Falling due in more than one year
Non-current assets			
Loans to equity investments	7,480,231	34,219	7,446,012
Other long-term investment securities	3,476	-	3,476
Loans	272,867	250,198	22,669
Other long-term loans and investments	300,133	-	300,133
Current assets			
Payments on account – inventories	1,271	1,271	-
Trade receivables and related accounts	208,387	208,387	-
Group and associates	2,438,219	2,438,219	-
Other receivables	132,551	81,239	51,312
Marketable securities	3,887,780	3,876,382	11,398
Cash at bank and in hand	508,371	508,371	-
Prepayments	8,361	5,939	2,422
Total receivables	**15,241,647**	**7,404,225**	**7,837,422**

(in € thousands)	Amount	Falling due in one year	Falling due in one to five years	Falling due after five years
Liabilities				
Bond issues	11,302,666	1,079,073	3,455,005	6,768,588
Other borrowings	1,340,944	948,210	392,734	-
Group and associates	3,473,081	3,473,081	-	-
Bank overdrafts	55,195	55,195	-	-
Group loans	14,418	-	-	14,418
Miscellaneous liabilities	-	-	-	-
Other	878,306	526,512	269,752	82,042
Total liabilities	**17,064,610**	**6,082,071**	**4,117,492**	**6,865,047**

Note 6 Income Statement

6.1 Net loss from ordinary activities

The net loss from ordinary activities before tax is €327.4 million.

6.1.1 Operating income

(in € million)	2012	2011	Notes
Sales of services and other	231,333	243,996	
Own production capitalized	2,658	8,835	Note 1
Operating subsidies	-	-	
Write-back of provisions, depreciation and amortization and expense reclassifications	16,279	3,227	
Other revenue	235,761	228,067	Note 2
TOTAL	**486,031**	**484,125**	

NOTE 1: Own production capitalized reflects major IT project costs billed to a Group subsidiary *(see Note 3.1.1. above)*.

NOTE 2: Other revenue includes indemnities in full and final settlement of repair and maintenance work *(see Note 7.2 below)*.

6.1.2 Operating expenses

(in € million)	2012	2011	Notes
Other purchases and external charges	190,328	206,544	
Taxes other than income tax	13,702	10,510	
Personnel costs (wages, salaries and social security contributions)	150,855	149,544	
Depreciation, amortization and charges to provisions	31,281	15,343	
Other expenses	248,147	243,376	Note 1
TOTAL	**634,313**	**625,317**	

NOTE 1: Other expenses include €247.2 million in 2012 and €242.3 million in 2011 in respect of indemnities paid in respect of repair and maintenance work.

6.1.3 Financial income and expenses

(in € million)	2012	2011	Notes
Expenses on long-term borrowings	**(642)**	**(695)**	
Income from other securities and long-term receivables	**8**	**9**	
Foreign exchange gains and losses	**5**	**(9)**	
Other financial income and expenses	308	241	
Amortization and charges to provisions for financial items	(1,311)	(2,106)	Note 1
Investment income	1,107	958	
Net gain/loss on sales of marketable securities	11	34	
Write-back of provisions and expense reclassifications	344	514	Note 2
Other financial income and expenses	**460**	**(359)**	
Net financial income (expense)	**(170)**	**(1,054)**	

NOTE 1: Financial charges include charges to equity investment impairment provisions of €1,088.6 million, as follows:

- Treasury shares (financial assets and marketable securities): €12.6 million in 2012 compared to €181.6 million in 2011,
- Equity investments: €1,076 million in 2012 compared to €1,638.1 million in 2011.

NOTE 2: Provision write-backs in 2012 include write-backs of provisions for foreign exchange losses of €137.5 million, the write-back of an equity investment provision in the amount of €135.1 million and the reversal of an impairment loss for Veolia Environnement Technologies France loans and current accounts in the amount of €71.5 million.

6.2 Exceptional items

Exceptional items, representing a net expense of €119.9 million, mainly comprised a loss of €135.6 million on the buybacks of bond issues carried out during the year and a write-back of provisions for corporate sponsorship tax credit losses from 2005 to 2012 in the amount of €33.5 million.

6.3 Income tax and the consolidated tax group

Within the framework of a tax group agreement, Veolia Environnement forms a tax group with those subsidiaries at least 95% owned that have elected to adopt this regime. Veolia Environnement is liable for the full income tax charge due by the resulting tax group. It is also liable for the minimum income tax charge payable by tax group companies.

The income tax expense is allocated to the different entities comprising the tax group according to the "neutrality" method. Each subsidiary bears the tax charge to which it would have been liable if it were not a member of the tax group. The parent company records its own tax charge and the tax saving or additional charge resulting from application of the tax group regime.

The tax group election came into force on January 1, 2001 for a period of five years and benefits from tacit renewal failing explicit termination by Veolia Environnement at the end of this five-year period.

The application of the tax group regime in 2012 is reflected in the Veolia Environnement financial statements by a tax saving in respect of the subsidiaries of €121.6 million. The share of the group tax credit benefiting Veolia Environnement is €2.1 million for 2012.

The income tax expense for the Group as a whole is €48 million.

In addition, a tax expense of €0.2 million concerns share capital increase costs deducted from corresponding additional paid-in capital.

Finally, corrections to prior year tax expenses and tax audits generated tax income of €8.9 million and tax expenses of €9.4 million.

6.4 Net loss for the period

Veolia Environnement reported a net loss of €352.9 million for 2012.

Note 7 Other information

7.1 Off-balance sheet commitments

Commitments given by Veolia Environnement total €2,321.7 million as of December 31, 2012 (including counter-guarantees) and primarily consist of financing and performance guarantees given on behalf of subsidiaries:

(in € thousands)	**Amount**	**Notes**
Commitments given		
Discounted notes not yet matured	2,260,621	
Endorsements and guarantees	-	**Note 1**
Equipment finance lease commitments	-	
Real estate finance lease commitments	-	
Pension obligations and related benefits	61,130	**Note 2**
Total	**2,321,751**	**Note 3**
Commitments received		
Endorsements and guarantees	**229,492**	

Note 1 – Main endorsements and guarantees

Operational guarantees include guarantees granted by Veolia Environnement to insurance companies guaranteeing up to a maximum total amount of USD 1,055 million, to enable such insurance companies to issue surety bonds at the request of U.S. subsidiaries in the course of their activities (operating guarantees, site restoration guarantees, etc.). As of December 31, 2012, drawn outstandings guaranteed by Veolia Environnement represented a euro equivalent of €192.3 million.

Veolia Environnement also guarantees a group syndicated credit line of a maximum amount of USD 1.25 billion, covering the issue of letters of credit to U.S. subsidiaries for the purpose of their activities. As of December 31, 2012, total outstandings guaranteed by Veolia Environnement in respect of this credit line represented a euro equivalent of €305.6 million.

Note 2 - Pension obligations and related benefits

A breakdown of obligations, net of plan assets, is presented below *(in € thousands)*:

Pension obligations pursuant to Article 14 of the Collective Agreement	17,763
Collective insurance contract in favor of Group executives[(A)]	27,901
Insurance company contract in favor of Executive Committee members	15,466
Total[(B)]	**61,130**

(A) Net of payments of €32.5 million in respect of fiscal years 2006 to 2012.
No payments were made in respect of 2012.

(B) Of which commitments to executives: €15.5 million.

Note 3 – Other commitments given
In addition to commitments given of €2,321.7 million, Veolia Environnement also granted commitments of unlimited amount concerning:

- A joint and several performance bond granted by certain subsidiaries in the Water division, in respect of a shareholders' agreement entered into on the acquisition of a municipal company in Germany,
- Operational performance bonds granted by subsidiaries in the Water and Environmental Services divisions, in respect of a construction contract and operating contracts for waste processing in Hong Kong.

These commitments are limited to the duration of the related contracts and were approved in advance by the Board of Directors of Veolia Environnement.

7.2 Specific contractual commitments

The financial management of maintenance and repair costs for installations provided by delegating authorities, for the majority of French subsidiaries, was mutualized and centralized until December 31, 2003 within Veolia Environnement and, partially, since January 1, 2004 within Veolia Eau (Compagnie Générale des Eaux).

Therefore, Veolia Environnement, as an active partner of all water and heating subsidiaries, has undertaken to repay all maintenance and repair costs resulting from contractual obligations to local authorities under public service delegation contracts. In return, the subsidiaries pay an indemnity in full and final settlement to Veolia Environnement, the amount of which is approved annually by the Supervisory Board of each subsidiary benefiting from this guarantee.

7.3 Derivative financial instruments and counterparty risk

Veolia Environnement is exposed to the following financial risks in the course of its business:

Market risks

- Interest rate risk (interest rate hedges, cash flow hedges)

  The financing structure of Veolia Environnement exposes it naturally to the risk of interest rate fluctuations. As such, floating-rate debt impacts future financial results in line with changes in interest rates. Veolia Environnement manages a fixed/floating rate position in each currency in order to limit the impact of interest rate fluctuations on its net income and to optimize the cost of debt. For this purpose, it uses interest rate swap and swaption instruments.

- Foreign exchange risk (hedges of balance sheet foreign exchange exposure and overall foreign exchange risk exposure)

  Foreign exchange risk is primarily managed using foreign-currency denominated financial assets and liabilities including foreign currency denominated loans/borrowings and related hedges (e.g. currency swaps). With many offices worldwide, Veolia organizes financing in local currencies. In the case of inter-company financing, these credit lines can generate foreign exchange risk. To limit the impact of this risk, Veolia Environnement has developed a policy which seeks to back foreign-currency financing and foreign currency derivatives with inter-company receivables denominated in the same currency.

Equity risk: As of December 31, 2012, Veolia Environnement held 14,237,927 treasury shares, of which 8,389,059 were allocated to external growth operations and 5,848,868 were acquired for allocation to employees under employee savings plans. As part of its cash management strategy, Veolia Environnement holds UCITS shares. These UCITS have the characteristics of monetary UCITS and are not subject to equity risk.

Liquidity risk: Liquidity management involves the centralization of financing in order to optimize liquidity and cash. Veolia Environnement secures financing on international bond markets, international private placement markets, the treasury note market and the bank lending market.

Credit risk: Veolia Environnement is exposed to credit risk on the investment of its surplus cash and on its use of derivative instruments to manage interest rate and foreign exchange risk. Credit risk reflects the loss that Veolia Environnement may incur should a counterparty default on its contractual obligations. Veolia Environnement minimizes counterparty risk through internal control procedures limiting the choice of counterparties to leading banks and financial institutions. Veolia Environnement does not expect the default of any counterparties which could have a material impact on transaction positions or results.

As of December 31, 2012, the main derivative products held primarily comprised:

- Caps and floors,
- Interest rate swaps,
- Trading swaps,
- Cross currency swaps,
- Forward purchases of currency,
- Forward sales of currency,
- Currency options.

The following table presents the net carrying amount of derivatives at the balance sheet date:

(in € thousands)	**Asset**	**Liability**
Accrued interest on swaps	59,553	8,490
Interest rate option premiums	484	-
Currency derivatives	-	1,066
Equity derivatives	76,784	140,792
Premium/discount *	-	8,963
Prepayments	7,934	-
Deferred income	5,337	441,154
Total	**150,093**	**600,465**

(*) The premium/discount represents the difference between the spot rate and the forward rate of the instruments. It is amortized over the term of the financial instrument.

The fair value of derivatives at the balance sheet date is presented below:

(in € thousands)	**Asset**	**Liability**
Interest rate derivatives	**277,748**	**68,617**
Hedging derivatives	277,721	67,941
Derivatives not qualifying for hedge accounting (trading)	27	676
Currency derivatives	**94,963**	**159,336**
Hedging derivatives	92,381	158,046
Derivatives not qualifying for hedge accounting (trading)	2,582	1,290
Total	**372,710**	**227,953**

The notional amounts of interest-rate swaps globally designated as interest rate hedges at the balance sheet date are presented in the following table:

(in € thousands)		Foreign currency amount	€ equivalent
Swaps hedging debt			
Fixed-rate payer/floating-rate receiver swaps	EUR	1,932,920	1,932,920
Fixed-rate payer/floating-rate receiver swaps	CZK	-	-
Fixed-rate payer/floating-rate receiver swaps	GBP	-	-
Fixed-rate payer/floating-rate receiver swaps	USD	-	-
Fixed-rate payer/floating-rate receiver swaps	PLN	1,000,000	245,459
Floating-rate payer/fixed-rate receiver swaps	EUR	933,601	933,601
Floating-rate payer/fixed-rate receiver swaps	CZK	-	-
Floating-rate payer/fixed-rate receiver swaps	GBP	200,000	245,068
Floating-rate payer/fixed-rate receiver swaps	USD	610,000	462,331
Floating-rate payer/fixed-rate receiver swaps	PLN	-	-
		Total	**3,819,380**
Trading swaps			
Fixed-rate receiver/floating-rate payer swaps	EUR	580,097	580,097
Fixed-rate receiver/floating-rate payer swaps	CZK	220,128	8,752
Fixed-rate receiver/floating-rate payer swaps	PLN	200,000	49,092
Fixed-rate payer/floating-rate receiver swaps	EUR	250,000	250,000
Fixed-rate payer/floating-rate receiver swaps	CZK	220,128	8,752
		Total	**896,693**
Caps hedging short-term debt			
Caps denominated in euro	GBP	100,000	122,534
Trading caps			
Caps dominated in foreign currency	USD	-	-
Caps denominated in euro	EUR	-	-
		Total	**122,534**

The notional amounts of cross currency swaps, currency swaps and currency forwards at the balance sheet date are presented in the following table:

(in € thousands)	**Purchases**	**Sales**
Currency hedging instruments:		
Cross currency swaps:		
EUR	120,000	120,000
CNY	1,200,690	1,200,690
Total	**1,320,690**	**1,320,690**
Currency forwards:		
AED	31,675	10,702
AUD	818,318	148,596
CAD	181,961	76,453
CHF	40,276	11,389
CNY	33,742	19,083
CZK	272,486	105,468
EUR	4,983,189	5,086,186
GBP	1,254,568	2,521,680
HKD	907,829	60,188
HUF	151,198	16,945
ILS	123,787	1,962
JPY	171,141	68
NOK	119,172	87,491
PLN	519,504	516,998
SEK	119,538	30,931
USD	652,795	1,875,673
Other currencies	354,821	104,829
Total	**10,735,999**	**10,647,642**

7.4 Average workforce

	2012		**2011**	
	Salaried employees	**Employees at the disposal of the company**	**Salaried employees**	**Employees at the disposal of the company**
Executives	614	19	621	11
Supervisors and technicians	16	-	21	5
Administrative employees	23	-	31	-
Workers	-	-	-	-
Total	**653**	**19**	**673**	**16**

7.5 Management compensation

Compensation granted to members of *(in euros)*	**Amount**
Management bodies	1,888,810

The above amount only includes compensation borne by the company.

