VEOLIA ENVIRONNEMENT
Form 20-F
April 18, 2011

**As filed with the Securities and Exchange Commission on April 18, 2011**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**for the fiscal year ended December 31, 2010**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 001-15248**

**VEOLIA ENVIRONNEMENT**

(Exact name of Registrant as specified in its charter)

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

(Address of principal executive offices)

Olivier Orsini, Secretary General, 36/38 avenue Kléber, 75116 Paris France 011 33 1 71 75 01 26

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

**Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:**

499,126,367 ordinary shares, nominal value €5 per share

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

Yes No

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

Yes No

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

Yes No

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

**was required to submit and post such files).**

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

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

**FORWARD-LOOKING STATEMENTS**

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

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

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**PART I**

**ITEM 1.**

**IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

**ITEM 2.**

**OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3.**

**KEY INFORMATION**

**SELECTED FINANCIAL DATA**

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

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| | At and for the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **(in US$)[1]** | | | **(in €)** | | |
| **(millions, except per share amounts)[2]** | **2010** | **2010** | **2009** | **2008** | **2007** | **2006** |
| **INCOME STATEMENT DATA:** | | | | | | |
| Revenue | 46,481.9 | 34,786.6 | 33,951.8 | 35,089.6 | 30,926.0 | 27,071.6 |
| Operating income | 2,833.1 | 2,120.3 | 1,981.8 | 1,927.2 | 2,433.7 | 2,070.8 |
| Net income from continuing operations | 1,196.2 | 895.2 | 868.8 | 560.7 | 1,278.0 | 967.8 |
| Net income (loss) from discontinued operations | (31.5) | (23.6) | (26.9) | 148.5 | (23.2) | 27.1 |
| Non-controlling interests | 388.2 | 290.5 | 257.8 | 304.1 | 326.9 | 236.2 |
| Net income attributable to owners of the Company | 776.5 | 581.1 | 584.1 | 405.1 | 927.9 | 758.7 |
| Net income attributable to owners of the Company per share Basic | 1.62 | 1.21 | 1.24 | 0.88 | 2.13 | 1.88 |
| Net income attributable to owners of the Company per share Diluted | 1.62 | 1.21 | 1.24 | 0.87 | 2.11 | 1.86 |
| Net income from continuing operations attributable to owners of the Company per share Basic | 1.66 | 1.24 | 1.29 | 0.70 | 2.19 | 1.83 |
| Net income from continuing operations attributable to owners of the Company per share Diluted | 1.66 | 1.24 | 1.29 | 0.69 | 2.16 | 1.81 |
| Dividends per share (€) | | 1.21[3] | 1.21 | 1.21 | 1.21 | 1.05 |
| Dividends per share (US$)[4] | | 1.62 | 1.74 | 1.68 | 1.78 | 1.38 |
| Number of shares (adjusted to reflect changes in capital) | 499,126,367 | 499,126,367 | 493,630,374 | 472,576,666 | 471,762,756 | 412,626,550 |

**BALANCE SHEET DATA (AT PERIOD**

| | | | | | | |
|---|---|---|---|---|---|---|
| **END):** | | | | | | |
| Equity attributable to owners of the Company | 10,644.4 | 7,966.2 | 7,460.6 | 7,001.2 | 7,612.9 | 4,360.8 |
| Equity attributable to non-controlling interests | 3,913.1 | 2,928.5 | 2,670.1 | 2,530.5 | 2,577.8 | 2,192.6 |
| Total assets | 68,829.4 | 51,511.3 | 49,816.7 | 49,126.1 | 46,306.9 | 40,123.7 |
| Total non-current assets | 41,548.6 | 31,094.6 | 29,595.0 | 30,041.8 | 28,970.4 | 25,100.0 |
| Total non-current liabilities | 30,073.2 | 22,506.5 | 22,028.9 | 21,320.0 | 18,045.4 | 18,056.3 |
| **CASH FLOW DATA:** | | | | | | |
| Net cash flow from operating activities(5) | 4,618.7 | 3,456.6 | 3,601.3 | 3,359.7 | 3,276.2 | 3,021.5 |
| Operating Cash Flow before changes in working capital | 4,999.4 | 3,741.5 | 3,577.7 | 3,788.1 | 3,861.0 | 3,476.3 |
| Net cash from (used in) investing activities(5)(6) | (2,428.1) | (1,817.2) | (1,351.9) | (2,964.8) | (3,585.0) | (2,581.9) |
| Net cash used in financing activities(6) | (2,509.9) | (1,878.4) | (488.4) | 309.6 | 865.8 | (25.5) |
| Purchases of property, plant and equipment(5) | (2,784.2) | (2,083.7) | (2,104.8) | (2,390.3) | (2,160.3) | (1,649.5) |

(1) For your convenience we have translated the euro amounts of our 2010 selected financial data into U.S dollars using the December 31, 2010 rate of 1.00US$=0.74839€. This does not mean that we actually converted, or could have converted, those amounts into U.S dollars on this or any other date.

(2) In accordance with IFRS 5, Non-current assets held for sale and discontinued operations, the Income Statements of the following entities are presented in a separate line, Net income from discontinued operations, for the years ended December 31, 2009, 2008, 2007 and 2006:

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

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

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

Transportation activities in the United Kingdom, German activities in the Energy services Division, Norway activities in the Environmental services Division and Gabon activities in the Water Division in the process of divestiture at year end 2010.

(3) Amount of dividend per share to be proposed to the Annual Shareholders Meeting of May 17, 2011.

(4) Based on the relevant year-end rate.

(5) Figures for the years ended December 31, 2009, 2008, 2007 and 2006 have been adjusted for the application of the amendments to IAS 7. Replacement costs are now included in Net cash from operating activities: the impact of this reclassification between Operating depreciation, amortization, provisions and impairment losses in cash flows

from operating activities and Industrial Investment in investing activities is -€360.9 in 2009,-€390.3 million in 2008, -€358.4 million in 2007 and -€368.1 million in 2006.

(6) Figures for the years ended December 31, 2009, 2008, 2007 and 2006 have been adjusted for transactions between shareholders without a change in control. These transactions are now recorded in cash flows from financing activities: the impact of this reclassification between Proceeds on disposals of financial assets in investing flows and Transactions with non-controlling interests: partial purchases and sales in financing flows is €50.9 million in 2009, €20 million in 2008, -€75 million in 2007 and €46 million in 2006.

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**Dividends**

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

At our General Shareholders Meeting on May 17, 2011, our shareholders will vote on a dividend payment proposed to be €1.21 per share in respect of our 2010 fiscal year, which will be paid beginning on June 17, 2011. The dividend will be payable in cash or in shares, and the period during which shareholders may choose the option of the payment of the dividend in cash or in shares, subject to applicable legal restrictions, will begin on May 23, 2011 and end on June 7, 2011. Subject to the approval of the General Shareholders Meeting, new shares will be issued with a discount of 10% off the average opening price on Euronext Paris of the shares over the twenty trading days prior to the day of the General Shareholders Meeting approving the dividend, less the amount of the dividend, rounded up to the next highest euro cent. We expect that Bank of New York Mellon as depositary will make this option available to ADR holders. On June 9, 2010, we paid a dividend of €1.21 per share in respect of our 2009 fiscal year. On June 8, 2009, we paid a dividend of €1.21 per share in respect of our 2008 fiscal year. On May 27, 2008, we paid a dividend of €1.21 per share in respect of our 2007 fiscal year. On May 15, 2007, we paid a dividend of €1.05 per share in respect of the 2006 fiscal year. On May 29, 2006, we paid a dividend of €0.85 per share in respect of the 2005 fiscal year.