Compensation paid by other entities is, therefore, excluded.

7.6 Specific information on individual training entitlement

Entitlement to individual training vested since the introduction of this measure up to December 31, 2012 represents 56,810 cumulative training hours. A training request has not yet been received in respect of 53,572 hours.

7.7 Deferred tax

Deferred tax liability *(in € thousand)*	**Amount**
Tax-driven provisions:	
Accelerated depreciation	550
Provisions for price increase	-
Provisions for exchange rate fluctuations	-
Other:	
Investment subsidy	-
Income temporarily non-taxable	-
Income deferred for accounting but not tax purposes	-
Unrealized foreign exchange losses	222,035
Total	**222,585**

Deferred tax asset	**Amount**
Provisions not deductible in the year recorded:	
- Provisions for paid leave	-
- Statutory employee profit-sharing	-
- Provisions for contingencies and losses	-
- Other non-deductible provisions	247,665
Other:	
- Taxed income not recognized	435,942
- Difference between the NCA/tax value of treasury shares	72,168
- Amortization of option premiums	486
- Unrealized foreign exchange gains	110,719
Total	**866,980**
Tax losses carried forward	2,477,711
Long-term capital losses	-

If the company were taxed separately, the impact of these timing differences on the financial statements would generate a theoretical net tax receivable of €1,074,941 thousand.

7.8 Related party transactions

Related parties are companies over which Veolia Environnement exercises:

- Direct or indirect control through one or more intermediaries,
- Significant influence,
- Joint control.

The main transactions with related parties and amounts due to or from related parties are as follows:

(in € thousands)	**2012**	**2011**
Equity investments net of provisions	12,856,623	14,393,779
Loans to equity investments	7,480,235	7,445,358
Other receivables	2,488,369	1,485,722
Trade receivables	206,985	228,074
Borrowings	3,487,499	2,347,810
Other liabilities	36 708	38,031
Operating income	460,413	468,961
Operating expenses	330,571	346,499
Financial income(1)	2,107,149	1,848,831
Financial expenses(1)	1,804,179	2,414,922
Exceptional income	1,926	706,068
Exceptional expenses	3,305	1,049,582

(1) Financial income and expenses include foreign exchange gains and losses on transactions with related parties provided in accordance with the overall foreign exchange position per currency principle.

7.9 Audit fees

Audit fees billed in respect of the statutory audit of the accounts and services falling within the scope of related diligences are presented in the Veolia Environnement Group annual financial report.

7.10 Share-based payments

Veolia Environnement has implemented several standard fixed share purchase and subscription option plans, as well as a variable plan for management.

Veolia Environnement did not grant any share options in 2012. Current option plans as of December 31, 2012 were as follows:

	No. 8 **2010**	**No. 7** **2007**	**No. 6** **2006**	**No. 5** **2004**
Grant date	09/28/2010	07/17/2007	03/28/2006	12/24/2004
Number of options granted	2,462,800	2,490,400	4,044,900	3,341,600
Number of options not exercised	0***	548,600*	3,032,495	0
Plan term	8 years	8 years	8 years	8 years
Vesting conditions	4 years service plus performance conditions	4 years service plus performance conditions	4 years service	3 years service plus performance conditions for certain plans
Vesting method	After 4 years	After 4 years	After 4 years	By tranches of 1/3 over 3 years
Strike price (in euros)	22.50	57.05	44.03**	24.32**

* *Given the performance criteria, the number of options effectively exercisable was reduced by 1,742,650 in 2008.*

** *Strike price adjusted to take account of transactions impacting the share capital of the Company (issue of share subscription warrants on December 17, 2001 and share capital increases with retention of preferential subscription rights on August 2, 2002 and July 10, 2007). The initial strike prices for plans nos.4, 5 and 6 were €22.50, €24.72 and €44.75, respectively.*

*** *Given the non-fulfillment of the performance criteria, which should be validated by the Board of Directors' meeting of March 14, 2013*

7.11 Subsequent events

Issuance of subordinated perpetual hybrid debt in Euros and Pound Sterling: Early January, Veolia Environnement launched the issuance of deeply subordinated perpetual hybrid debt in euros and pound sterling (1 billion at 4.5% yield for the tranche in euros and £400 million at a 4.875% yield for the tranche in sterling). This operation enables the Group to reinforce its financial structure in conjunction with its transformation while strengthening credit ratios. This issuance will be treated as equity under the Group's consolidated IFRS accounts.

Icade: As described in note 38, on October 31, 2012, a memorandum of understanding concerning the new Group headquarters project in Aubervilliers and the terms of cooperation between the parties was signed by Veolia Environnement and Icade SA, a subsidiary of Caisse des dépôts et consignations. This memorandum led to the signature on January 31, 2013 of two simultaneous agreements defining the terms of compensation of Icade should Veolia Environnement withdraw from this project and the terms of a nine-year firm lease for premises to be completed.

Eolfi Europe: Pursuant to the disposal of Eolfi American activities to Atlantic Ridgline Holdings, Asah, a holding company notably involved with renewable energy projects made an offer to Veolia Environnement setting out a proposal to obtain control of Eolfi's European activities. This offer was accepted by Veolia Environnement on October, 30, 2012.

On January 21, 2013, a memorandum of understanding was executed which provides for the terms and conditions of:

- transfer of Eolfi European activities to Asah throught repurchase of Veolia Environnement shares and capital decrease not due to losses, Asah then becomming the sole shareholder. This operation will concern 102,333 Eolfi shares held by Veolia Environnement (71.5% of the share capital) representing a par value of €229.31 per share for a total amount of 23,47 million;
- repayment by Eolfi of its current account debt to Veolia Environnement.

Agreement reached on financing of Dalkia's international operations: On February 15, 2013, a memorandum of understanding regarding the financing of Dalkia International was signed amongst Veolia Environnement, EDF and Dalkia International.

The memorandum of understanding provides (i) for the issuance of €600 million in super-subordinated bonds by Dalkia International, to which its shareholders will subscribe in proportion to their direct interest in the capital i.e. respectively €144 million for EDF and €456 million for Dalkia, financed by a long-term loan from Veolia Environnement, as well as (ii) for increased information rights for the shareholders of Dalkia International notably through the creation of an audit committee.

7.12 Subsidiaries and equity investments

Investments:

Investments within the meaning of Article L. 233-7 of the French Commercial Code (crossing of investment thresholds laid down by law):

SUBSIDIARIES AND EQUITY INVESTMENTS

Company	Number of shares held	Share capital[2]	Shareholders' equity other than share capital* [2]	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross)** [2]	Guarantees provided by the company[2]	2011 revenue[2]	2012 revenue[2]	2011 net income[2]	2012 net income[2]	Dividends recorded in the last fiscal year[2]	Year-end
					GROSS[2]	NET[2]								
Veolia Eau - Compagnie Générale des Eaux[1] 52 rue d'Anjou 75008 Paris	214,187,291	2,207,287	1,114,201	100.00%	8,300,000	6,405,100	3,454,614	-	2,585,254	2,641,591	839,368	213,032	550,461	Dec. 31, 2012
Veolia Environnement Europe Services	31,500,999	2,450,100	75,946	100.00%	2,450,100	2,450,100	(1,236,872)	-	72,882	30,640	71,843	36,632	68,253	Dec. 31, 2012
Veolia Propreté[1] 163-169 av. G. Clemenceau, 92000 Nanterre	8,967,090	143,473	1,465,781	100.00%	1,929,900	1,929,900	118,609	-	595,468	770,676	(111,905)	483,529	124,997	Dec. 31, 2012
Veolia Environnement North America Operations INC[3],	240	-	914,693	100.00%	872,992	872,992	(1,283,193)	-	-	9,704	41,798	148,389	-	Dec. 31, 2012
Veolia Transdev	59,101,850	1,182,037	(604,597)	50.00%	691,019	200,000	666,256	-	15,689	132,328	(548,372)	(239,220)	-	Dec. 31, 2012
Veolia Energie (Dalkia)[1] 37 av. Mal. de Lattre de Tassigny 59350 Saint-André-Lez-Lille Cedex	42,069,294	968,869	378,453	65.99%	641,342	641,342	1,740,708	-	68,242	136,747	83,253	89,285	50,483	Dec. 31, 2012
Veolia Environnement Energie et Valorisation	13,703,700	137,037	309	100.00%	137,037	137,037	-	-	117	1	108	119,694	-	Dec. 31, 2012
Proactiva Medio Ambiente SA, Torre Puerta de Europa, Paseo de la Castellana, Madrid	4,710	56,520	23,187	50.00%	119,733	119,733	-	-	18,499	23 316	8 819	9 546	1,500	Dec. 31, 2012
EOLFI	102,333	14,314	34,773	71.49%	80,143	23,466	37,902	-	2,946	27,092	442	(22,502)	-	Dec. 31, 2012
Veolia Environnement Services-Ré	4,100,000	4,100	(20,495)	100.00%	41,000	41,000	-140 332	-	49,782	53,473	(13,727)	9,825	-	Dec. 31, 2012
CODEVE	3,000,000	3,000	18,149	100.00%	38,000	23,000	-	-	25,248	25,524	141	1,345	15,000	Dec. 31, 2012
Campus Veolia Environnement	2,395,200	26,130	(18,077)	91.66%	23,952	13,635	77,411	-	34,083	31,556	(4,486)	(5,582)	-	Dec. 31, 2012
Veolia Environnement Technologies France	1,170,000	11,700	35,096	100.00%	131,832	13,294	103,757	-	70,546	85,886	(32,615)	(33,503)	-	Dec. 31, 2012
Veolia Environnement CSP	2,122	21	(47,766)	100.00%	9,537	-	55,043	-	23,606	26,538	(14,914)	(15,904)	-	Dec 31, 2012
VIGIE 9 AS	3,700	37	120	100.00%	1,453	183	(143)	-	292	4	123	(18)	-	Dec. 31, 2012
VIGIE 14 AS	3,700	349	(6)	100.00%	2,179	346	(346)	-	-	-	2	-	-	Dec. 31, 2012
Veolia Environnement Industries	33,334	500	1,317	100.00%	1,113	1,113	30,738	-	7,784	7,647	1,051	2,313	-	Dec. 31, 2012

Company	Number of shares held	Share capital[2]	Shareholders' equity other than share capital* [2]	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross)** [2]	Guarantees provided by the company[2]	2011 revenue[2]	2012 revenue[2]	2011 net income[2]	2012 net income[2]	Dividends recorded in the last fiscal year[2]	Year-end
					GROSS[2]	NET[2]								
SASLT 65	60,000	2,231	(2,213)	19.41%	300	-	-	-	4,447	4,291	123	(457)	-	June 30, 2012
VIGIE 3 AS	41,829	251	19,277	100.00%	266	266	1,558	-	-	-	7,837	8,400	-	Dec. 31, 2012
Centre d'Analyses Environnementales	22,500	250	(282)	90.00%	225	225	3,300	-	14,918	15,976	87	(321)	-	Dec. 31, 2012
Artelia Ambiente S.A.	9,996	50	815	99.96%	50	50	-	-	16,596	30,998	1,620	(4,140)	-	Dec. 31, 2012
VIGIE 1	3,814	38	(21)	99.84%	38	38	(16)	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 2	3,814	38	(4,917)	99.84%	38	-	5,847	-	-	-	(788)	(144)	-	Dec. 31, 2012
SIG 41	2,495	38	(17)	99.76%	38	38	(21)	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 23 AS	3,700	37	(2)	100.00%	37	37	443	-	-	-	1	(198)	-	Dec. 31, 2012
VIGIE 28 AS	3,700	37	(4)	100.00%	37	37	(33)	-	-	-	(1)	7	-	Dec. 31, 2012
VE Conseil Aménagement	3,700	37	-	100.00%	37	37	1,460	-	2,397	2,267	20	(996)	-	Dec. 31, 2012
VE ingéniérie Conseil	3,700	37	-	100.00%	37	37	-	-	2,317	1,048	2	10	-	Dec. 31, 2012
VIGIE 45	3,700	37	-	100.00%	37	37	-	-	-	-	-	(1)	-	Dec. 31, 2012
VIGIE 33	3,694	37	(1)	100.00%	37	37	(33)	-	-	-	(1)	(1)	1	Dec. 31, 2012

Company	Number of shares held	Share capital[2]	Shareholders' equity other than share capital* [2]	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross)** [2]	Guarantees provided by the company[2]	2011 revenue[2]	2012 revenue[2]	2011 net income[2]	2012 net income[2]	Dividends recorded in the last fiscal year[2]	Year-end
					GROSS[2]	NET[2]								
VIGIE 34	3,694	37	(4)	100.00%	37	37	(33)	-	-	-	-	(1)	-	Dec. 31, 2012
Veolia Environnement France Régions	3,700	37	(1,189)	100.00%	37	-	17,414	-	8,356	14,752	(1,188)	(1,290)	-	Dec. 31, 2012
VIGIE 37 AS	3,700	37	(2)	100.00%	37	37		-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 38 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 39 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 40 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 41 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 42 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
VIGIE 43 AS	3,700	37	(2)	100.00%	37	37	-	-	-	-	(1)	(1)	-	Dec. 31, 2012
G.I.E GECIR.	5	-	386	5.00%	35	35	-	-	18,061	9,656	729	386	-	Dec. 31, 2012
GIE KLEBER	2	-	-	33.33%	-	-	10,279	-	26,210	26,946	-	(4,985)	-	Dec. 31, 2012
Sud Développement	150	930	-	2.61%	23	23	-	-	186	NC	1	NC	-	Dec. 31, 2012
Veolia Eau d'Ile de France	100	100	11,532	1.00%	1	1	-	-	-	382,626	-	1,153	-	Dec. 31, 2012
SLOVEO AS	1	33	1,154	1.00%	0.30	0.30	-	-	9,806	10,359	215	244	8	Dec. 31, 2012

Company	Number of shares held	Share capital[2]	Shareholders' equity other than share capital* [2]	% share capital held	Carrying amount of shares held		Loans and advances granted by the company (gross)** [2]	Guarantees provided by the company[2]	2011 revenue[2]	2012 revenue[2]	2011 net income[2]	2012 net income[2]	Dividends recorded in the last fiscal year[2]	Year-end
					GROSS[2]	NET[2]								
Other subsidiaries and equity investments (less than 1% of share capital)														
Veolia Environnement UK [1]	866,733	443,978[4]	59,077	0.15%	1,387	1,387	-	-	643	(647)	43,903	(476)	-	Dec.31, 2012
VIGEO	1,300	3,447	31	0.75%	130	52	-	-	6,632	6,740	(3,521)	135	-	Dec. 31, 2012
VE EST	1	2,100	217	0.00%	0.01	0.01	(579)	-	2,514	2,077	2,478	2,033	-	Dec. 31, 2012
VESTALIA (formerly V.I.G.I.E. 16 AS)	1	37	3,045	0.03%	0.01	0.01	-	-	93,892	85,995	1,741	3,006	-	Dec. 31, 2012
CLIG3	2	38	(46)	0.04%	0.02	0.02	-	-	-	-	(4)	(3)		Dec. 31, 2012
Eco Environnement Ingénierie (E.E.I.)	1	90	(835)	0.01%	0.01	0.01	-	-	331	1,392	(350)	(207)	-	Dec. 31, 2012

* *Including net income for the year.*

** *Including partner current accounts.*

(1) Company which is primarily a holding company. The "Revenue" column includes operating revenue and financial income.