Dividends paid to holders of our ADSs and non-French resident holders of our shares are subject to a French withholding tax generally at a rate of 25%. However, U.S. holders that are entitled to and comply with the procedures for claiming benefits under the applicable tax treaty may be subject to a 15% rate of withholding tax. See Item 10. Additional Information Taxation for a summary of the material U.S. federal and French tax consequences to holders of shares and ADSs. Holders of shares or ADSs should consult their own tax advisers with respect to the tax consequences of an investment in the shares or ADSs. In addition, dividends paid to holders of ADSs will be subject to a charge by the depositary for any expenses incurred by the depositary of the ADSs in the conversion of euro to dollars.

**Exchange Rate Information**

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

The following table shows the euro/U.S. dollar exchange rate from 2006 through April 18, 2011 based on the noon buying-rate, as defined below, expressed in U.S. dollars per euro. The information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate ). We provide the exchange rates below solely for your convenience. We do not represent that euros were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. For information regarding the effect of currency fluctuations on our results of operations, see Item 5. Operating and Financial Review and Prospects.

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| **Month**<br>**U.S. dollar/Euro** | **Period End** | **Average rate*** | **High** | **Low** |
|---|---|---|---|---|
| April 2011 (through April 15th, 2011) | 1.44 | 1.44 | 1.45 | 1.42 |
| March 2011 | 1.42 | 1.40 | 1.42 | 1.38 |
| February 2011 | 1.38 | 1.37 | 1.38 | 1.35 |
| January 2011 | 1.37 | 1.34 | 1.37 | 1.29 |
| December 2010 | 1.34 | 1.32 | 1.34 | 1.31 |
| November 2010 | 1.30 | 1.37 | 1.42 | 1.30 |
| October 2010 | 1.39 | 1.39 | 1.41 | 1.37 |

| **Year**<br>**U.S. dollar/Euro** | | | | |
|---|---|---|---|---|
| 2010 | 1.34 | 1.33 | 1.45 | 1.20 |
| 2009 | 1.43 | 1.39 | 1.51 | 1.25 |
| 2008 | 1.39 | 1.47 | 1.60 | 1.24 |
| 2007 | 1.47 | 1.38 | 1.49 | 1.29 |
| 2006 | 1.32 | 1.26 | 1.33 | 1.19 |

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

Solely for the convenience of the reader, this annual report contains translations of certain euro amounts into U.S. dollars. These translations should not be construed as representations that the converted amounts actually represent such U.S. dollar amounts or could have been or will be converted into U.S. dollars at the rate indicated or at all. Unless otherwise specified, the translations from euro to U.S. dollars in this annual report are based on US$1.00 = €0.74839, the Noon Buying Rate on December 31, 2010. On April 18, 2011, the exchange rate as published by Bloomberg at approximately 1:00 p.m. (New York time) was US$1.42 per one euro.

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# RISK FACTORS

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

## Risks Relating to the Environment in which We Conduct Our Operations

***We may suffer reduced profits or losses as a result of intense competition.***

Our business is highly competitive and requires substantial human and capital resources and cutting-edge technical expertise in numerous areas. Large international competitors and local niche companies serve each of the markets in which we compete. Accordingly, we must make constant efforts to remain competitive and convince potential customers of the quality and cost value of our service offerings. We may also need to develop new technologies and services in order to maintain or increase our competitive position, which could result in significant costs.

We perform a substantial portion of our business under contracts, often of a long-term nature, with public authorities and industrial and service sector customers. These contracts are often awarded through competitive bidding, at the end of which we may not be retained even though we may have incurred significant expenses in order to prepare the bid. In addition, our contracts may not be renewed at the end of their term, which, in the case of major contracts, may require us to implement costly reorganization measures. When the contract does not provide for the transfer of the related assets and employees to the succeeding operator and/or appropriate compensation to cover our costs of termination, the impact on our results could be substantial.

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

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

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

We hold assets, earn income and incur expenses and liabilities in a variety of currencies. Our financial statements are presented in euros. Accordingly, when we prepare our financial statements, we must translate our foreign currency-denominated assets, liabilities, income and expense items into euros at applicable exchange rates.

Consequently, fluctuations in the exchange rate of the euro against these other currencies can affect the value of these items in the financial statements, even if their intrinsic value is unchanged in the original currency. For example, an increase in the value of the euro may result in a decrease in the reported value, in euros, of our investments held in foreign currencies.

We are also subject to risks related to fluctuations in interest rates. As of December 31, 2010, approximately 34.3% of our outstanding financial debt bore interest at floating rates, after taking into account hedging instruments (see Note 29.1.1 to our Consolidated Financial Statements). Fluctuations in interest rates may also affect our future growth and investment strategy since a rise in interest rates may force us to finance acquisitions or investments or refinance existing debt at a higher cost in the future.

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

As an operator of energy installations and, to a lesser extent, as a result of our landfill site business, we are exposed to the inherent risks of the greenhouse gas allowance system introduced by the European Union in the framework of the Kyoto Protocol. The rise in greenhouse gases in the atmosphere led certain States and the international community to introduce regulatory provisions. The Kyoto Protocol, which was signed in December 1997, came into force in February 2005. In accordance with this Protocol, Directive 2003/87/EC of October 13, 2003 created an emission allowance trading system within the European Union, known as ETS (*Emission Trading Scheme*). The resulting system, which began in 2005, led to the creation of National Allowance Allocation Plans (NAAP).

These plans are being implemented in several phases. The pilot phase (NAAP 1), which aimed to set a price on carbon and put in place national registers, ran from January 1, 2005 to December 31, 2007. The ongoing phase 2 (2008-2012) reflects the implementation of the Kyoto Protocol. Allowances are granted free of charge to facilities. If a company exceeds its allowance then it must either adapt its facilities or purchase extra allowances, at market price, from a company that does not need them. Phase 3 (2013-2020) will be a strengthening of the system with a view to reducing greenhouse gas emissions by 20% by 2020 (compared to 1990). As a consequence of this, from January 1, 2013, some of the allowances needed by our Group will have to be purchased (through an auction system), which is expected to generate additional costs.

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

In addition, as shown by the cases of theft in the $CO_2$ allowances market in 2010 and 2011, we are exposed to the risk of the allowances that we hold being stolen and to the risk of receiving allowances that have previously been stolen.

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

While our operations are concentrated mainly in Europe and the United States (sales generated outside of these regions represented approximately 14.5% of total Group revenue in 2010), we conduct business in markets around the world. The risks associated with conducting business in some countries, in particular outside of Europe, the United States and Canada, can include the non-payment or slower payment of invoices, which is sometimes aggravated by the absence of legal recourse for non-payment, nationalization, employee-related risks, political and economic instability, increased foreign exchange risk and currency repatriation restrictions. We may not be able to insure or hedge against these risks. Furthermore, we may not be able to obtain sufficient financing for our operations in these countries. The setting of public utility fees and their structure may depend on political decisions that can impede for several years any increase in fees, such that they no longer cover service costs and appropriate compensation for a private operator.

Unfavorable events or circumstances in certain countries may lead us to record exceptional provisions, write-downs and/or impairments, which could have a material adverse effect on our results.

***Our business operations are subject to geopolitical, criminal and terrorist risks.***

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

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**Risks Relating to Our Operations**

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

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

In addition, a substantial portion of our Environmental Services Division s revenue is generated by its sorting-recycling and trading businesses, which are particularly sensitive to fluctuations in the price of recycled raw materials (paper and ferrous and non-ferrous metal). A significant drop in the price of recycled raw materials, combined with the impact of the economic crisis on volumes, affected our operating results in 2009, and a significant, long-term drop could affect our operating results in the future.

***Our business is affected by variations in weather conditions.***

Certain of our businesses are subject to seasonal variations. For example, Dalkia generates the bulk of its operating results in the first and fourth quarters of the year, corresponding to periods in which heating is used in Europe, while in the water sector, household water consumption tends to be highest between May and September in the northern hemisphere. Accordingly, these two businesses may be affected by significant deviations from seasonal weather patterns. This risk is offset in certain cases, first by the variable compensation terms included in contracts, and second by the geographical coverage of our businesses. The impact of weather conditions, together with the seasonal nature of our businesses, may nonetheless affect our results of operations.

***Changes in certain cogeneration contracts may affect our business.***

We are exposed to risks associated with fluctuations in electricity prices, primarily through Dalkia, which is a power producer with approximately 7,151 MW of installed power capacity. While a majority of the production installations are operated under purchasing regimes that insulate us from electricity market risks, we have direct market exposure with respect to production in the United Kingdom and Italy (73 MW installed capacity), as well as exposure to local market fluctuations with respect to approximately 2,000 MW of installed capacity, principally in the United States and Central and Eastern Europe. In addition, purchase commitments in France with respect to a total of approximately 736 MW of installed capacity are scheduled to expire between January 2011 and November 2013, increasing our potential risk. While we intend to manage this risk through the use of contracts with counterparties active in these markets, we cannot assure you that these methods will be effective to protect us from these risks.

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

We conduct the majority of our operations through long-term contracts. The initial circumstances or conditions under which we enter into a contract may change over time, which may result in adverse economic consequences. Such changes vary in nature and foreseeability. Certain contractual mechanisms may help in addressing such changes and restoring the initial balance of the contract, but they may not be fully effective. The implementation of such mechanisms may be triggered more or less automatically by the occurrence of a given event (for instance, price indexing clauses), or they may call for a procedure to revise or amend the contract with the agreement of both parties or of a third party. Accordingly, we may not be free to adapt our compensation, whether this consists of a price paid by the customer or a fee levied on end users based on an agreed-upon scale, in line with changes in our costs and demand. These constraints on us are exacerbated by the long-term nature of contracts. In all cases and most particularly with regard to public service management contracts, our actions must remain within the scope of the contract and ensure continuity of service. We cannot terminate unilaterally and suddenly a business that we believe is unprofitable, or change its features, except, under certain circumstances, in the event of proven misconduct by the customer.

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

Through Veolia Water Solutions & Technologies, we perform turnkey contracts for the design and construction of infrastructure in the water sector, compensated at non-adjustable fixed prices. In addition, our operational contracts can extend over long periods (up to several decades for the contracts of Veolia Eau in China). Our compensation is often subject to the fulfillment of certain performance objectives the non-fulfillment of which results in imposition of penalties.

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

In accordance with standard practice, to the extent possible we seek to cover these risks contractually. We may, however, encounter difficulties over which we have no control, relating, for example, to the complexity of certain infrastructure, weather or economic variations, construction contingencies, the purchase and ordering of equipment and supplies, or changes in performance schedules. In certain cases, we must rely on existing information or studies provided by the customer that may prove inaccurate or inconsistent, or we may be required to use existing infrastructure with poorly-defined operating characteristics. These may lead to non-compliance with contract specifications or generate additional costs and construction delays, triggering, in certain cases, reductions in our revenue or contractual penalties.

In certain cases, we must take into consideration public or private customer requests for additional work, whether or not such changes were provided for contractually. These changes may result in changes in the services provided, necessary investments or the invoicing method.

While contracts generally include clauses providing for the payment of additional compensation should additional work be requested or should events such as those detailed above occur, we are exposed to the risk of not obtaining amounts sufficient to cover the resulting additional costs, or of obtaining such amounts only after the passage of time.

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

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

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

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

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***Some of our activities could cause damage to persons, property or the environment.***

Some of our activities could cause damage to persons (including illness, injury or death), business disruption, and damage to real or personal property or the environment. It is our general policy to contractually limit our liability and to take out insurance policies that cover our main accidental and operational risks. However, these precautions may prove to be insufficient, and this could generate significant costs for us. For more information, please refer to the risk factors describing environmental, health and safety compliance below.

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

We have incurred and will continue to incur significant costs and other expenditures to comply with our environmental, health and safety obligations as well as in sanitary risk management. We are continuously required to incur expenditures to ensure that the installations that we operate comply with applicable legal, regulatory and administrative requirements, including specific precautionary and preventative measures, or to advise our customers so that they undertake the necessary compliance work themselves.

Each of our businesses, moreover, may become subject to stricter general or specific laws and regulations, and correspondingly incur greater compliance expenditures in the future. If we are unable to recover these expenditures through higher prices, this could adversely affect our operations and profitability. Moreover, the scope of application of environmental, health, safety and other laws and regulations is increasing constantly. These laws and regulations now govern all discharges in a natural environment, the collection, transportation and disposal of all types of waste, the rehabilitation of sites at the end of operations, as well as ongoing operations at new or existing facilities.

The REACH European Regulation of December 18, 2006 on the Registration, Evaluation, Authorization and Restriction of Chemicals, applicable since June 1, 2007 in Member States of the European Union and in Norway, Liechtenstein and Iceland, organizes and provides a framework for the registration of chemical substances manufactured, imported, marketed, recycled, enhanced or simply used (in their initial form or in preparations) when the quantity handled exceeds one ton per year and per legal entity. The application of this regulation creates constraints on us when using certain products and in connection with protection of workers. Furthermore, the adaptation of REACH in certain countries could force us to arbitrate between certain registrations and this could have financial and coherence implications. For information on environmental and health and safety risks, please refer to Item 4. Information on the Company Environmental Regulation, Policies and Compliance below.

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

The increasingly broad laws and regulations expose us to greater risks of liability, in particular environmental liability, including in connection with assets that we no longer own and activities that have been discontinued. For example, the European directive of April 21, 2004 on environmental liability introduces throughout the European Union a framework of environmental liability for serious environmental damage or threat of damage. This directive was enacted into French law on August 1, 2008 and extends the scope of strict liability for certain serious environmental damage. With regard to the prevention of technological and environmental risks and the conduct of remediation activities, the French law of July 30, 2003 strengthens obligations to restore certain sites at the end of their operating life, making the accrual of provisions mandatory under certain conditions. In addition, we may be required to pay fines, repair damage or undertake improvement work, even when we have conducted our activities with all due care and in full compliance with operating permits. Regulatory authorities may also require us to conduct specific investigations and undertake site restoration work for current or future operations or to suspend activities as a result, in particular, of an imminent threat of damage or a change in applicable regulations.

In addition, we often operate installations that do not belong to us, and therefore do not always have the power to make the investment decisions required to bring these installations into compliance. When the customer on whose behalf these installations are operated refuses to make the required investments, we may be forced to terminate our operations.