(2) In € thousands.

(3) The main activity of this company consists in being the head company of the US consolidated tax group.

(4) i.e. GBP 544,023,813 at December 31, 2012 exchange rates.

Statutory Auditors' report on the financial statements

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Year ended December 31, 2012

To the Shareholders,

In compliance with the assignment entrusted to us at your Annual General Meetings, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying financial statements of Veolia Environnement;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2012 and of the results of its operations for the year then ended in accordance with French accounting principles.

2 Justification of our assessments

In accordance with the requirements of article L. 823-9 of the *Code de commerce* (French Commercial Code) relating to the justification of our assessments, we bring to your attention the following matters:

As mentioned in Note 2.2 to the financial statements in respect of the accounting principles for financial investments, your Company recognizes provisions for impairment when the net carrying amount of a financial investment exceeds its value in use. The value in use for the investment is determined on criteria that include profitability and growth potential, net assets and the stock market value of the securities. Based on the current information available, we performed our assessment of the methods used by your Company, and reviewed, through audit sampling, their application.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the *Code de commerce* (French Commercial Code) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the Shareholders have been properly disclosed in the management report.

The Auditors

French original signed by

Paris-La Défense, March 21, 2013

KPMG Audit

A division of KPMG S.A.

Jean-Paul Vellutini — Karine Dupré

ERNST & YOUNG et Autres

Gilles Puissochet — Nicolas Pfeuty

Parent company results for the last five years

(in € thousands)	2012	2011	2010	2009	2008
Share capital at the end of the fiscal year:					
Share capital	**2,610,434**	2,598,265	2,495,632	2,468,152	2,362,883
Number of shares issued	**522,086,849**	519,652,960	499,126,367	493,630,374	472,576,666
Transactions and results for the fiscal year:					
Operating income	**486,031**	484,125	435,816	422,532	384,331
Income before tax, depreciation, amortization and provisions	**543,259**	53,064	451,096	523,449	310,813
Income tax expense	**84,812**	(156,043)	(136,495)	(192,089)	(186,923)
Income after tax, depreciation, amortization and provisions	**(352,913)**	(1,417,507)	554,135	541,669	152,854
Amount of distributed income	[(a)] **355,494**	353,791	586,793	579,539	553,692
Earnings per share *(in euros)*:					
Income after tax, but before depreciation, amortization and provisions	**1.20**	0.4	1.18	1.45	1.05
Income after tax, depreciation, amortization and provisions	**(0.68)**	(2.73)	1.11	1.1	0.32
Dividend per share	**0.70**	0.70	1.21	1.21	1.21
Personnel:					
Number of employees (annual average)	**653**	673	546	481	416
Total payroll	**105,832**	110,067	69,498	61,604	53,415
Welfare benefits paid (Social Security, benevolent works, etc.)	**45,023**	39,477	35,068	41,632	26,354

(a) The total dividend distribution presented in the above table is calculated based on 522,086,849 shares outstanding as of December 31, 2012, including 14,237,927 treasury shares held as of this date, and may change depending on movements in the number of shares conferring entitlement to dividends up to the ex-dividend date.

Other specific information

SUPPLIER PAYMENT PERIODS

Trade payables at the year-end break down as follows *(in € thousands)*:

	2012	2011
Total trade payables	**13,090**	**23,983**
Breakdown by due date		
- Amounts not yet due:	9,586	13,095
- Amounts past due:		
• 0 to 30 days	2,065	7,847
• 31 to 60 days	845	1,372
• more than 60 days	594	1,669

All amounts not yet due fall due in 45 days from the end of the month or less. Therefore, pursuant to the French Law on the Modernization of the Economy (LME), Veolia Environnement complies with the new payment period obligations.

As of December 31, 2012, amounts past due more than 60 days include inter-company trade payables of €0.1 million. Payments on account amount to €1.0 million

Information concerning expenses not deductible for tax purposes

Pursuant to Article 223 quarter of the French General Tax Code (Code Général des Impôts), we inform you that expenses covered by Article 39-4 of this Code total €777,754 (excess depreciation on vehicles and excess directors' fees).

20.3 Dividend policy

20.3.1 Dividends paid during the last five fiscal years

(in euros)	2007 dividend	2008 dividend	2009 dividend	2010 dividend	2011 dividend
Gross Dividend Per Share	1.21	1.21	1.21	1.21	0.7
Net Dividend Per Share	1.21*	1.21*	1.21*	1.21*	0.7*
Total Amount of Dividends Paid	**553,459,872**	**553,824,460**	**579,538,650**	**586,792,691**	**353,790,523**

* *Dividend eligible for 40% tax reduction*

A dividend payment of €0.70 per share for each of the Company's outstanding shares carrying dividend rights as of January 1, 2012 was approved at the combined general shareholders' meeting of May 16, 2012. The right to this dividend was detached from the share on May 22, 2012 (ex-dividend date) and was paid as of June 18, 2012.

As of December 31, 2011, the Company's capital was composed of 519,652,960 shares, including 14,237,927 treasury shares. The total distribution amount was adjusted based on the total number of new shares created following the exercise of share subscription and purchase options and the number of treasury shares held by Veolia Environnement on the date of payment. Treasury shares do not enjoy dividend rights.

Pursuant to the fifth resolution adopted by the combined general shareholders' meeting held on May 16, 2012, which offered shareholders an option to receive payment of the dividend for the 2011 fiscal year either in cash, in accordance with the terms described above, or in Veolia Environnement shares, the Board of Directors on that same date sub-delegated to the Chairman all powers to pay the dividend in shares and to carry out the capital increase ensuing from exercise of that option. The option period during which shareholders could choose between a payment of the dividend in cash or shares lasted from May 22 to June 6, 2012 inclusive.

At the end of this option period and on the basis of a depositary's certificate issued by Société Générale, the Chairman certified on June 14, 2012 that a capital increase in cash for a total amount of €24,217,195.55 had been carried out. This resulted in the issuance of 2,433,889 new shares with a par value of €5 each, thereby increasing the Company's stated capital by €12,169,445.

It will be proposed that the combined general shareholders' meeting of May 14, 2013 vote to retain the distribution of a dividend of €0.70 per share for 2012, payable in cash or Veolia Environnement shares. If the shareholders' meeting approves this proposal and if this option is exercised, these new shares will be issued at a price equal to 90% of the average opening prices over the twenty trading sessions on the regulated stock market of NYSE Euronext Paris preceding the general shareholders meeting of May 14, 2013, less the amount of the dividend that may be approved pursuant to the fourth resolution voted by the combined general shareholders' meeting, rounded to the next upper euro cent. The shares issued will carry dividend rights as of January 1, 2013.

Shareholders may opt for the payment of the dividend in cash or in new shares between May 20, 2013 and June 4, 2013 inclusive, by sending their request to the financial intermediaries authorized to pay the dividend or, in the case of shareholders registered in pure registered accounts held by the Company, to its agent (Société Générale, Securities and Stock Transactions Department, CS 30812 – 44308 Nantes Cedex 3). When this option period expires, shareholders who have not opted for payment in shares will receive a dividend in cash as of June 4, 2013. On that same date, shares will be delivered to shareholders who have opted for the payment of the dividend in shares.

For individual shareholders who are French tax residents, dividends, whether paid in cash or in shares, are automatically included in total income, which is taxed on a progressive scale. As such, a mandatory levy of 21% will be deducted at source as an 'on account' payment against the income tax due in the following year. However, taxpayers whose 'reference' taxable income is less than €50,000 for singles and €75,000 for couples may request to be exempted from paying this levy.

Whatever the mode of payment, dividends are eligible for an uncapped 40% reduction on the gross amount received. All shares of Veolia Environnement are eligible for this scheme.

Social security contributions and additional levies applicable to dividends paid to shareholders are subject to tax withholding by the paying agent at the rate of 15.5% (including 5.1% deductible social security contribution).

For beneficiaries who are not French tax residents, dividends are subject to withholding at the rate in force in the tax residence country.

20.3.2 Dividend policy

The Company's dividend policy is determined by the Board of Directors, which may consider a number of factors, such as the Company's net income and financial position, as well as the dividends paid by other French and international companies within the same sector.

20.3.3 Period during which dividend payments must be claimed

Dividends that are not claimed within five years from the date on which they are made available for payment revert to the French government.

20.4 Litigation

The most significant litigation involving the Company or its subsidiaries is described below. In addition, tax audits and disputes are described in note 34 to the consolidated financial statements (see Chapter 20.1 above).

Other than as described below, there are no other current or threatened legal, governmental or arbitration proceedings involving the Company or its subsidiaries which have had during the past twelve months or may in the future have a material adverse effect on the financial condition or profitability of the Company or the Group.

The consolidated total amount that Veolia Environnement has booked as reserves for all litigation (see Chapter 20, § 20.1, note 16 to the consolidated financial statements), including reserves for labor and tax litigation, includes a large number of disputes involving individual amounts that are not significant. These reserves include all losses deemed probable in connection with all types of litigation likely to arise during the conduct of Veolia Environnement's business. The largest reserve booked for a particular litigation, other than tax and labor litigation, in our financial statements as of December 31, 2012 was €6.2 million.

Water

Aquiris

Since 2001, Aquiris, a 99% subsidiary of the Company, has held a concession pursuant to which it is responsible for constructing and operating the Brussels-North wastewater treatment plant. As a result of extensive obstruction of the plant's security chambers following the arrival of abnormal and extraordinary quantities of rubble and other solid waste through the public sewer lines, Aquiris decided to suspend operation of the plant from December 8 to December 19, 2009 due to significant safety risks to persons and to the plant. This suspension permitted a partial return to normal, but has resulted in several disputes regarding liability for the disruption and the possible environmental consequences of the suspension in wastewater treatment services. In the course of these disputes, two expert reports were produced. The first report on the "causes" of the disruption was delivered on January 13, 2011. This report concludes, in error according to Aquiris, that there was no legitimate reason to suspend operations at the station. During a September 17, 2012 hearing, the final version of the second report on the environmental damage caused by the disruption was delivered. This report estimates at €800,000 the prejudice indemnifiable by Aquiris, which Aquiris contests. No dates have as yet been set for additional proceedings.

In addition, during the course of 2010, Aquiris filed legal proceedings before a civil court against SBGE, the concession authority, claiming that the Brussels-North treatment plant is faced with sizing issues that are attributable to the concession authority. Aquiris claims compensation for its losses and has requested confirmation that the significant upgrading costs that will be required should be borne by the concession authority. Aquiris and SBGE asked a panel of experts to render a technical opinion concerning these matters, and their "remedies" report was delivered on December 8, 2011. The experts concluded that, when the contractual performance parameters were not satisfied, it was notably because the characteristics of the wastewater received by Aquiris did not conform to specification (40% of water

received did not meet specification). They also confirmed that certain structures are too small for the installation and made a series of technical recommendations, which included a variable allocation of costs between the parties depending on the measure recommended. Following this report, Aquiris and SBGE commenced negotiations on the final acceptance of the plant and a possible modification of the concession contract. These negotiations have, to date, not yielded an agreement. In the meantime, Aquiris, which is still facing additional operating costs, has conducted guaranteed performance tests. These tests were recorded in minutes drawn up by SBGE. Concomitantly, the court case is on-going with the next hearing set for March 3rd and 4th, 2014. On June 12, 2012, SBGE counterclaimed for compensation from Aquiris for the damages it allegedly suffered as a result of the disruption of the Brussels-North treatment plant from December 8 to December 19, 2009.

On May 29, 2012, Aquiris brought an action against SBGE before the Brussels commercial court seeking payment of outstanding amounts on several annuities. An introductory hearing was held on June 7, 2012 and the next hearing is set for April 26, 2013.

Based on the currently available information, the Company believes that these proceedings will not have a material impact on its financial position or results of operations.

Lastly, on June 17, 2009, the company SA Ondernemingen Jan de Nul ("Jan de Nul"), to which Aquiris entrusted the design and construction of the Brussels-North wastewater treatment plant, filed a claim against Aquiris for compensation of the increase in metal prices that Jan de Nul was unable to recover from the Brussels Capital-Region, the grantor authority. On December 8, 2011, the trial court ordered Aquiris to pay Jan de Nul €5 million plus legal costs and interest accrued after the date of filing (June 17, 2009). On March 9, 2012, Aquiris appealed the trial court decision.

Berliner Wasserbetriebe A.ö.R

In March 2010, the German Federal Cartel Office ("FCO") launched an administrative investigation into Berliner Wasserbetriebe A.ö.R ("BWB"), a company held at 100% by the *Land* of Berlin but in which RWE-Veolia Berlinwasser Beteiligungs GmbH ("RVB") (a company formerly jointly controlled by Veolia Wasser GmbH and RWE and now jointly controlled by Veolia Wasser GmbH and, indirectly, by the *Land*) has indirect economic rights, alleging an abuse of dominant position in water distribution, supposedly characterized by charging excessive rates. Upon completion of its investigation, on December 5, 2011, the FCO addressed a statement of objections (draft decision) to BWB for comment, in which it demanded a reduction in its average annual proceeds. BWB and Veolia Wasser GmbH (as third party intervener) addressed their comments to the FCO at the end of January 2012. A second statement of objections was notified to BWB on April 2, 2012, which once again raised comments from BWB and Veolia Wasser GmbH. The FCO then delivered a final decision on June 5, 2012, ordering a decrease in BWB's average annual proceeds (i.e. fresh water tariff excluding any public charges) per cubic meter generated from the sale of drinking water to end customers of 17 to 18% as compared to 2011 (reference year), for the next four years. This decrease for 2012 will be implemented through the issuance of accrued credit notes to end customers (recorded for 59 million euros in BWB's accounts) at the time of invoicing in 2013. BWB initiated a proceeding on the merits before the Court of Appeal of Düsseldorf on June 11, 2012.