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Despite this restrictive trend towards increasing regulation and constant efforts to improve risk prevention, accidents or incidents may still occur and we could be the subject of legal action to compensate damage caused to individuals, property or the environment (including the ecosystem). In such instances, these potential liabilities may not be covered by insurance programs that we have taken out, or may be only partially covered. The obligation to take certain measures or compensate for such damage might have a material adverse effect on our activities, our resources, or our profitability.

***Specific measures are required in connection with certain technological risks.***

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

The new system of registration applicable to Environmentally Classified Installations, which created a system of registration half-way between authorization and reporting, could have an impact on our business. This is due to the fact that some businesses with which we are in competition could benefit from a simplified administrative procedure under the ICPE regulatory framework, which would be more flexible than that with which our businesses must comply. See Item 4. Information on the Company Environmental Regulation, Policies and Compliance below.

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

Our operations, which we carry out on behalf of industrialists or localities, include the provision of essential services and always require human labor for their implementation. We cannot guarantee that we will not encounter labor disputes (strikes, walkouts or the destruction of property in extreme cases) that could interrupt our operations over a significant period of time. As we are not covered by business interruption insurance for such interruptions, any such disputes could have an adverse effect on our financial condition as well as on our reputation.

In addition, our activities require a wide range of continually evolving skills in order to keep up with changes in our sector, in particular in our environment-related business, and we must be attentive to the principles of non-discrimination and equal treatment and opportunities with respect to recruitment and employment. We may be unable to seek out new profiles, train staff in new techniques and recruit and train managers in every country where we do business and may be unable to face all of the human challenges inherent in the growth of our business. We also may incur significant costs in managing employee health and safety and may face increased work accidents and illness (both in frequency and severity) despite our efforts.

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**Risks Relating to Our Shares and ADSs**

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

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

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

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

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

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

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**ITEM 4.**

**INFORMATION ON THE COMPANY**

## HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

Our operations are conducted through four Divisions, each specializing in a single business sector: Water, Environmental Services, Energy Services and Transportation. Our principal operating subsidiaries in each Division are Veolia Eau Compagnie Générale des Eaux (Water), Veolia Propreté (Environmental Services), Dalkia (Energy Services) and Veolia Transport (Transportation). When referring to the activities of our Divisions, we refer to the Division names, and when referring to entities within the Group, we refer to their legal names.

### Historical Background

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

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

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

In April 1999, in order to better distinguish the separate existence of its two main businesses, communications and environmental services, Vivendi created our Company under the name Vivendi Environnement to conduct all of its environmental management activities, which were then conducted under the names Veolia Water (Water), Onyx (Environmental Services), Dalkia (Energy Services) and Connex (Transportation).

On July 20, 2000, Vivendi Environnement shares were listed on the Premier Marché of Euronext Paris, which became the Eurolist of Euronext Paris on February 21, 2005 and Euronext Paris on 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 on the New York Stock Exchange.

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

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

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

In November 2005, we rolled out a new brand system aimed at increasing consistency between our Divisions and our visibility by strengthening the identity and common culture of Veolia Environnement around our service values. Our Water, Environmental Services and Transportation Divisions are now united under a single brand, "Veolia," which is linked to the name of their activity. Our Energy Services Division primarily operates under the brand "Dalkia."

## BUSINESS OVERVIEW

### 2010 Revenues by Division

| (€ million) | **Water** | **Environmental Services** | **Energy Services** | **Transportation** | **Total Consolidated** |
|---|---|---|---|---|---|
| **Europe** | **8,559.4** | **6,739.8** | **6,817.5** | **4,388.0** | **26,504.7** |
| Of which: France | 4,789.3 | 3,257.3 | 3,665.2 | 2,326.0 | 14,037.8 |
| Germany | 1,434.6 | 1,104.5 | 2.4 | 602.8 | 3,144.3 |
| United Kingdom | 625.5 | 1,550.7 | 190.7 | 50.9 | 2,417.8 |
| Other European countries | 1,710.0 | 827.3 | 2,959.2 | 1,408.3 | 6,904.8 |
| **United States** | **686.2** | **1,267.4** | **326.6** | **963.4** | **3,243.6** |
| **Rest of the world** | **2,882.3** | **1,305.0** | **437.7** | **413.3** | **5,038.3** |
| Of which: Middle East | 491.9 | 87.0 | 85.9 | 30.6 | 695.4 |
| Oceania | 262.3 | 606.4 | 41.0 | 183.1 | 1,092.8 |
| Asia | 1,330.6 | 256.3 | 80.4 | 91.3 | 1,758.6 |
| Rest of the world | 797.5 | 355.3 | 230.4 | 108.3 | 1,491.5 |
| **TOTAL** | **12,127.9** | **9,312.2** | **7,581.8** | **5,764.7** | **34,786.6** |

### Our Overall Strategy

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

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

Founded on an asset base that has been largely renewed over the last decade, our operations generate substantial cash flows which, after maintenance-related investment and interest and tax charges, are shared among shareholders, lenders and the business, enabling growth.

Over the last fifteen years, we have developed and adapted a range of management models in several countries. This ability allows us to benefit from the considerable growth in environmental services markets around the world, by positioning ourselves in areas of high economic growth in countries which have already demonstrated an acceptance of the outsourcing model and a respect for contractual commitments.

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We target balanced and responsible growth on all levels, based on the long-term nature of our commitments, the size of our needs and opportunities as well as the impact of our activities on the environment. We consider the long-term interests of all stakeholders shareholders, lenders, employees, customers and local communities.

***We are the corporate benchmark for sustainable development and we implement a growth policy that is focused, profitable and founded on strict financial discipline.***

To this end, we have established clear priorities for the allocation of our scarce resources, both human and financial:

target markets offering the best growth opportunities, in which long-term demand is increasing rapidly and where the services currently available are still inadequate or incomplete;

use technological progress and expertise to propose innovative and discriminating technical and operational solutions;

identify complex problems enabling business synergies to be generated between our various areas of expertise or requiring understanding of unusual organizational processes;

capitalize on economies of scale by grouping the entire service offering around major contracts, ensuring smaller contracts achieve the required level of efficiency.

***In order to fully benefit from this potential, we must be in a position to capitalize on new opportunities and continually adapt.***

In recent years, we have implemented a permanent profitability improvement policy, generating annual productivity gains and reducing our cost base. We have been able to leverage several initiatives that generated annual savings of €250 million during the economic crisis. This program, known as our Efficiency Plan, was launched pursuant to our strategic objectives set in 2007 and included the introduction of a procurement policy, operational plans, reductions in overhead costs and resource pooling, contract portfolio management and industrial asset management. For more information see Item 5. Operating and Financial Review and Prospects Operating Income. In addition to these continuing efforts, we have started to overhaul our procedures and organizational structure, including the implementation of a coherent management framework applicable to all businesses and operational assessments of profit centers with systematic and comprehensive performance reviews covering all resources used. These new approaches are targeted to produce annual gains of €300 million from 2013.

We have performed an in-depth review of our business portfolio. Approximately 15% of our long-term invested capital, corresponding to €4 billion in assets, does not fit with our current priorities and could be divested, in whole or in part, in the coming years. This divestiture program will generate additional financial resources over and above operating cash flows, which can be used for our geographical expansion, make us more flexible and expand our opportunities.