In addition, in March 2011 BWB contested the FCO's jurisdiction before the administrative court; this court declared it lacked jurisdiction to hear the proceedings. An appeal was lodged before the Münster regional administrative high court, which confirmed the decision of the administrative court on July 6, 2012.

Furthermore, in April 2009, RVB brought an action before an arbitration court against the *Land* of Berlin for recognition of its method of recalculation of depreciation on replacement values at market price ("*Wiederbeschaffungszeitwerte*" or "WBZW") and for which it seeks compensation.

In parallel, on March 12, 2012 Veolia Wasser GmbH and RVB also lodged a constitutional complaint against the Berlin Public Disclosure Act ("*Offenlegungsgesetz*") before the German federal constitutional court which requires the disclosure of the partial privatization contracts of BWB dated June 18, 1999 and their subsequent amendments.

Finally, after the announcement by RWE of its intention to dispose of its shares in RVB to the *Land* of Berlin (and, as a consequence, of its indirect economic rights in BWB), Veolia Wasser GmbH sought a preliminary injunction against the disposal. On May 30, 2012, the court rejected the motion of Veolia Wasser GmbH. Veolia Wasser GmbH appealed the decision on June 1, 2012 but its claim was dismissed on August 29, 2012. On July 18, 2012, the *Land* of Berlin and RWE entered into a share purchase agreement, for a purchase price of €618 million plus €34 million interests. On October 25, 2012, this purchase was approved by the *Land*'s parliament and became effective on October 30, 2012. On August 10, 2012, Veolia Wasser GmbH also initiated arbitration proceedings against RWE seeking compensation for the intended transfer of the shares held by RWE in RVB to the *Land* of Berlin, which it finally withdrew early January 2013.

At this point, the Company is unable to assess whether these proceedings are likely to have a material impact on its financial position or results of operations.

European Commission investigation

On January 18, 2012, following unannounced inspections carried out in April 2010, the European Commission opened investigative proceedings aimed at determining whether behavior in the French water and wastewater markets has been coordinated, in conjunction with the French water trade association, the *Fédération Professionnelle des Entreprises de l'Eau* ("FP2E"), and in particular with respect to price components invoiced to customers. The opening of these proceedings in no way suggests that the results of the investigation are a foregone conclusion. Depending on the results of the investigation, the European Commission will consider either closing the case or sending the companies concerned and the FP2E a statement of objections. In the latter case, Veolia will use all means of defense at its disposal.

At this point, the Company is unable to assess whether these proceedings are likely to have a material impact on its financial position or results of operations.

Veolia Water North America Operating Services

Atlanta

In June 2006, Veolia Water North America Operating Services, LLC ("VWNAOS") initiated legal proceedings against the City of Atlanta (the "City"), a former municipal customer, alleging, among other things, unpaid invoices for services performed, withheld retainage, the call of a $9.5 million letter of credit, and breach of contract. The City filed counterclaims alleging VWNAOS failed to fulfill certain of its obligations under their contract and for alleged damage to City-owned property. After discovery and various procedural and legal issues were addressed by the Court, trial of the matter commenced in United States District Court in Atlanta before Judge Thomas W. Thrash, Jr. on October 4, 2010. The case was tried before the Judge without a jury. The last day of testimony was October 18, 2010, and the parties thereafter submitted proposed findings of fact and conclusions of law to the Judge. Closing arguments took place on December 22, 2010.

At trial, the City asserted damages against VWNAOS totaling $25.1 million. The City has acknowledged offsets (including the $9.5 million letter of credit it seized and various unpaid invoices) of $11.1 million, reducing the total amount allegedly due to the City from VWNAOS to $14 million, plus interest and attorney's fees. On the other hand, VWNAOS asserted damages totaling $30.8 million (plus interest from December 10, 2010 until paid). This amount consists of unpaid invoices in the amount of $17.8 million (including interest through December 10, 2010), and the $9.5 million letter of credit, plus interest on the letter of credit of $3.2 million. On June 3, 2011, the trial court issued an Order and Judgment, resulting in a net verdict of approximately $5 million in favor of VWNAOS. The court awarded VWNAOS $15,192,788.52 in damages and awarded the City $10,184,343.53 in damages. On July 1, 2011, VWNAOS filed a motion with the trial court challenging, as being contrary to applicable law, certain rulings in the Order and Judgment awarding damages in favor of the City and failing to award prejudgment interest to VWNAOS. On the same date, the City filed a motion with the trial court seeking a reduction in the amount awarded to VWNAOS asserting that the trial court miscalculated certain amounts the City had improperly deducted from VWNAOS' invoices and also seeking an as yet unstated amount for attorney's fees allegedly due to the City under the contract between the parties. The City also requested prejudgment interest on the amounts awarded in its favor. On August 26, 2011, the trial court denied the motions of both parties, except that it granted the requests for prejudgment interest. As a result, the trial court entered an Amended Judgment in favor of VWNAOS in the net amount of $10,001,991.58. Both sides have appealed the case to the United States Court of Appeals for the 11th Circuit. A decision is expected by the end of June 2013.

While the outcome of this dispute cannot be determined with certainty, the Company does not believe its ultimate outcome will have a material adverse effect on its consolidated financial position or results of operations.

Indianapolis

In April 2008, two subsidiaries of the Company, Veolia Water North America Operating Services and Veolia Water Indianapolis, LLC (VWI), were named as defendants in two potential class actions filed before the Indiana state courts, which have since been consolidated. The plaintiffs allege that the meter-reading practices used by VWI for Indianapolis customers were inconsistent with VWI's contract with the local water authority and with Indiana consumer protection law. The plaintiffs claim that VWI billed customers on the basis of estimates of water usage, rather than actual usage, more frequently than the contract permitted, resulting in overcharges that, although later credited to the customers, deprived the customers of their money for a period of time. The plaintiffs also contend that the methods used by VWI to estimate water consumption were inappropriate and violated applicable laws. The plaintiffs are seeking certification of a class of similarly situated residential water customers. VWI believes that its billing and meter reading practices complied with its contract and with relevant laws and regulations, and that the claims of the plaintiffs are without merit. It intends to defend its interests vigorously.

On January 13, 2009, the court granted a motion to dismiss filed by Veolia Water North America Operating Services and VWI, but granted the plaintiffs leave to refile their complaint. On January 23, 2009, the plaintiffs filed an amended complaint against Veolia Water North America Operating Services and VWI, and also named the water authority of the City of Indianapolis as a defendant. Mediation was conducted on April 6, 2010, but was not successful. Motions for summary judgment by the City and the Veolia entities thereafter were granted in part and denied in part. A motion for reconsideration by the Veolia entities was granted, leaving only a breach of contract claim against the Veolia entities and the City.

On September 23, 2011, the City and the Veolia entities each moved to dismiss the case for lack of jurisdiction on the grounds that plaintiffs had failed to exhaust their administrative remedies by not first raising the matter before the Indiana Utility Regulatory Commission. The court conducted a hearing on the motions on December 20, 2011. On February 1, 2012, the court issued an order granting defendants' motions to dismiss for lack of subject matter jurisdiction. On November 8, 2012, the Court of Appeals of Indiana affirmed the dismissal. Plaintiffs filed a petition to transfer jurisdiction with the Supreme Court of Indiana requesting it to review the lower court's dismissal. VWI opposed this request for review.

Although at this stage of the proceedings it is not possible to estimate its potential financial consequences, the Company believes that this lawsuit will not significantly affect its financial position or results of operations.

WASCO and Aqua Alliance Inc.

Several current and former indirect subsidiaries of Veolia Eau in the United States[(1)] are defendants in lawsuits in the United States in which the plaintiffs seek recovery for personal injuries and other damages allegedly due to exposure to asbestos, silica and other potentially hazardous substances. With respect to the lawsuits against Veolia Eau's former subsidiaries, certain of Veolia Eau's current subsidiaries retain liability and in certain cases manage the defense of the lawsuits. In addition, in certain instances, the acquirers of the former subsidiaries benefit from indemnification obligations provided by Veolia Eau or Veolia Environnement in respect of these lawsuits. These lawsuits typically allege that the plaintiffs' injuries resulted from the use of products manufactured or sold by Veolia Eau's current or former subsidiaries or their predecessors. There are generally numerous other defendants, in addition to Veolia Eau's current or former subsidiaries, which are accused of having contributed to the injuries alleged. Reserves have been booked for the possible liability of current subsidiaries in these cases, based on the nexus between the injuries claimed and the products manufactured or sold by these subsidiaries or their predecessors, the extent of the injuries allegedly sustained by the plaintiffs, the involvement of other defendants and the settlement history in similar cases. These reserves are booked at the time such liability becomes probable and can be reasonably assessed, and do not include reserves for possible liability in lawsuits that have not been initiated.

As of the date of this Registration Document, a number of such claims have been resolved either through settlement or dismissal. To date, none of the claims has resulted in a finding of liability.

During the five-year period ended December 31, 2012, the average annual costs that the Company has incurred with respect to these claims, including amounts paid to plaintiffs, legal fees and expenses, have been approximately USD 693,000, after reimbursements by insurance companies. Although it is possible that these expenses may increase in the future, the Company currently has no reason to believe that any material increase is likely to occur, nor does it expect these claims to have a material adverse effect on its business, financial position or results of operations.

(1) Subsidiaries of the Aqua Alliance group or of WASCO (formerly Water Applications & Systems Corporation and United States FIlter Corporation), the parent company of the former U.S. Filter group, most of whose businesses were sold to various buyers in 2003 and 2004.

Energy

Prodith – Elvya

On September 3, 1970, a concession agreement was concluded between Prodith, a subsidiary of Dalkia France, and the Lyon metropolitan authority (Communauté Urbaine de Lyon) which called for the construction and operation, for an initial 30-year period, of a public heating and cooling system service on behalf of the Lyon metropolitan authority. Following the decision of the Lyon metropolitan authority to terminate the agreement early on January 21, 2003 and the disagreement between the parties concerning the compensation owed to Prodith, Prodith brought an action before the Lyon administrative court seeking a judgment ordering the Lyon metropolitan authority to pay it €47.8 million.

In a judgment issued on May 16, 2007, the Lyon administrative court denied Prodith's claims for compensation on the grounds that the concession agreement and the amendments thereto were void because the Lyon metropolitan authority lacked the power to sign the agreement in 1970. Prodith appealed that judgment.

In a decision dated October 22, 2009, the Lyon administrative court of appeal reversed the judgment of the administrative court but nevertheless held that the agreement was void due to the Lyon metropolitan authority's lack of power to sign it and, on those grounds, found that the Lyon metropolitan authority was not contractually liable. With regard to the consequences of this invalidity, the Court denied Prodith's claims for compensation on tort grounds, considering that the company had not proved that it had suffered a loss because it had generated profits during the performance of the agreement, and it denied Prodith's claim for lost profits on the grounds that the agreement had been performed for its full term. However, the Court confirmed Prodith's property rights to the land on which the Lafayette thermal power plant is located. On December 22, 2009, Prodith appealed the decision of October 22, 2009 to the French Supreme Court. In light of very recent case law, Prodith withdrew its appeal on June 30, 2010, and this withdrawal was formally accepted on July 22, 2010.

Following the early termination of the agreement with Prodith, the Lyon metropolitan authority initiated a competitive bid procedure to award the contract for providing a public heating and cooling system service. At the conclusion of this procedure, the contract was awarded to Dalkia France, which was replaced by its subsidiary, Elvya. That contract was signed on July 23, 2004.

In a judgment dated December 15, 2005, the Lyon administrative court invalidated the decision empowering the president of the Lyon metropolitan authority to sign the agreement with Dalkia France on the grounds that there had been no prior consultation of the Lyon metropolitan authority's joint committee (comité mixte paritaire) and that the principle requiring bidders to be treated equally had been breached as a result of a late change in the bid package. The court held that the nature of the defects affecting the decision to sign the agreement delegating this public service necessarily invalidated the agreement. In a decision dated February 8, 2007, the Lyon administrative court of appeal affirmed this judgment and gave the parties a period of 18 months to attempt to rescind the agreement in an amicable manner.

Because no amicable resolution was reached, on June 25, 2007, the Lyon metropolitan authority brought an action before the Lyon administrative court requesting a rescission of the agreement and a finding on compensation. Elvya claimed compensation in the amount of €68.8 million. In a judgment dated October 22, 2009, the court rescinded the agreement and held that, on the grounds of the metropolitan authority's tortuous conduct, Elvya was entitled to be compensated for its necessary expenditures, the amount of which was to be determined by a panel of experts. The court also held that the tortious liability of the Lyon metropolitan authority would be reduced by 50% on the grounds that Dalkia France could not have been unaware of the irregularities in the competitive bid procedure.

In 2009, a competitor of Elvya initiated proceedings before the administrative Court of Lyon seeking the liability of the Lyon metropolitan authority for irregularities in the competitive bid procedure and therefore claiming compensation in the amount of €7.7 million. The Lyon metropolitan authority considers that this claim is without merit and interpleaded the Group, claiming that it should bear half of any potential compensation amount. The administrative Court of Lyon informed the Group of this claim in September 2011.

On July 5, 2012, the Lyon administrative Court ordered the metropolitan authority to pay €6.3 million to the plaintiff and rejected the claim that the Group should bear half of any potential compensation amount. In August 2012, the Lyon metropolitan authority lodged an appeal and applied for a stay of execution of this judgment. On November 22, 2012, the Group signed a settlement with the Lyon metropolitan authority. The terms of this settlement provide for (i) the payment of all sums due to Elvya following the rescission of the contract signed on July 23, 2004 and (ii) the withdrawal of Elvya's and the Lyon metropolitan authority's respective claims before the Lyon administrative Court. All these claims were formally withdrawn on January 23, 2013.