***Given the large number of growth opportunities, we can and must be selective.***

Priority sectors have been identified in the four Divisions. In the Water Division, priority will be given to major concession contracts in Europe and Asia and to large industrial projects in developing countries. In the Environmental Services Division, the focus will be on hazardous waste processing in Europe, the United States and developing countries, on integrated contracts adopting a variety of public-private partnership models and on the development of sorting and recycling activities in Europe and North America. In the Energy Services Division, priority will be given to local energy solutions, in particular biomass fueled co-generation paired with heating networks and industrial platforms, as well as major municipal contracts for energy optimization. Finally, in the Transportation Division, priority will be given to the ramp-up of regional rail services, tramway and metro networks in major cities and on-demand transport.

***These different priorities are at different phases of development depending on the regulatory and economic maturity of each geographical market.***

Our strong positions in France and, depending on the maturity of our operations, in the United Kingdom, Germany and the United States, generate stable and long-term cash flows but are confronted with challenges such as the long-term declines in volumes and competition from the public sector, such as state-owned businesses and former monopolies. There are also real growth opportunities, as increasing pressure on public finances and increasingly strict environmental regulations generate a need for greater efficiency. Several growth areas have been identified, offering a rapid return on investment with low execution risk.

Several recently developed platforms are expected to become key strengths in the future. In Central Europe, in the Water and Energy Services Divisions in particular, several opportunities may be developed out of existing operations, either in the form of new public-private partnerships or through adjacent industrial development. In China, we now have an installed base serving over 40 million customers and generating annual revenue in excess of €600 million, compared to only 11 million customers and revenue of €80 million in 2004. The ramp-up of these operations will continue in the coming years, accompanied by new opportunities particularly in the industrial sector.

We could invest up to €8 billion in total over the next three years to implement our growth strategy. Investment will be focused on consolidating strong positions and existing contracts of developing platforms; however, one-third of this investment will be earmarked for new projects in Western Europe and North America as well as Central Europe and emerging countries.

This strategy is intended to produce medium-term growth in operating income and increases in ROCE (return on capital employed), while maintaining stable debt levels.

**Our Strategy by Division**

***Water***

Our Water Division intends to continue to expand its services around the world, while striving to ensure the quality and safety of the water it provides, the conservation of natural resources and the protection of the environment.

The growth potential of the international market for water services is enhanced by four main factors:

population growth and higher urban density;

the tightening of environmental standards and health regulations;

growing acceptance of the delegated management model and public-private partnerships as alternatives to public management (although this trend has recently slowed), and;

the on-going refocusing by industrial customers on their core businesses.

Given this growth potential, we will continue to adopt a selective approach to optimize the allocation of our resources, operating costs and profitability. Optimizing the allocation of resources in the countries where we enjoy strong positions and have mature contracts (France, United Kingdom, Germany), entails the implementation of some defensive investment, i.e., additional investments aimed at improving the growth and profitability of existing contracts. To take advantage of market opportunities, our Water Division capitalizes on its technical expertise, its experience in managing customer relations and the mobilization of local teams in order to anticipate the future needs of public authorities. It focuses, in particular, on developing employee skills so as to meet future challenges. Its technical expertise in areas such as desalination and wastewater recycling solutions represents a major effort to adapt to on-going changes in the market.

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***Environmental Services***

Through our Environmental Services Division, we intend to continue our expansion as the global benchmark in this sector.

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 the dawn of a new age where raw materials and energy are rare, accelerating the transformation of waste treatment and recovery methods. As a result, experts who can provide long-term services under cost-effective conditions and in compliance with environmental regulations are highly sought after.

In this favorable market environment in Europe, the United States and Asia, Veolia Propreté will focus its efforts to:

increase the profitability of its activities by renegotiating fees, maximizing the use of its production tools and reducing structural costs, while seeking, wherever possible, to generate economies of scale with our other businesses;

enhance its waste processing capabilities, by accompanying the transformation of waste processing methods and developing its recovery technologies; and

strengthen its competitive advantages and the added value offered by its services, while developing the technical content of its businesses and capitalizing on its command of the entire waste management chain, in order to offer industrial and municipal customers comprehensive waste management solutions.

In particular, the following growth sectors have been identified and prioritized:

processing and recycling industrial hazardous waste in Europe, the United States and certain developing countries;

PFI (Private Finance Initiative) and Public Private Partnership (PPP) integrated waste management contracts in Europe; and

sorting and recycling of non-hazardous waste in Europe and North America.

***Energy Services***

Through our Energy Services Division, we are a global player in the management of energy consumption across all activity sectors: industry, residential, service-sector, buildings and public equipment. Our strategy focuses on establishing ourselves as a leader in new solutions that will accompany the energy transformation of the coming decades towards a more sustainable, less energy-intensive world, which is more respectful of the environment and more conducive to climate stability. Opportunities already exist in this area and will increase significantly, driven by increasingly rare raw materials, primarily fossil fuels, the resulting rise in prices and increasing political and regulatory pressure in all regions of the world.

After the recession triggered by the recent economic crisis, 2010 witnessed a resurgence of this trend: crude oil finished the year at nearly US$100 a barrel, pushed by renewed growth in global demand; Europe launched its third climate package and is preparing a new directive on energy efficiency; global investment in cleantechs enjoyed an upsurge; and the Cancun climate conference made substantial last-minute progress toward agreement on globally coordinated solutions to fight greenhouse gas emissions.

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In this extremely favorable context, Dalkia s strategy focuses more-than-ever on the two main pillars of energy efficiency and renewable energies, with energy produced from biomass at the forefront. The promotion of energy efficiency is now marketed through energy performance contracts, which have been rolled-out across all activity sectors: industrial sites and all types of buildings. The economics of these contracts focus on progressively achieving precise energy-consumption objectives through technological solutions and improved management. In the renewable energies sector, Dalkia favors the production of heat and/or electricity from biomass, applies its existing experience in geothermal energy and markets solar-energy solutions whenever appropriate.

Heating and cooling networks continue to offer considerable growth opportunities. As a result of production plants which often also generate electricity, Dalkia is well positioned in the growing market for local energy production and distribution, and can offer significant green solutions in the form of biomass.

The geographical development strategy of the Division breaks down as follows:

continued growth in Europe across the entire business line, particularly for major heating infrastructure in Central Europe;

intensifying the existing presence in North America, focusing on the management of heating and cooling networks and new biomass opportunities;

development of large cooling networks and standard energy management services at sites in the Middle East; and

consolidation of its presence in China focusing on major infrastructure, heating networks and serving industrial sites.

Our services are based on significant research and development activities, aimed at marketing high performance solutions that benefit from the latest technological discoveries.

***Transportation***

Through our specialized subsidiary, Veolia Transport, we aim to become a major transportation service provider on a worldwide scale.

Between 2000 and 2030, the proportion of the world population living in urban areas is expected to increase from 50% to 60%, and urban transportation needs are expected to increase by 50% by 2020 (source: International Association of Public Transport). These demographic changes raise concerns regarding the environment and urban congestion and help make public transportation services a major concern for local authorities and city dwellers. In addition, transportation is linked to the environmental performance of cities and regions, regional competiveness, development and growth, the identity and solidarity of citizens and quality of life. The major challenges in this sector are tied to an ever-increasing demand for mobility, with growing requirements in terms of fluidity and flexibility.

Public transportation networks must also address environmental concerns and propose higher performance solutions to improve the quality of city travel and reduce automobile congestion.

Veolia Transport s strategy is to improve its performance in its core business of passenger transportation, with the following priorities:

targeting geographically key markets, including a number of emerging geographical areas;

constantly improving business expertise in all local land transportation methods;

innovating both in new transportation services (e.g., bicycles, car sharing, collective taxis) and new value added services delivered to customers via information technology devices (ticketing, real-time information); and

researching and developing new sustainable development solutions (new green fuels, electric vehicles, etc.).

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In 2011, Veolia Transport s strategy will be implemented through the new entity resulting from the Veolia Transport - Transdev combination completed on March 3, 2011 (see Item 5. Operating and Financial Review and Prospects Overview Major Developments in 2010 Overview Acquisitions, Divestitures and Partnerships Partnerships and Item 10. Additional Information Material Contracts below, as well as Note 42 to the Consolidated Financial Statements contained in Item 18. below).

**Our Services**

***Water***

Through Veolia Eau-Compagnie Générale des Eaux, we are the world s leading provider of water and wastewater services for public authorities and industrial companies.[(1)] In addition, Veolia Eau, through its subsidiary Veolia Water Solutions & Technologies, is the world leader 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 100 million people and supplies 71 million people with wastewater services.

As of December 31, 2010, Veolia Eau has 96,260 employees around the world.[(2)] The Water Division is present in sixty-seven countries, principally in France for historical reasons, but also in the United Kingdom, Germany, Italy, Belgium, the Czech Republic, Slovakia and Romania. The Asia-Pacific region (mainly China, Korea, Japan and Australia) also remains an important development objective, with the signing of a number of significant contracts with municipal and industrial customers over the past several years. Veolia Eau also has a presence in the United States through its contracts for the operation and maintenance of water and wastewater treatment plants, including its contract with the city of Milwaukee. Finally, Veolia Eau has established a presence in the Middle East and Africa, primarily in Morocco and Gabon. Thanks to our coordination of a network of research centers in France and abroad, Veolia Eau has mastered numerous major technologies and tools within the water sector. Veolia Eau is therefore able to offer highly-skilled services in the areas of sanitary protection, spillage reduction, productivity enhancement of water networks and plants, and preservation of resources.

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

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Water Division, after elimination of inter-company transactions. For a breakdown of total revenues by category of activity and geographic market for each of the last three financial years, see Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Revenue by Geographical Region and Results of Operations Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Revenue by Geographical Region below.

**Water***

| (€ million) | **2010** | **2009** | **Change** |
|---|---|---|---|

| | | | **2010/2009** |
|---|---|---|---|
| Revenue | 12,127.9 | 12,318.3 | -1.5 % |
| Operating income | 1,020.3 | 1,145.4 | -10.9 % |

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

(1) Source: Global Water Intelligence (GWI), November 2010 and Pinsent Masons Water Yearbook 2010-2011.

(2) Employees managed as of December 31, 2010, including employees allocated by Proactiva and Proxiserve to their water business.

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**Overview of the Water Division**

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

***Service Contracts with Public Authorities and Industrial Customers***

Our water business focuses mainly on water and wastewater management services for public authorities and industrial customers. Veolia Eau provides integrated services that cover the entire water cycle. Its activities include the management and operation of large-scale, customized drinking water plants, wastewater decontamination and recycling plants, drinking water distribution networks and wastewater collection networks. Veolia Eau also manages customer relations, providing billing services and call centers. Veolia Eau and its subsidiaries have provided outsourced water services to public authorities in France and in the rest of the world for more than 150 years under long-term contracts tailored to local environments. Veolia Eau continues to develop its service offering for industrial customers, capitalizing on its local presence in many areas and an adapted organizational structure. As a result, it is active in this field in France, the United Kingdom, Germany and the Czech Republic, as well as in Asia (South Korea and China in particular) and the United States. Through VE Industries, Veolia Eau also contributes to the development of our common service offerings, in particular in Europe.

***Engineering and Technological Solutions for the Treatment of Water***

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

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*Key factors*

The key factors that may 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 and the ability to obtain price increases in line with Group objectives within the planned time-period. 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;

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

**Description of Activities in 2010**

Veolia Eau activity levels in 2010 were down slightly compared to 2009 (a decrease in revenues of 1.5%). Despite the loss of the Paris contract, 2010 was marked by the near stability of operating activities in France; the acquisition of certain United Utilities businesses in Europe and strong growth in Asia was offset by weakness in the construction sector both in France and abroad.

In France, Veolia Eau provides approximately 24 million residents with drinking water and 17 million with wastewater services. Public service delegated management contracts renewed in 2010 (excluding the contract with SEDIF, the Ile-de-France region Water Authority) represent estimated total cumulative revenue of almost €1,030 million. The main event of the year, however, was the renewal by SEDIF of its confidence in Veolia Eau, with a 12-year delegation contract for the production and distribution of drinking water, representing total cumulated revenue of approximately €3 billion. The other successes of the fiscal year include the 20-year concession arrangement to build and operate the Saint-Denis treatment plant on the French island Réunion, the renewal of the Fréjus Saint-Raphaël, Saint-Jean Cap Ferrat, Quimper, Verdun and Vitré drinking water contracts and the renewal of the Forbach, Bergerac, Carhaix, Mandelieu-la-Napoule and Granville wastewater treatment contracts. In a highly competitive environment, Veolia Eau also lost some contracts, including the Saint Dizier drinking water contract and the Quimper and Strasbourg wastewater treatment contracts.

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We also continued our sustainable development policy launched in recent years, refining our contractual model with the help of specific offerings, in order to satisfy customer wishes and enable them to meet their sustainable development objectives (biodiversity, carbon footprint, etc.). Finally, as in 2009, the fall in unit consumption continued (1% fall in volume sold compared to 2009).

Activity rose significantly in Europe (7.1% increase in revenue, or 4.1% at constant consolidation scope and exchange rates) mainly due to a rise in volumes observed by our German companies.

In Asia, 2010 was marked by the continued ramp-up of the Tianjin Shibei contract in China, the start of the Hong Kong sludge treatment contract and by the start of the Gold Coast operating contract in Australia, and progress with the construction of the Rosehill-Camelia projects near Sydney.

In the United States, 2010 was marked by the signature of an agreement between the City of Indianapolis, Citizens Energy Group and Veolia Water North America, which, subject to the settlement being approved by the Indiana Utility Regulatory Commission (IURC), will lead to the early termination of the Indianapolis contract.

***Principal contracts***

The following table shows the principal contracts signed or renewed in 2010 with either public authorities or industrial or commercial companies.[1]

| Public authority or company and location thereof | Month of signature of contract | New contract or renewal | Contract term | Estimated cumulative revenue (€ euros) | Services provided |
|---|---|---|---|---|---|
| ***France*** | | | | | |
| SEDIF (Ile de France) | June | Renewal | 12 years | 3 billion | Public service delegation arrangement for the production and distribution of drinking water |
| Marquette-lez-Lille | October | New | 4 + 6 years construction and operation | 103 million | Contract to design and build a wastewater treatment plant |
| CINOR (Réunion) | May | New | 20 years | 270 million | Contract to design, build, finance and operate a wastewater treatment plant |
| ***Asia*** | | | | | |
| Hong Kong | October | New | 37 months of construction and 15 years of operation | 414 million for the construction and 20 million per year for the operation | Contract to design, build and operate a sludge treatment plant |
| Dongbu (Korea) | April | New | 15 years | 183 million | Acquisition and operation of |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | wastewater and process water installations |
| Osaka (Japan) | October | Renewal | 4 years | 44 million | Meter reading |
| ***South America*** | | | | | |
| Petrobras (Brazil) | August | New | 2 years | 30 million | Contract to design and build a water treatment plant |
| ***North America*** | | | | | |
| New London (CT) | December | Renewal* | 10 years | 53 million | Operation and maintenance of drinking water and wastewater treatment services |
| Buffalo (NY) | July | New | 10 years | 38 million | Operation and maintenance of drinking water services |
| Fulton County (Georgia) | July | New | 5 years | 38 million | Operation and maintenance of wastewater treatment services |

* Early renewal: the contract previously expired in 2017 and now expires in 2027.