Furthermore, on July 2, 2012 the Lyon metropolitan authority issue a tender notive for the award of the public service delegation from 2013 onwards, to which Elvya formally responded as part of a bidding consortium.

At this point, the Company considers that this dispute will not have a significant impact on its financial position or results of operations.

Siram / Polare

On April 3, 2012, the Italian Energy Services company, Siram, had its premises searched as part of an investigation of the research body, Polytechnic Laboratory of Research SCaRL ("Polare"), among others. Siram had in the past solicited research services from Polare which gave rise to research tax credits. The criminal proceedings are still ongoing.

During the summer of 2012, Siram applied for a tax clearance procedure in respect of such research tax credits for an amount of €5.6 million. Siram is currently considering whether to apply for a further tax clearance for an amount of €2.4 million.

Concomitantly, in August 2012, Polare brought an action against Siram before the Venice civil court seeking payment of allegedly unpaid receivables and interim provisional enforcement. The Venice court, which was not informed of the investigation of Polare, ordered the payment of €2.8 million. However, on August 29, 2012, Siram was granted a suspension of this provisional enforcement and counterclaimed for the repayment of substantially all of the advance payments made to Polare, which equal approximately €10 million. The next hearing has been set for June 26, 2013.

In December of 2012, Polare filed a request for a *concordato preventivo*.

Environmental Services

TEC

In April and May 2008, three actions were initiated against the Calabria region or the Extraordinary Commissioner of Calabria ("the Commissioner") for payments due in relation to a concession agreement for the TEC 1 incinerator in Calabria:

- An action by Termo Energia Calabria ("TEC"), a 98.76% subsidiary of Veolia Servizi Ambientali Tecnitalia S.p.a. ("VSAT") against the Calabria region for non-payment of subsidies ("*Contributo*") in the amount of €26.9 million. In February 2011, an Italian administrative court ordered the Calabria region to pay the subsidies. The decision has been appealed by the region before the Rome Supreme Court. Following a hearing held on April 24, 2012, the Rome Supreme Court dismissed the appeal of the region on October 23, 2012 and confirmed the decision of the administrative court dated February 28, 2011. The region now has to decide whether it will pay a new *Contributo*. If not, it must provide a clear basis on which why it has refused to pay.
- An action by TEC against the Commissioner for €62.2 million in operating fees, cost reimbursement and other amounts due under the concession agreement. In July 2010, a Rome arbitration court awarded €27 million to TEC (excluding "gate fees" and statutory interest), and dismissed the counterclaims. The decision was declared enforceable by the Rome Civil Court on September 17, 2010.
- An action by Termomeccanica Ecologia S.p.a. ("TME"), which sold to Veolia Propreté and Veolia Servizi Ambientali S.p.a. ("VSA") a 75% interest in VSAT in 2007 and remained minority partner through SIEE until July 2011, in the name of TEC, against the Commissioner for payments due in respect of the construction of the TEC 1 incinerator. This action was taken over directly by TEC in July 2011. On October 11, 2010, an award of €28 million was made in favor of TEC (excluding statutory interest).

The Commissioner and the Italian State have appealed these two arbitration awards (second and third actions above) to the Rome Court of Appeals, which rejected a request for stay of execution on June 23, 2011, and has scheduled a hearing for January 14, 2014. In December 2011, €94 million was placed in an escrow account with the Bank of Italy, representing the awards (including interest) plus an additional 50%. On July 19, 2012, the provisional payment of €65 million to TEC was authorized by the Rome civil court and effectively credited to TEC's account on August 27, 2012 by the Bank of Italy.

In December 2011, TEC also made a formal claim against the Commissioner (concession authority) seeking payment of €139.8 million (the subsidies, the amount of the two arbitration awards and certain other amounts due). TEC notified the Commissioner that, in the absence of payment by January 31, 2012, the concession agreement would be terminated with retroactive effect as a result of the authority's breach. On January 13, 2012, the Commissioner requested that TEC ensure the continuation of public service. On January 31, 2012, TEC formally notified the Commissioner of the termination of the concession agreement, and agreed to provide the public service on a transitional basis under a "*prorogatio"* against reimbursement of its costs. The Commissioner agreed to this transitional arrangement and made an initial payment in February 2012. On March 8, 2012, the Commissioner challenged the termination of the concession agreement.

In the meantime, TEC filed a request for a voluntary liquidation plan, known as a "*Concordato Preventivo*", with a court in La Spezia on February 10, 2012, which was admitted on February 23, 2012. This procedure allows for a proposal of full payment of preferential creditors and partial payment of all other creditors (in full and final settlement).

TEV

Following an order issued by the Public Prosecutor's Office of Lucca on July 1, 2010, operations at the Falascaia facility were suspended on the alleged grounds of an improper administrative operating license and discharges of polluted wastewater. Despite the decision by the Lucca Public Prosecutor's Office to lift the closure order on the plant on October 19, 2011, the operating license for the Falascaia plant was cancelled by the Province of Lucca on November 10, 2011. Termo Energia Versilia ("TEV"), a 98.99% subsidiary of VSAT and the license holder, filed an appeal against the cancellation decision before the Florence administrative court on January 23, 2012. In its decision dated October 22, 2012, the administrative court dismissed TEV's appeal. On January 23, 2013, TEV further appealed to the administrative Supreme Court.

On March 21, 2012, TEV made a formal claim against the concession authorities:

- seeking payment of €22 million due under the contract for (i) services provided by TEV from 2006 to 2010, (ii) pricing adjustment, (iii) non provision of solid urban waste and (iv) non provision of waste from selective sorting; and
- seeking a pricing adjustment for 2012.

The formal claim also provided notice that, in the absence of such payment and adjustment by May 15, 2012, the contract would be terminated with retroactive effect as a result of the authorities' breach. On May 15, 2012, TEV acknowledged the termination of the contract. On June 29, 2012, TEV surrendered the facility to the authorities.

Concordato Preventivo di Grupo

Simultaneously to the admission of TEC's *Concordato Preventivo*, some creditors of TEV and VSAT launched judicial procedures for recovery.

As a consequence, a request for a group voluntary liquidation plan, i.e. a "*Concordato Preventivo di Grupo*" ("CPG"), was filed on April 18, 2012 with the La Spezia Civil Court in relation to the VSAT group, which includes TEC and TEV,. On April 20, 2012, the request for CPG was admitted by the court. One of the advantages of the CPG is that it allows the procedures to be joined before a single judge, the same court appointed administrator(s) and uses a single mass of debts and receivables for all concerned entities. From the date of admission (and concomitant revocation of its *Concordato Preventivo*) onwards, TEC is part of the CPG and all legal proceedings involving the VSAT group (as detailed above) are now under the control of two court-appointed administrators.

Following the revocation of the CPG filed on April 18, 2012 consecutive to the promulgation in August 2012 of a decree-law amending the legal framework of the "*Concordato Preventivo*" (which allowed abstention of a creditor to be considered as a vote in favor of the *Concordato*), a new request for CPG was filed on September 17, 2012. The court admitted the CPG on December 5, 2012 and set the vote date initially on January 21, 2012. However, following a request of the court appointed administrators, the date of the vote was postponed to February 11, 2013 (plus 20 days for postal vote) for administrative reasons related to the *Concordati*. If the majority of creditors vote in favor of the CPG, the Court could approve the CPG in the spring of 2013. If however the vote of the creditors is not favorable or if the Court does not approve the CPG, two options are available, either:

1. another request for CPG will be filed; or

2. VSAT and its subsidiaries will be liquidated.

In 2011, the Company recorded substantial impairment charges in respect of VSAT and its subsidiaries. The above described events did not have a material financial impact on its consolidated financial statements for the year ended December 31, 2012.

Transport

DGCCRF – Veolia Transport

In 1998, the DGCCRF (a French administrative body with jurisdiction over competition matters) conducted an inspection and seized evidence on the premises of the Company's transportation subsidiary Connex (now Veolia Transport) and other companies in the public transportation market, for the purpose of obtaining proof relating to possible anti-competitive practices in this market. In September 2003, the French Competition Council served notice of two grievances on Veolia Transport alleging possible collusion among operators between 1994 and 1999 which may have limited competition at the local and national level in the public passenger transportation market for urban, inter-urban and school services. In September 2004, the Competition Council served Veolia Transport with notice of additional grievances alleging the existence of an anticompetitive agreement at the European Union level. On July 5, 2005, the Competition Council issued a decision in which it partially validated the claims of the competition authorities, and ordered Veolia Transport to pay a fine of approximately €5 million, which the Company paid. The Paris Court of Appeals affirmed the decision of the Competition Council on February 7, 2006 and on March 7, 2006, Veolia Transport filed an appeal with the French Supreme Court. The French Supreme Court found in favor of certain arguments made by Veolia Transport and, in its decision dated October 9, 2007, reversed the decision of the Court of Appeals of Paris and remanded the case to a different panel of the same court. On October 8, 2009, Veolia Transport brought the case before this new panel of the appellate court. In a decision rendered on June 15, 2010, and notwithstanding the French Supreme Court's decision, the Paris Court of Appeals upheld the principle and amount of a €5 million fine. Veolia Transport has therefore filed another appeal with the French Supreme Court. On November 15, 2011, the French Supreme Court reversed the decision of the Court of Appeals of Paris a second time, on the grounds that the same formation of the Court could not serve as both judge of the advisability of the investigation and judge on the merits of the case, without infringing the principle of impartiality guaranteed by the European Convention on Human Rights, and remanded the case to a different panel of the same court. On June 29, 2012, Veolia Transport brought the case before this new panel of the appellate court contesting the French Competition Council's decision dated July 5, 2005 and the order authorizing the original search and seizures dated November 27, 1998.

On July 3, 2012, the Paris Court of Appeals decided to treat both appeals separately.

In relation to Veolia Transport's appeal against the French Competition Council's decision, the next hearing has been set for June 20 and 21, 2013.

In relation to Veolia Transport's appeal against the order authorizing the initial search and seizures, the next hearing has been set for May 21, 2013.

On February 28, 2013, Keolis, whose appeal before the French Supreme Court was rejected by a decision dated November 15, 2011, filed observations in each of these proceedings.

Société Nationale Maritime Corse Méditerranée (SNCM)

Corsica Ferries has brought a number of legal proceedings against Société Nationale Maritime Corse Méditerranée ("SNCM"), a subsidiary of Veolia Transdev. Corsica Ferries requested the invalidation of the June 7, 2007 decision awarding a contract (a public service delegation agreement) for marine service to Corsica to the SNCM/CMN group for the 2007-2013 period. This request was denied by a judgment of the Bastia administrative court on January 24, 2008. Corsica Ferries appealed this decision to the Marseille administrative court of appeals. In an order dated November 7, 2011, the administrative court of appeals quashed the judgment of the Bastia administrative court, instructing the concession authority either to negotiate a voluntary agreement for the termination of the public service delegation agreement from September 1, 2012, or to institute proceedings before the Bastia administrative court within six months of the notification (i.e. before May 7, 2012) to take the appropriate measures. As a consequence, on February 24, 2012, the concession authority filed a motion with the Bastia administrative court for termination of the public service delegation agreement, but it subsequently withdrew this motion on January 14, 2013. On January 5, 2012, SNCM appealed the November 7, 2011 order to the French administrative Supreme Court. On July 13, 2012, the French administrative Supreme Court quashed the November 7, 2011 decision of the Marseille administrative court of appeals and remanded the matter back to that court.

Veolia Transport's acquisition of an interest in SNCM from *Compagnie Générale Maritime et Financière* ("CGMF") was notably conditioned on the concession authority maintaining the marine service to Corsica under a public service delegation agreement. In the absence of an appeal by the concession authority, Veolia Transport notified CGMF on January 13, 2012 of its decision to exercise the cancellation clause in the privatization Memorandum of Understanding of May 16, 2006. On January 25, 2012, CGMF contested the exercise of this cancellation clause. On February 7, 2012, in the absence of a reaction from CGMF to a proposed out-of-court settlement of the dispute, Veolia Transport notified CGMF of its intention to submit the case to the competent legal authority. On May 11, 2012, Veolia Transport brought an action against CGMF before the Paris commercial court. A first procedural hearing was held on May 31, 2012 for production of documents by the plaintiff, followed by another hearing on September 24, 2012 during which CGMF delivered its statement of defence and documents. A new hearing has been scheduled for April 8, 2013.

On February 17, 2012, the French competition authority recommended that the concession authority assess its needs in terms of marine service to Corsica in order to limit the scope of a future public service delegation to the minimum necessary.

A call for tenders on a new public service delegation, starting January 1, 2014, for sea transport (both passengers and freight) between Marseille and Corsica was launched and SNCM and CMN made a joint bid on January 14, 2013.

Corsica Ferries has also contested the validity of a European Commission decision of July 8, 2008, which held that certain payments by the French Government in connection with the SNCM privatization process did not constitute State aid within the meaning of article 107 of the Treaty on the Functioning of the European Union ("TFEU") and authorized other payments made by the French Government prior to the privatization. Under the TFEU, governments may only provide subsidies (known as "State aid") to commercial entities in limited circumstances, with European Commission authorization. On September 11, 2012, the General Court of the European Union partially annulled the European Commission decision of July 8, 2008. As a result, the reconsideration of the measures provided (which includes the measures provided within the context of the privatization process and part of the measures provided prior to the privatization) was remanded to the European Commission, which has opened a new investigation of the matter. On November 22, 2012, SNCM and the French Republic each appealed this judgment. The Company estimates that, should the measures provided be found to constitute State aid incompatible with the TFEU after reconsideration by the European Commission, the maximum amount potentially at risk for SNCM is approximately €222 million, excluding interest.

Furthermore, on June 27, 2012, the European Commission announced that it had opened investigative proceedings aimed at determining whether the payments received by SNCM and CMN for the maritime service from Marseille to Corsica, in the context of the public service delegation for the 2007-2013 period, were in line with the European Union state aid rules.

In an action before the French Competition Council, Corsica Ferries has contended that SNCM and CMN had formed an unjustified grouping that constituted an anti-competitive cartel, that this grouping constituted an abuse of a dominant position and, lastly, that presenting a bid requesting excessive subsidies (suggesting the existence of cross-subsidies) also constituted an abuse of a dominant position. On April 6, 2007, the French Competition Council dismissed the two claims concerning the grouping. Proceedings on the merits and the investigation of the French Competition Authority (the successor to the French Competition Council) on the claim of excessive subsidies are underway. The investigation is also focusing on the performance terms of the public service delegation agreement (monitoring the application of the guaranteed receipts clause and the corresponding changes in the amount of subsidies received by the parties being awarded the contract). As of this date, no statement of objections has been served.