(1) Revenues estimated under the contracts won in 2010 have been converted into euros at the closing exchange rate as of December 31, 2010. Therefore, the amounts listed here may differ from the amounts announced in earlier Group press releases.

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**Principal Acquisitions and Divestitures in 2010**

The main acquisition and divestitures during the year include:

in France, as part of the Memorandum of Understanding signed by Suez Environnement and Veolia Environnement on December 19, 2008 concerning the redistribution of the joint subsidiaries held by the two groups, which came into effect in March 2010, and resulted in:

the sale to Suez subsidiary Lyonnaise des Eaux (LDE) of the following companies: Société des Eaux du Nord, Société Nancéienne des Eaux, Société des Eaux de Versailles et de Saint Cloud, Société Martiniquaise des Eaux, Société Guyanaise des Eaux, Société Stéphanoise des Eaux, SERAM and Société Provençale des Eaux; and

the acquisition by Veolia Eau - Compagnie Générale des Eaux of additional interests in the following companies: Société des Eaux d Arles, Société des Eaux de Marseille and certain of its subsidiaries and in particular Société Industrielle du Littoral Méditerranéen and Bronzo Environnement. Veolia Eau - Compagnie Générale des Eaux now holds more than 97% of the share capital of these companies.

in the rest of Europe, the acquisition in November 2010 of certain United Utilities Group businesses, including:

a 77.1% shareholding, via Veolia Voda, in Sofiyska Voda, which operates water supply and treatment services for the city of Sofia in Bulgaria;

a 33.2% shareholding, via Veolia Voda, in Aqua SA, which operates water supply and treatment services for the city of Biesko Biala in southern Poland; and

a portfolio of construction and management contracts for water treatment plants in the United Kingdom.

Other transactions in the rest of Europe in 2010 include the following:

the sale of 9.52% of Veolia Voda to the International Finance Corporation (IFC), reducing Veolia Eau Compagnie Générale des Eaux s shareholding in Veolia Voda to 75.2%;

the sale in December 2010 to Rabobank and Evides of a portion (29%) of our shareholding in Delfluent B.V, the company operating the Hague BOT contract, reducing our shareholding in this company to 11%; and

the buyout by Veolia Water Systems of the remaining 25% minority interests in SIBA Spa increasing our shareholding in Siciliacque (in Sicily) and Sorical (in Calabria) to 74.7% and 46.5%, respectively.

Following the creation, acquisition or consolidation of 64 companies in 2010 and the liquidation, divestiture or transfer of 37 companies, the Water Division (excluding Proactiva) is comprised of 755 companies as of December 31, 2010 compared to 728 in 2009.

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*Environmental Services*

Through our subsidiary Veolia Propreté, we are the number one reference in the environmental services sector,[1] where we are involved in waste collection, recycling and processing and handle waste in all forms and at all stages of the waste cycle. Veolia Propreté manages liquid and solid waste, non-hazardous and hazardous waste (with the exception of nuclear waste) from collection to recovery, on behalf of both public authorities and industrial customers.

As of December 31, 2010, Veolia Propreté employed 84,740 people[2] around the world, in approximately 33 countries.

Veolia Propreté is a partner of over 750,000 industrial and service-sector customers[3] and serves more than 75 million residents on behalf of public authorities.

As of December 31, 2010, Veolia Propreté managed approximately 817 waste processing units.

The term of Veolia Propreté contracts usually depends on the nature of services provided, applicable local regulations and the level of capital expenditure required. Collection contracts usually last from one to five years, while waste processing contracts can last anywhere 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 infrastructure).

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. For a breakdown of total revenues by category of activity and geographic market for each of the last three financial years, see Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Revenue by Geographical Region and Results of Operations Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Revenue by Geographical Region below.

**Environmental Services***

| (€ million) | **2010** | **2009** | **Change 2010/2009** |
|---|---|---|---|
| Revenue | 9,312.2 | 8,731.5 | 6.7 % |
| Operating income | 610.4 | 449.4 | 35.8 % |

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

(1) Sources: internal studies and Eurostat.

(2) Employees managed as of December 31, 2010, including 6,567 Proactiva employees allocated to its environmental services business.

(3) The commercial figures appearing in this section Environmental Services of Item 4 (in terms of customers, number of residents served, tonnage, etc.) do not include Proactiva, unless otherwise indicated.

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**Overview of the Environmental Services Division**

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

Downstream, 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, referred to as recycling or material recovery;

transforms organic material into compost to be returned to the soil, referred to as composting or agronomic recovery;

processes waste in the least damaging way possible, through landfill sites or incineration; and

produces electricity or heat using waste in landfill sites or incineration, referred to as waste-to-energy recovery.

The services referred to above fall into three major business sectors: environmental services and logistics for public sector 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:

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, allowing the identification and marketing of innovative, tailored solutions that set us 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 Item 3. Key Information Risk Factors above and Environmental Regulations, Policies and Compliance below);

the quality of employee management in sectors that are often labor-intensive (limiting absenteeism and labor disputes, developing skills and training);

the ability to innovate using new technologies (processing, rolling stock) and processes (sorting-recycling), based on close surveillance of changes in technology, regulation and the competitive environment;

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.);

management of economic and financial risks: changes in sales volumes, volatility of raw material prices (fuel, materials sold such as paper and metals), customer risk, foreign exchange and interest rate risk (see Item 3. Key Information Risk Factors above).

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***Environmental Services and Logistics for Public Sector 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, Alexandria, 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 2010, more than 75 million people around the world benefited from Veolia Propreté s waste collection services. Veolia Propreté collects household waste through door-to-door pickup or through pickup at designated drop-off sites, and collects commercial and non-hazardous industrial waste. It maintains the cleanliness of green areas and carries away green waste and also collects hazardous waste on behalf of its service sector and industrial customers, including hospital waste, laboratory waste and oil residue (ships, gas stations and drilling platforms) 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 Grouping of Waste*

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 physico-chemical processing centers, recycling units, special industrial waste incineration units or landfill sites designed to receive inert hazardous waste.

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*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 receives solid waste at its 329 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 our research center to develop new recycling activities. Recycled material is sold or distributed to intermediaries or directly to industrial customers.

***Waste Recovery and Treatment through Composting, Incineration and Landfilling***

Veolia Propreté has a wide range of treatment centers, including 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 127 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 64 waste-to-energy recovery and incineration plants, which process non-hazardous solid waste (mainly urban waste).

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

*Landfilling and Waste-to-Energy Recovery*

In 2010, Veolia Propreté had 137 non-hazardous waste landfill sites. Veolia Propreté has developed the expertise to process waste through methods that reduce emissions of liquid and gas pollutants. In addition, 92 landfill sites have recovery systems to transform biogas emissions into alternative energies.