State aid on airports

The European Commission is currently conducting several investigations on potential State aid within the meaning of article 107 of the TFEU in the air transport sector. On April 4, April 25 and May 30, 2012, the European Commission opened several investigations into certain subsidies received by customer airlines and successive operators of the Carcassone, Nîmes and Beauvais airports, including companies partly or wholly owned by Veolia Transdev. Following the announcement of these investigative proceedings in the Official Journal of the European Union, the relevant subsidiaries of Veolia Transdev submitted their comments to the European Commission as third party interveners.

At this point, the Company is not able to assess the consequences of these proceedings on its financial position or results of operations.

Connex Railroad

On October 17, 2012, several insurance companies that contributed to the compensation fund for victims of the September 2008 rail accident in Chatsworth, California, launched proceedings before the courts of Los Angeles County, California, against Connex Railroad LLC, Connex North America, Inc. and Veolia Transportation, Inc., seeking repayment of $132.5 million. The Company considers this claim unfounded and the defendant subsidiaries will seek its dismissal.

At this point, the Company is not able to assess the consequences of this proceeding on its financial position or results of operations.

Veolia Environnement

EDF lawsuit

On October 22, 2012, EDF filed a lawsuit against Veolia Environnement before the Paris commercial court to obtain the right to own 50% of Dalkia SAS, a specialist in energy services. The Group notes that EDF lost its right to increase its ownership in the capital of Dalkia SAS in 2005. Veolia Environnement, which owns 66% of Dalkia SAS' share capital, has always supported its subsidiary, in particular through the financing of its international growth. The Group therefore intends to vigorously defend against EDF's claim, which it views as without merit.

At this point, the Company is unable to assess whether these proceedings are likely to have a material impact on its financial position or results of operations.

20.5 Material changes in financial position or commercial situation

There has been no material change in the financial position or commercial situation of the Company since the close of its 2012 fiscal year. The events or circumstances that could reasonably be expected to have a material effect on the Company’s outlook for the current fiscal year are described in Chapter 6, Chapter 9 and Chapter 12 above and were communicated by the Company during the presentation of its 2012 annual results on February 28, 2013.

21

Complementary information concerning the share capital and the provisions of the Articles of Association

21.1 Information concerning the share capital

21.1.1 Share capital

At December 31, 2012, Veolia Environnement's share capital amounted to €2,610,434,245, divided into 522,086,849 fully paid-up shares, all in the same class, with a par value of €5 each (see the table that sets out the changes in capital, in Section 21.1.6 below).

As of the filing date of this registration document, the Company's share capital is still the same.

21.1.2 Market for the Company's securities

The Company's shares have been admitted to trading on the NYSE Euronext Paris Regulated market (Compartment A) since July 20, 2000, under ISIN code FR 0000124141-VIE, Reuters code VIE. PA and Bloomberg code VIE. FP. Veolia Environnement securities are eligible for the *Service de règlement différé* (deferred settlement service or "SRD"). Company shares have also been listed on the New York Stock Exchange in the form of American Depositary Receipts (ADR) under the symbol "VE", and Bloomberg's codes "VE UN" and "VE UP" since October 5, 2001.

Company shares have been included in the CAC 40, the main share index published by NYSE Euronext Paris, since August 8, 2001.

The tables below describe the highest and lowest listed prices and the volume of Veolia Environnement securities traded on the Euronext Paris Regulated market and the New York Stock Exchange over the past eighteen months.

Euronext Paris

Year (month/quarter)	Share Price *(in €)* Highest	Lowest	Trading Volume *(in number of securities)*
2012			
Fourth Quarter	*9.360*	*7.377*	*245,157,186*
December	9.360	8.313	58,404,336
November	8.545	7.377	97,465,416
October	8.766	7.500	89,287,434
Third Quarter	*10.290*	*8.080*	*233,976,595*
September	9.574	8.381	67,972,195
August	9.410	8.080	75,897,940
July	10.290	8.361	90,106,460
Second Quarter	*12.615*	*8.980*	*256,545,358*
June	10.600	8.980	88,331,457
May	11.250	9.116	94,496,221
April	12.615	10.025	73,717,680
First Quarter	*13.055*	*7.875*	*277,613,879*
March	13.055	9.440	108,852,466
February	9.786	8.687	87,624,645
January	8.950	7.875	81,136,768
2011			
Fourth Quarter	*11.640*	*7.800*	*227,958,489*
December	9.950	7.800	70,932,769
November	10.420	8.015	97,292,618
October	11.640	10.020	59,733,102
Third Quarter	*19.885*	*9.381*	*261,674,593*
September	11.800	9.381	76,640,978
August	15.965	9.700	130,267,696
July	19.885	15.540	54,765,919

Source : Bloomberg.

New York Stock Exchange

Year (month/quarter)	Price *(in USD)* Highest	Lowest	Trading Volume *(in number of securities)*
2012			
Fourth quarter	*12.380*	*9.370*	*7,766,098*
December	12.380	10.810	2,012,984
November	11.000	9.370	3,277,247
October	11.370	9.920	2,475,867
Third quarter	*12.750*	*9.830*	*11,008,364*
September	12.520	10.500	4,165,596
August	11.410	9.830	2,830,574
July	12.750	10.090	4,012,194
Second quarter	*16.670*	*11.070*	*19,286,883*
June	13.150	11.070	4,455,041
May	14.770	11.250	7,582,274
April	16.670	13.390	7,249,568
First quarter	*17.160*	*10.120*	*18,738,658*
March	17.160	13.480	8,270,669
February	13.000	11.810	5,446,027
January	11.600	10.120	5,021,962
2011			
Fourth quarter	*16.000*	*10.150*	*20,988,543*
December	12.920	10.150	7,559,430
November	14.440	10.890	6,823,872
October	16.000	13.210	6,605,241
Third quarter	*28.800*	*13.020*	*23,574,345*
September	16.840	13.020	8,417,499
August	22.200	13.690	10,551,793
July	28.800	22.160	4,605,053

Source: Bloomberg.

21.1.3 Purchase of treasury shares by the Company[(1)]

21.1.3.1 Repurchase plan in effect on the filing date of this registration document (plan authorised by the combined general meeting on May 16, 2012)

During the combined general meeting on May 16, 2012, the Company's shareholders authorised a share repurchase plan that allows the Company to purchase, sell or transfer its shares at any time, except during a public offer, within the limits authorised by the provisions of the law and regulations in force, and by any means, on regulated markets, on multilateral trading systems, with systematic internalizers or over the counter, including through block sales or purchases (with no limit as to the proportion of the share repurchase plan that may be implemented by this method), via public purchase, or exchange offers, or by the use of options or other financial futures that are traded on regulated markets, on multilateral trading systems, with systematic internalizers or over the counter or by the delivery of shares following the issue of securities that grant access to the Company's capital by means of conversion, exchange, redemption, exercise of warrants or in any other way, either directly or indirectly via the intermediary of an investment services provider.

The share purchases may be for a number of shares such that the number of shares that the Company purchases throughout the term of the repurchase plan does not exceed at any time whatsoever 10% of the shares that make up the Company capital and such that the number of shares that the Company holds at any given time does not exceed 10% of the shares that make up the Company's capital.

This authorisation allows the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans or any similar plan, (ii) awarding free shares, (iii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion or the implementation of any company savings plan, (iv) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way, (v) delivering shares within the scope of external growth transactions, mergers, spin-offs or contributions; (vi) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF, or, lastly, (vii) cancelling all or part of the shares thus repurchased.

The maximum purchase price under the programme renewed at the general meeting on May 16, 2012 at €22.50 per share, and the maximum amount that the Company may allocate to the share repurchase plan was set at €1 billion. The general meeting granted full powers to the Board of Directors, with the option of sub-delegation under the conditions laid down by law, in order to decide on and implement this authorisation.

The authorisation described above, which is in force on the filing date of this registration document, will expire at the latest within eighteen months from the time of the combined general meeting on May 16, 2012, i.e. on November 16, 2013, unless a new plan is authorised at the next general meeting.

21.1.3.2 Summary of transactions completed by Veolia Environnement on its own securities during the 2012 fiscal year

Percentage of capital held as treasury shares at December 31, 2012	2.73%
Number of treasury shares held at December 31, 2012	14,237,927
Carrying value of the portfolio at December 31, 2012 *	€433,896,767
Market value of the portfolio at December 31, 2012 **	€130,348,222
Number of shares cancelled over the last 24 months	0

* *Carrying value excluding provisions.*

** *On the basis of the closing price at December 31, 2012, i.e. €9.155.*

No transactions involving treasury shares were carried out in 2012.

(1) This paragraph contains the information that must be included in the plan description, pursuant to Article 241-2 of the Autorité des marches financiers General Regulations and the information required pursuant to the provisions of Article L. 225-211 of the French Commercial Code.

21.1.3.3 Objectives of transactions performed during the 2012 fiscal year and allocation of the treasury shares held

No transactions involving treasury shares were carried out in 2012.

At December 31, 2012, Veolia Environnement held a total of 14,237,927 treasury shares, representing 2.73% of the Company's capital, and no shares were held directly or indirectly by subsidiaries of Veolia Environnement. On this date, the portfolio of treasury shares was allocated as follows:

- 5,848,868 shares were allocated to cover stock option programmes or other share award programmes to Group employees;

- 8,389,059 shares were allocated to external growth transactions.

21.1.3.4 Description of the programme submitted for the authorisation of the general meeting of May 16, 2013

The authorisation for share repurchases described in paragraph 21.1.3.1 above will expire at the latest on November 16, 2013, unless the combined general meeting of May 14, 2013 approves the resolution adopted in accordance with the provisions of Articles L. 225-209 et seq. of the French Commercial Code set out below.

This resolution, with registration to the report by the Board of Directors, authorises the Company to implement a new plan to repurchase shares under the following conditions:

- This authorisation would be intended to allow the Company to trade in its own securities with the following objectives: (i) implementing all Company stock option plans within the scope of the provisions of Articles L.225-177 et seq. of the French Commercial Code or any similar plan; (ii) awarding or selling shares to employees in respect of their association with the benefits of the Company's expansion and the implementation of any company or group savings plan (or equivalent plan) under the conditions provided for by law, in particular Articles L.3332-1 et seq. of the French Labor Code; (iii) awarding free shares within the scope of the provisions of Articles L. 225-197-1 et seq. of the French Commercial Code; (iv) in general, honoring commitments relating to stock option programmes or other share programmes awarded to issuer's or affiliated company's employees; (v) delivering shares when rights are exercised that are attached to securities that grant access to the capital via redemption, conversion, exchange, presentation of a warrant or in any other way; (vi) cancelling all or part of the shares thus repurchased, pursuant to the twenty-second resolution adopted by the combined general meeting on May 16, 2012, or to any resolution of the same nature that may follow said resolution during the period of validity of the present authorisation; (vii) delivering shares (as exchange, payment or otherwise) within the scope of external growth transactions, mergers, spin-offs or contributions; (viii) stimulating the secondary market for or the liquidity of Veolia Environnement shares through an investment services provider, within the scope of a liquidity contract that complies with the ethics charter recognized by the AMF.

  This programme is also intended to enable the implementation of all market practices that shall come to be permitted by the AMF and, in general, the completion of all other transactions that comply with the regulations in force. In such a case, the Company will inform its shareholders by way of press release.

- Purchases of Company shares may be for a number of shares such that:

  - the number of shares that the Company purchases throughout the term of the share repurchase plan, at any time whatsoever, does not exceed 10% of the shares that make up the Company's capital, i.e. approximately 52,208,684 shares as of the filing date of this document (this percentage will apply to the capital, as adjusted in light of transactions that affect it after this general meeting), it being specified that (i) the number of shares acquired with a view to being retained and subsequently delivered as part of a merger, spin-off, or contribution cannot exceed 5% of its share capital; and (ii) when shares are repurchased in order to encourage liquidity under the conditions defined by the AMF General Regulations, the number of shares taken into account to calculate the 10% limit provided for in the first paragraph corresponds to the number of shares purchased, less the number of shares resold during the authorisation period;

  - the number of shares that the Company holds at any given time whatsoever does not exceed 10% of the shares that make up the Company's capital on the date in question.

- Shares may be sold, bought or transferred at any time, within the limits authorised by the legal and regulatory provisions in force, but not during a public offer, and by any method, on regulated markets, multilateral trading systems, with systematic internalizers or over the counter, including by block purchases or sales (with no limit as to the proportion of the share repurchase plan that may be implemented by this method), by public offers to purchase or exchange shares, or through the use of options or other financial futures traded on regulated markets, multilateral trading systems, with systematic internalizers or concluded over the counter or through delivery of shares following the issue of securities that grant access to the Company's capital through conversion, exchange, redemption, exercise of a warrant or otherwise. Transactions may be conducted either directly or indirectly through an investment services provider.

- The maximum purchase price of the shares under this resolution will be €13 per share (or the counter-value of said amount on the same date in any other currency); said maximum price is only applicable to acquisitions decided as from the date of the combined general meeting of May 14, 2013 and not to future transactions concluded pursuant to an authorisation granted by a previous general meeting that provides for acquisitions of shares subsequent to the date of said meeting.

  The general meeting delegates to the Board of Directors, in the event of a change in the par value of shares, a capital increase via capitalisation of reserves, award of bonus shares, division or regrouping of securities, distribution of reserves or of any other assets, redemption of capital or any other transaction concerning the shareholders' equity, the power to adjust the maximum aforementioned purchase price in order to take into account the impact on the share value of said transactions.

  The total amount allocated to the share repurchase plan authorised above may not exceed €600million.

  This authorisation would cancel, as from the day of the combined general meeting of May 14, 2013, any prior authorisation granted to the Board of Directors to trade in the Company's shares and if applicable for the value of any unused portion of any prior authorisation. Said authorisation is granted for a period of eighteen months from the date of said combined general meeting.

  The general meeting would grant full powers to the Board of Directors, including the option of sub-delegation under the conditions provided for by law, to decide on and implement this authorisation, to specify, if necessary, the terms thereof and decide on the conditions thereof, to carry out the purchase plan, and, in particular, to place all stock market orders, enter into all agreements, allocate or reallocate the shares acquired to the desired objectives under the applicable statutory and regulatory provisions, determine the terms and conditions under which, if applicable, the rights of holders of securities or options will be protected, in compliance with the statutory, regulatory and contractual provisions, make all declarations to the AMF and to all competent authorities, carry out all other formalities and, in general, do what is necessary.

21.1.4 Capital authorised but not issued

21.1.4.1 Authorisations adopted at the general meetings on May 16, 2012

Status of the authorisations adopted by the combined general meeting on May 16, 2012:

Concerned Securities/Transactions	Term of authorisation and expiration date	Upper limits for use of the authorisations *(in million euros and/or percentage)*
Share repurchase programme		
Use excluded during any tender offer period (resolution 13)	18 months November 16, 2013	€22.50 per share, up to a limit of 1 billion euros; the Company may not hold more than 10% of its share capital
Issuances with preferential subscription rights (PSR)*		1.3 billion euros (nominal value) representing approx. 50% of the capital on the date of the general meeting
Issuance of all types of securities (resolution 14)	26 months July 16, 2014	(counting towards the global nominal amount limit of 1.3 billion euros (hereinafter, the "global cap"))
Issuances without preferential subscription rights (PSR)*		260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting
Issuance of all types of securities by a public offering (resolution 15)	26 months July 16, 2014	(counting towards the global cap)
Issuances without preferential subscription rights (PSR)*		260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting
Issuance of all types of securities, by way of private placement (resolution 16)	26 months July 16, 2014	(counting towards the nominal upper limit of 260 million euros for capital increases without PSR and towards the global cap)
Issuances of securities as payment for contributions in kind*		260 million euros (nominal value) representing approx. 10% of the capital on the date of the general meeting
(resolution 17)	26 months July 16, 2014	(counting towards the nominal upper limit of 260 million euros for capital increases without PSR and towards the global cap)
Increase in capital through the capitalisation of premiums, reserves, profits or other items*		400 million euros (nominal value) representing approx. 15.4% of the capital on the date of the general meeting
(resolution 18)	26 months July 16, 2014	(this nominal maximum amount counts towards the global cap)
Increase in the number of securities in the event of capital increases with or without preferential subscription rights (green shoe option)*		Expansion by no more than 15% of a capital increase made with or without PSR (additional issuance counting towards the upper limit of the relevant resolution with or without PSR and towards the global cap, and where applicable, towards the
(resolution 19)	26 months July 16, 2014	nominal upper limit of 260 million euros for capital increases without PSR)
Share issues reserved to members of employee savings plans		52 million euros (nominal value) representing approx. 2% of the capital at the day of the general meeting
Capital increase by issuing shares or securities that provide access to capital (Resolution 20)	26 months July 16, 2014	
Share issues reserved to employees without preferential rights**		5 million euros (nominal value) representing approx. 0.2% of the capital at the day of the general meeting
Capital increase reserved to one category of beneficiaries (Resolution 21)	18 months November 16, 2013	
Cancellation of treasury shares	26 months	
(resolution 22)	July 16, 2014	10% of the share capital within any 24-month period

(*) The nominal total amount of capital increases that may be carried out pursuant to this resolution will count towards the global cap of 1.3 billion euros set forth in the 14th resolution of the combined general meeting of May 16, 2012.

(**) Increase in capital in favor of a company owned by a credit institution acting at the request of Veolia Environnement in order to set up a structured offering of shares to employees and corporate officers of affiliated companies having their registered office in countries where, for regulatory reasons or otherwise, employees may not participate in usual employees' shareholding schemes (issuances reserved for employees, members of savings plans).

21.1.4.2 Authorisations submitted for voting at the combined general meeting on May 14, 2013

Concerned Securities/Transactions	Term of authorisation and expiration date	Upper limits for use of the authorisations (in million euros and/or percentage)
Share repurchase programme Use excluded during any tender offer period (resolution 13)	18 months November 14, 2014	€13 per share, up to a limit of €600; the Company may not hold more than 10% of its share capital
Share issues reserved to members of employee savings plans Capital increase by issuing shares or securities that provide access to capital (resolution 14)	26 months July 14, 2015	2% of the share capital at the date of the general meeting or €52,208,684 (nominal)
Share issues reserved to categories of beneficiaries without preferential rights * Capital increase by issuing shares or securities that provide access to capital (resolution 15)	18 months November 14, 2014	0.8% of the share capital at the date of the general meeting or €20,883,473 (nominal)

* *Capital increase in favor of a company owned by a credit institution acting at the request of Veolia Environnement in order to set up a structured offering of shares to employees and corporate officers of affiliated companies having their registered office in countries where, for regulatory reasons or otherwise, employees may not participate in usual employees' shareholding schemes (issuances reserved for employees, members of savings plans).*

21.1.5 Other securities that grant access to the capital

Potential dilutive effect of options and stock warrants(1)

At December 31, 2012, the Company had granted a total of 8,998,100 subscription options that grant the right to subscribe to 3,581,095 Company shares(2) after adjustments and exercise (cf. chapter 17, section 17.3.3 above).

On December 12, 2007, the Company's Chairman and Chief Executive Officer, with the authorisation of the Board of Directors, acting pursuant to the eleventh resolution adopted by the combined general meeting on May 10, 2007, decided to grant the Sequoia Plus Deutschland 2007 company savings plan ("FCPE"), free of charge, 52,747 Veolia Environment stock warrants (BSA) attached to the shares subscribed for by this FCPE within the scope of the implementation of the leveraged, low-risk package for the capital increase that was reserved for employees and completed in 2007. These BSAs were granted in exchange for a 20% discount on the shares subscribed for by FCPE Sequoia Plus Deutschland 2007, in the name and on behalf of the beneficiaries of the companies that are members of the international group savings plan and based in Germany, to take into account the local tax constraints within this country. Each stock warrant grants the right to subscribe for one Veolia Environnement share at the price of €60.23. The warrants can be exercised at any time until December 31, 2012 inclusive. After midnight on December 31, 2012, the non-exercised BSAs will be cancelled.

At December 31, 2012, the Company had 522,086,849 shares. On this date, with unexercised BSAs having expired in the event that all the subscription options (plans 6 to 8) had been exercised, 3,581,095 new shares would have been created, representing a dilution ratio of 0.69%.

(1) As the performance conditions were not met, the awardees of free shares under plan no. 1 lost all their rights, except in the case of a public offer for the Company's shares (cf. chapter 17, section 17.4 above).

(2) As the performance conditions were not met, the awardees of stock options under plan no. 8 may not exercise their rights, except in the case of a public offer for the Company's shares (cf. chapter 17, section 17.3.1 above).

21.1.6 Table of changes in capital at December 31, 2012

The table below shows the changes in the Veolia Environnement share capital since the start of the 2008 fiscal year:

Meeting date	Transaction	Number of shares issued	Par value of the shares *(in euros)*	Nominal amount of the capital increase *(in euros)*	Issue or contribution premium *(in euros)*	Total amount of the capital	Total number of shares
6/21/2000 4/25/2002 12/05/2004 (recorded by the Board of Directors on 3/6/2008)	Exercise of stock options	1,042,950	5	5,214,750	26,877,494.36	2,358,813,780	471,762,756
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 8/6/2008)	Exercise of stock options	773,693	5	3,868,465	17,875,554.98	2,362,682,245	472,536,449
8/6/2008 (recorded by the Board of Directors)	Correction of a clerical error: cancellation of a share	-1	5	-5	-21.18	2,362,682,240	472,536,448
4/25/2002 5/12/2004 (recorded by the Board of Directors on 3/5/2009)	Exercise of stock options	40,218	5	201,090	707,064.28	2,362,883,330	472,576,666
5/7/2009 (recorded by the Chairman and Chief Executive Officer on 6/4/2009)	Capital increase consequent on the payment of the dividend in shares	20,111,683	5	100,558,415	222,435,213.98	2,463,441,745	492,688,349
5/7/2009 (recorded by the Chairman and Chief Executive Officer on 8/5/2009)	Capital increase reserved for employees (Group saving plans)	911,014	5	4,455,070	14,831,307.92	2,467,996,815	493,599,363
6/21/2000 4/25/2002 5/12/2004 (recorded by the Board of Directors on 3/4/2010)	Exercise of stock options	31,011	5	155,055	508,755	2,468,151,870	493,630,374
5/7/2010 (recorded by the Chairman on 6/7/2010)	Capital increase consequent on the payment of the dividend in shares	3,732,018	5	18,660,090	60,607,972.32	2,486,811,960	497,362,392
5/7/2010 (recorded by the Chairman and Chief Executive Officer on 12/15/2010)	Capital increase reserved for employees (Group saving plans)	1,692,862	5	8,464,310	21,567,061.88	2,495,276,270	499,055,254

Meeting date	Transaction	Number of shares issued	Par value of the shares *(in euros)*	Nominal amount of the capital increase *(in euros)*	Issue or contribution premium *(in euros)*	Total amount of the capital	Total number of shares
06/21/2000 04/25/2002 05/12/2004 (recorded by the Chairman and Chief Executive Officer on 01/26/2011)	Exercise of stock options	71,113	5	355,565	1,239,807.13	2,495,631,835	499,126,367
05/17/2011 (recorded by the Chairman and Chief Executive officer on 06/15/2011)	Capital Increase related to the payment of the dividend in shares	20,462,396	5	102,311,980	281,153,321.04	2,597,943,815	519,588,763
04/25/2002 (recorded by the Board of Directors' meeting dated 08/03/2011)	Exercise of stock options	64,197	5	320,985	862,347.57	2,598,264,800	519,652,960
5/16/2012 (recorded by the Chairman and Chief Executive Officer on 6/14/2012)	Capital increase resulting from payment of the dividend in shares	2,433,889	5	12,169,445	12,047,750.55	2,610,434,245	522,086,849

21.1.7 Non-equity securities

EMTN programme

In June 2001, a Euro Medium Term Note (EMTN) programme was implemented for a maximum amount of €4 billion.

On June 26, 2002, this limit was raised to €8 billion, to €12 billion on June 9, 2006, and to €16 billion on July 13, 2009.

The main issuances that make up the outstanding amounts of this programme at December 31, 2012 are as follows:

Issue date	Nominal issue amount	Complementary issuances	Nominal amount outstanding at December 31, 2012	Yield	Maturity
May 28, 2003	€1 billion				
July 1, 2010		€(444 million)			
November and December 2011		€(56 million)			
January and March 2012		€(68 million)	€432 million	4.875%	May 28, 2013
May 28, 2003	€750 million				
March 2012		€(130 million)	€620 million	5.375%	May 28, 2018
November 25, 2003	€700 million		€700 million	6.125%	November 25, 2033
June 17, 2005	€600 million			1.75% + inflation rate in the euro zone (excluding tobacco)	
April 1, 2008		€275 million	€875 million		June 17, 2015
December 12, 2005	€900 million				
December 2012		€(341 million)	€559 million	4.00%	February 12, 2016
December 12, 2005	€600 million		€600 million	4.375%	December 11, 2020
November 24, 2006	€1 billion				
March 14, 2008		€140 million			
March 2012		€(140 million)			
December 2012		€(256 million)	€744 million	4.375%	January 16, 2017
May 24, 2007	€1 billion		€1 billion	5.125%	May 24, 2022
October 29, 2007	GBP 500 million				
January 7, 2008		GBP 150 million	GBP 650 million	6.125%	October 29, 2037
April 24, 2009	€1.250 billion				
March 2012		€(431 million)	€819 million	5.25%	April 24, 2014
April 24, 2009	€750 million		€750 million	6.75%	April 24, 2019
June 29, 2009	€250 million		€250 million	5.70%	June 29, 2017
July 6, 2010	€834 million		€834 million	4.247%	January 6, 2021
March 30, 2012	€750 million		€750 million	4.625%	March 30, 2027
June 28, 2012	CNY500 million		CNY500 million	4.50%	June 28, 2017

From March 19 to 27, Veolia Environnement refinanced a portion of its bond debt maturing in 2013, 2014, 2017 and 2018 for a total of €750 million by issuing a new tranche maturing in 2027 for the same amount.

As part of its EMTN programme, on June 26, 2012 Veolia Environnement issued a new tranche maturing in June 2017 for CNY500 million (Chinese yuan renminbi) (€63.3 million on the settlement date), to fund the needs of its subsidiaries in China.

During the fourth quarter of 2012, Veolia Environnement carried out:

- the total repayment of the private placement under the EMTN programme at 4.685%, maturing in June 2015 for US$50 million;
- the partial redemption of the bond issue at 4%, maturing in February 2016 for €341 million;
- the partial redemption of the bond issue at 4.375%, maturing in January 2017 for €256 million.

These partial redemptions bring the outstanding on these bond issues to €559 million and €744 million, respectively.

As of December 31, 2012, the nominal amount outstanding under the EMTN programme was €9,790 million euros, €9,358 million of which will mature in more than one year.

US Private placement (USPP)

On January 9, 2012, Veolia Environnement sent a notice of prepayment to all holders of the U.S. private placement carried out in January 2003. This prepayment effectively took place on February 9, 2012 for a euro-equivalent of €350.2 million.

Public issue on the US market

On May 28, 2008 Veolia Environnement issued bonds registered with the US Securities and Exchange Commission for an amount of USD 1.8 billion, at a fixed rate and in three tranches:

Issue date	Nominal amount of the issuance	Complementary issuances	Amount outstanding at December 31, 2012	Rate	Maturity
May 21, 2008	USD 700 million				
October, November and December 2011		USD (210 million)	USD 490 million	5.25%	June 3, 2013
May 21, 2008	USD 700 million				
December 2012		USD (153 million)	USD 547 million	6.00%	June 1, 2018
May 21, 2008	USD 400 million		USD 400 million	6.75%	June 1, 2038

On December 28, 2012, Veolia Environnement partially redeemed the USD bond issue at 6.0% maturing in June 2018 for USD 153 million. This redemption brings the outstanding on this issue to USD 547 million.

At December 31, 2012 the nominal outstanding amount of this loan was USD1,437 million, i.e. €1,089 million euro-equivalent, USD 947 million of which will mature in more than one year.

Commercial paper

At December 31, 2012 the outstanding amount of the commercial paper issued by the Company was €944 million.

21.2 Provisions of the articles of association

Please refer to the information set out in Chapter 5, Section 5.1.2 (General information concerning the Company).

21.2.1 Corporate purpose

Pursuant to article 3 of the Company's Articles of Association, Veolia Environnement's corporate purpose, directly and indirectly, in France and in all other countries, involves:

- conducting all service activities, for private, professional and public customers, that are related to the environment, in particular, water, wastewater, energy, transportation and waste management;
- the acquisition, use and exploitation of all patents, licenses, trademarks and models that are directly or indirectly related to corporate activities;
- the acquisition of all participating interests, in the form of subscriptions, purchases, contributions, exchanges or by any other means, and the acquisition of shares, bonds and all other securities in existing or future enterprises, groupings or companies, and the option of disposing of such interests;
- in general, all commercial, industrial, financial or non-trading transactions, whether in personal or real property, that are directly or indirectly related to the aforementioned corporate purpose, and, in particular, the issue of all guarantees, first-demand guarantees, sureties and other security interests, in particular for the benefit of all groupings, enterprises or companies in which the Company holds a participating interest within the scope of its business activities, as well as the financing or refinancing of its business activities.

21.2.2 Fiscal year

The Company's fiscal year starts on January 1 and closes on December 31 of each calendar year.

21.2.3 Profit allocation under the Articles of Association

Each share grants entitlement to an amount of the profit in proportion to the percentage of the capital that such share represents.

The distributable profit is made up of the net profit for the fiscal year, minus any deferred losses and the various deductions provided for by law, plus the deferred profit.

The general meeting may decide to distribute amounts drawn from the reserves of which it may freely dispose, by expressly stating the reserve items from which the amounts are drawn.

After approving the financial statements and recording the existence of amounts that are eligible for distribution (including the distributable profit and the amounts drawn from reserves referred to above, if any), the general meeting may decide to distribute all or part of such amounts to the shareholders as dividends, to allocate them to reserve items, or to carry them forward.

The general meeting has the option of granting the shareholders, for all or part of the dividends paid out or interim dividends, an option of payment in cash or payment in shares under the conditions laid down by the law. Furthermore, the general meeting may decide, for all or part of the dividend, interim dividends, distributed reserves or premiums, or for any capital reduction, that such distribution or such capital reduction will be carried out in kind by delivery of Company assets.

The Board of Directors has the option of distributing interim dividends prior to the approval of the annual financial statements, under the conditions provided for by law.

21.2.4 Changes to the Articles of Association, the capital and the rights attached to shares

All changes to the Articles of Association, the capital or the voting rights attached to the securities that make up the capital are subject to the requirements of the law, as the Articles of Association do not contain any specific provisions.

21.2.5 General meetings

21.2.5.1 Convening notices to meetings

General meetings are convened and deliberate under the conditions provided for by law. Meetings are held at the Company's registered office or at any another location stated in the convening notice. Shareholder's decisions are taken in ordinary, extraordinary, special or combined meetings, depending on the nature of the decisions that shareholders are called upon to make.

21.2.5.2 Attendance at meetings

Conditions

All shareholders, regardless of the number of shares they hold, are entitled to attend meetings in accordance with the laws and regulations in force, either by attending them in person, by being represented at them, by voting by post, or by giving proxy to the Chairman of the meeting.

In accordance with Article R.225-85 of the French Commercial Code, only shareholders must provide proof of ownership through the securities being registered in the accounts in their name, or in the name of the intermediary registered as acting on their behalf, no later than the third business day prior to the meeting at midnight, Paris time, either in the registered securities accounts, or in bearer securities accounts held by their authorised intermediary.

With regard to registered shareholders, this accounting recognition in the registered securities accounts three business days prior to the meeting is sufficient for them to be able to attend.

With regard to holders of bearer securities, it is the responsibility of the authorised intermediaries that hold the bearer securities accounts to justify their position as a shareholder on their client's behalf to the centralising establishment of the assembly appointed by Veolia Environnement, through providing evidence of a participation certificate which they annex to the single postal voting form or proxy form or to the admission card request drawn up in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary.

Procedures

Shareholders wishing to attend the general meeting in person must apply for an admission card:

- registered shareholders should apply directly to the centralising institution of the meeting appointed by Veolia Environnement (hereinafter "the centralising institution");

- holders of bearer securities should apply to their financial intermediary.

If a holder of bearer securities wishing to attend the meeting in person has not received their admission card by midnight, Paris time, of the third business day preceding the meeting, they must submit a request to their financial intermediary to issue them with a participation certificate enabling them to provide evidence of their position as a shareholder three days prior to the meeting in order to be admitted.

A notice of the meeting, including a single postal voting or proxy or admission card request form, is automatically sent to all registered shareholders. Holders of bearer securities must contact the financial intermediary with whom their shares are registered in order to obtain the postal voting or proxy or admission card request form.

Remote voting

Shareholders who are unable to attend the general meeting in person may choose from one of the following three options:

- give a written proxy to another shareholder, to their spouse or their partner or any other natural or legal person of their choice;
- give a proxy to the Chairman of the meeting;
- vote by post.

Votes made by post or by proxy can only be taken into account if the forms, duly filled in and signed, (and accompanied by the participation certificate for bearer securities) are received by the centralising institution no later than the third business day prior to the meeting at midnight, Paris time.

In accordance with the provisions of Article R.225-79 of the French Commercial Code, notification of the appointment and dismissal of a proxy holder may also be made by electronic means.

Only notifications of appointment to or dismissal from positions duly signed, completed and received no later than three days before the date of the meeting may be taken into account.

In accordance with the provisions of Article R.225-85 of the French Commercial Code, any shareholder that has already voted by post, or sent a proxy or an admission card request is no longer able to choose another method of participation in the meeting, but may nonetheless sell all or part of their shares. However, if the sale takes place more than three days before the meeting, the Company invalidates or changes accordingly, as appropriate, the remote vote, the proxy, the admission card or the participation certificate. To this end, the authorised intermediary holding the account notifies the Company or its proxy holder of the sale and communicates the necessary information to it. No sale or any other transaction made later than three days before the meeting, regardless of the method used, is notified by the authorised intermediary holding the account or taken into consideration by the Company, notwithstanding any contrary agreement. It is noted that if a shareholder does not name a proxy holder in a proxy form, the Chairman of the general meeting shall register a vote in favor of adopting draft resolutions submitted or approved by the Board of Directors, and shall register a vote against the adoption of all other draft resolutions. In order to issue any other vote, the shareholder must choose a proxy holder who agrees to vote as directed by the shareholder.

Under the terms of article 22 paragraph 4 of the Company's Articles of Association, the Board of Directors may decide that shareholders may participate in the general meeting via videoconference or by means of telecommunication or electronically, including via the internet, under the conditions provided for by the applicable regulations at the time of use. In this case, these shareholders are regarded as being present when calculating the quorum and the majority of the meeting. This option has not yet been used by the Company at the filing date of this reference document.

21.2.5.3 Key powers and quorum required for general meetings

Ordinary General Meeting

The ordinary general meeting is called to take all decisions which do not make changes to the Articles of Association. It is held at least once a year, within six months of the close of each financial year, in order to present its observations on the accounts of this financial year. It may only proceed, when it is convened for the first time, if the shareholders present, represented or having voted remotely hold at least one fifth of the shares with voting rights. When it is convened for the second time, no quorum is required. The deliberations of the ordinary general meeting are taken by a majority of the votes of the shareholders present, represented or having voted remotely.

Extraordinary General Meeting

The extraordinary general meeting is the only meeting authorised to make changes to the provisions of the Articles of Association. It may not, however, increase the commitments of shareholders, subject to transactions resulting from a grouping together of shares, duly and properly carried out. It may only proceed, when it is convened for the first time, if the shareholders present, represented or having voted remotely hold at least one quarter, and, when it is convened for the second time, one fifth of the shares with voting rights. The deliberations of the extraordinary general meeting are taken by a majority of two-thirds of the votes of the shareholders present, represented or having voted remotely.

21.2.5.4 Shareholders' rights

Inclusion of points or draft resolutions on the agenda

Requests for the inclusion of points or draft resolutions on the agenda must reach the Company's registered office (Veolia Environnement, General Secretariat, 36/38, avenue Kléber, 75116 Paris) by registered letter with acknowledgement of receipt or by e-mail at the following address: AGveoliaenvironnement.ve@veolia.com, no later than twenty days after the publication of the notice of the meeting in the "Bulletin des Annonces Légales et Obligatoires" (BALO).

The request for the inclusion of a point on the agenda must be justified. The request for the inclusion of draft resolutions must be accompanied by the text of draft resolutions, which may be accompanied by a brief explanatory statement. Such requests from shareholders must be accompanied by a certificate justifying their status as shareholders, either in the registered securities accounts or in the bearer securities accounts held by a financial intermediary, as well as the percentage of capital required by the regulations. Examination of the point or draft resolution proposed in line with the regulations is subject to the submission, by the authors of the request, of a new certificate evidencing the accounting recognition of the securities in the same accounts no later than the third business day prior to the meeting at midnight, Paris time.

Written questions

In accordance with the provisions of Article R.225-84 of the French Commercial Code, any shareholder wishing to ask written questions must address them to the Chairman of the Board of Directors, via the Company's registered office (Veolia Environnement, General Secretariat, 36/38, avenue Kléber, 75116 Paris) by registered letter with acknowledgement of receipt, no later than four business days before the meeting; in order to be taken into account, it is imperative that these questions are accompanied by a share registration certificate. It is understood that the answers to the written questions may be published directly on the Company's website at the following address: www.finance.veolia.com, under the General Meeting section.

Consultation of the documents made available

Documents and information relating to general meetings are made available to shareholders in accordance with the laws and regulations in force and, in particular, the information referred to in Article R.225-73-1 of the French Commercial Code is published on the Company's website at the following address: www.finance.veolia.com, under the General Meeting section, no later than twenty-one days before the meeting.

Voting rights

The voting rights attached to shares are proportional to the percentage of share capital that such shares represent, and each share carries the right to cast one vote. There are no double voting rights.

The voting right attached to shares subject to beneficial ownership is exercised by the income beneficiary in ordinary general meetings and by the bare title owner in extraordinary general meetings.

21.2.6 Identification of shareholders

When shares are fully paid up, they may be in registered or bearer form, at the discretion of the shareholder, subject to provisions of the laws and regulations in force and the Company's Articles of Association. Until the shares are fully paid up, they must be in registered form.

Company shares are registered in an account under the conditions and in accordance with the terms provided for by the law and regulations in force. However, when the owner of the shares does not reside in France or French Overseas Territories, within the meaning of Article 102 of the French Civil Code, any intermediary may be registered on behalf of such owner, in accordance with the provisions of Article L.228-1 of the French Commercial Code.

Furthermore, the Company's Articles of Association provide that the Company may seek to identify all holders of securities that grant an immediate or deferred right to vote in its meetings, in accordance with the procedures set forth in Articles L.228-2 et seq. of the French Commercial Code. Pursuant to these provisions, the Company reviews its share ownership four times per year on average.

Failure by the holders of securities or their intermediaries to comply with their data disclosure obligations set forth in Articles L.228-2 et seq. of the French Commercial Code causes, under the conditions provided for by law, the temporary deprival of voting rights and, under certain circumstances, the suspension of the dividend attached to the shares.

21.2.7 Threshold exceeding

In addition to thresholds provided by the law and the regulations in force, the Company's Articles of Association provide that all individuals or legal entities, acting alone or in concert with others, that enter into possession or that no longer hold, either directly or indirectly, a fraction of the capital, voting rights or securities that grant future access to the Company's capital equal to or more than 1% or any multiple of 1%, must inform the Company, by registered letter with return receipt requested, within fifteen days of exceeding one of such thresholds, of their identity, the identity of the person(s) with whom they are acting in concert, as well as the total number of shares, voting rights and securities that grant future access to the capital they hold on their own, directly or indirectly, or in concert with others.

Failure to comply with the above provisions will be penalized by the deprival of voting rights for the shares that exceed the threshold that should have been declared, for all shareholders' meetings that are held until the expiration of a two-year period following the date on which the aforementioned notice is brought into compliance, if the application of this penalty is requested by one or more shareholders who together hold at least 1% of the Company's capital. This request is recorded in the minutes of the general meeting.

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Significant contracts RFA

Impact of a change in control of Veolia Environnement(1)

In many countries, including France, not only can local authorities terminate contracts entered into with subsidiaries of the Veolia Environnement Group (see chapter 4, § 4.1.2.5 above), but a change of control of Veolia Environnement could also affect certain contracts of the Group that include change of control clauses.

This is the case for several contracts concluded with public and private clients particularly abroad, (including the water contract in Berlin), which allow for specific termination rights in favor of the clients and/or the financial partners associated with the client, in the event of a change of control of Veolia Environnement.

Furthermore, under the partnership agreements with EDF signed in December 2000, if a competitor of EDF takes over the Company, EDF has the right to purchase all of the Dalkia shares held by the Company. The same applies to the agreements signed with Caisse des depôts et consignations on May 4, 2010, pursuant to which Veolia Environnement granted to Caisse des depôts et consignations the right to purchase all of the Veolia Transdev shares held by the Company in the event of a change in control of the Company (see chapter 20, § 20.1, notes 35 and 38.3 of the consolidated financial statements).

Finally, the stock-option plans implemented by the Company which are currently in force (see chapter 17, § 17.3.1 above) provide that options become immediately exercisable without condition in the event a public tender offer is launched on the Company.

(1) Article L. 225-100-3 of the French Commercial Code.

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Third party information, expert statements and declaration of interests

Not applicable.

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Documents available to the public

The Company's press releases, annual reports, including historical financial information relating to the Company and any related updates filed with the AMF, as well as the Company's Form 20-F filed with the U.S. Securities and Exchange Commission, are available on the Company's website: www.finance.veolia.com. Copies of these documents may also be obtained at the Company's registered office at 36/38, avenue Kléber in Paris, France.

All of the information disclosed to the public by the Company during the preceding twelve months in France, other EU member states, and in the United States pursuant to any securities regulation applicable to the Company is available on the Company's website at the address indicated above, as well as on the AMF's website: www.amf-france.org.

All of the regulated information published by the Company, pursuant to article 221-1 et seq., in the AMF's general regulation, is available on Veolia Environnement's website at the following address: www.finance.veolia.com in the "Regulated Information" section.

Finally, the Company's Articles of Association, as well as the minutes of general shareholders' meetings, the statutory auditors' reports and all other corporate documents, may be viewed at the Company's registered office.

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Information regarding Company interests

Information concerning companies in which Veolia Environnement holds a portion of the share capital likely to have a material impact on its assets, financial condition or results of operations is set forth in Chapter 6, paragraph 6.1.3 above and in Chapter 20, paragraph 20.1, note 42 to the consolidated financial statements above.

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