*Processing of Hazardous Waste*

In 2010, Veolia Propreté had 24 incineration units for specialized industrial waste, 64 processing units using physico-chemical and stabilization methods, 15 class 1 landfill sites and 34 specialized recycling centers.

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

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**Description of Activities in 2010**

In 2010, the Environmental Services Division reported a 6.7% increase in revenue compared to 2009 (6.9% at constant consolidation scope and exchange rates), driven by the rise in the price of recycled materials sold (particularly paper/cardboard and metals), which had dropped sharply in 2008/2009. Waste volumes collected and processed on behalf of businesses improved compared to 2009, although only moderately. Thanks to adaptation measures taken in 2009 and efficiency actions implemented in 2010, margins improved despite increased pressure on prices.

In France, revenue decreased by 1.2% (but rose 7% at constant consolidation scope). In addition to the positive impact of the rise in materials prices, growth was driven by an increase in non-hazardous waste volumes incinerated and placed in landfills (thanks in particular to the policy of insourcing tonnage collected) and an increase in volumes of hazardous waste treated. The contract renewal rate remained highly satisfactory, particularly with public authorities, while major contract wins were also recorded (collection services in Dijon and Mulhouse, incineration services in Beauvais, methanization in Angers and Pays de Caux). Finally, moderate price increases were achieved in a context of higher inflation (increase in fuel prices in particular).

In the United Kingdom, revenue increased 10% (5.9% at constant consolidation scope and exchange rates). Growth was primarily driven by the construction of installations under PFI contracts, the full-year impact of the Merseyside contract and the increase in the price of recycled materials. This increase was achieved despite a difficult first half due to the poor economic climate in the UK, which resulted in a drop in non-hazardous waste volumes collected and placed in landfill, before stabilizing in the second half of the year.

In Germany, revenue increased 10.1% (9.8% at constant consolidation scope), mainly due to the rise in the price of recycled materials (primarily paper/cardboard) and the increase in non-hazardous industrial waste volumes collected.

Revenue rose 6.8% in the rest of Europe (4.2% at constant consolidation scope and exchange rates). Growth was driven by the increase in the price of recycled materials and a moderate recovery in waste volumes collected and processed.

In North America, revenue increased 12.4% (6% at constant consolidation scope and exchange rates). This rise benefited in particular from a recovery in non-hazardous waste landfill volumes, mainly tied to one-off projects and a marked upturn in the industrial services and hazardous waste sectors.

The rest of the world reported a rise in revenue of 22.8% (9.5% at constant consolidation scope and exchange rates), primarily driven by growth in industrial services in Australia and the processing of hazardous waste in China.

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***Principal Contracts in 2010***

The following table shows the major contracts signed in 2010 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*** | | | | | |
| SYMOVE waste disposal authority for the Oise Department | June | New | 23 years* | 347 million | Contract to design, build, finance and operate a multi-process recovery center for household and similar waste |
| Pays de Caux Waste Disposal Authority | September | New | 23 years* | 110 million | Contract to design, build, finance and operate a household waste processing plant and two non-hazardous waste landfill sites |
| South East Seine-et-Marne Household Waste Disposal Authority | June | New | 10 years | 47 million | Operation of the Montereau waste-to-energy center |
| Angers Loire Conurbation | April | New | 6 years | 44 million | Operation of the Biopole household waste recovery center |
| Greater Dijon Conurbation | August | New | 5 years | 44 million | Collection of household waste and equivalent |
| Flandre Morinie Authority | June | New | 8 years | 40 million | Operation of the Flamoval waste-to-energy center |
| City of Mandelieu-la-Napoule | June | Renewal | 7 years | 17 million | Collection of household waste and equivalent |
| ***Europe (excl. France)*** | | | | | |
| Staffordshire County Council (United Kingdom) | July | New | 25 years | approx. 1 billion | Integrated comprehensive waste management contract |
| City of Westminster (United Kingdom) | September | Renewal | 7 years | 302 million | Recycling and waste management contract |

| | | | | | |
|---|---|---|---|---|---|
| | | | (+7 years option) | | |
| Medway Council (United Kingdom) | June | Renewal | 7 years | 91 million | Waste collection and recycling and town cleaning services |
| Medway Council (United Kingdom) | June | Renewal | 25 years | 150 million | Landfill disposal of residual waste |
| Abfallwirtschaftsgesellschaft Nordfriesland mbH (Germany) | October | Renewal | 6 years | 30 million | Collection of household waste and equivalent |
| ***North America*** | | | | | |
| City of Sanibel (Florida) | May | New | 5 years | 9 million | Collection of household waste and equivalent |
| City of Highland Park (Chicago) | July | Renewal | 5 years | 9 million | Collection of household waste and equivalent |

* Including an operating period of 20 years.

(1) Revenues expected under the contracts won in 2010 have been converted into euros at the closing exchange rate as of December 31, 2010 and represent the portion due to Veolia Propreté under such contracts. Accordingly, these amounts may differ from the amounts announced in earlier Group press releases.

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***Main Acquisitions and Divestitures in 2010***

In February 2010, the operating contract for the Miami-Dade County waste-to-energy plant was transferred to Covanta Holding Corporation. This final transaction completes the sale of the North American waste-to-energy contract portfolio to Covanta, initially announced on July 6, 2009. This transaction represents the 2010 contribution to the multi-year divestiture program announced by our Group on March 6, 2009.

Following the creation, acquisition or consolidation of 25 companies in 2010 and the liquidation, divestiture or merger of 53 companies, our Environmental Services Division (excluding Proactiva) was composed of 647 companies as of December 31, 2010, compared to 675 in 2009.

**Energy Services**

We conduct our energy service activities through Dalkia, a global provider of energy services to companies and public authorities. Dalkia provides services relating to heating and cooling networks, decentralized thermal and electrical energy production, thermal and multi-technical systems, industrial utilities, installation and maintenance of production equipment, integrated facilities management and electrical services on public streets and roads. We seize opportunities offered by the development of the energy and greenhouse gas emission reduction markets. Dalkia joins forces with its customers, helping them optimize their energy purchases and improve the efficiency of their installations (both in terms of cost and atmospheric emissions).

As of December 31, 2010, Dalkia had 53,457 employees in 42 countries around the world, particularly in Europe.

We hold a 66% interest in Dalkia, and Electricité de France (EDF) holds the remainder. Dalkia s French operations are conducted through Dalkia France, a wholly-owned subsidiary of Dalkia. Outside France, Dalkia conducts its activities through Dalkia International, in which it holds a 76% interest and EDF holds the remaining 24%. We account for our interest in Dalkia under the proportional consolidation method.

The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of our Energy Services Division, after elimination of inter-company transactions. For a breakdown of total revenues by category of activity and geographic market for each of the last three financial years, see Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Revenue by Geographical Region and Results of Operations Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Revenue by Geographical Region” below.

**Energy Services***

| (€ million) | **2010** | **2009** | **Change 2010/2009** |
|---|---|---|---|
| Revenue | 7,581.8 | 7,041.3 | 7.7 % |
| Operating income | 549.0 | 400.5 | 37.1 % |

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

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**Overview of the Energy Services Division**

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, commercial sites and in all types of buildings. Dalkia has progressively set up a range of activities linked to energy management, including heating and cooling networks, decentralized energy production, thermal and multi-technical services, industrial utilities, installation and maintenance of production equipment, integrated facilities global management and electrical services on public streets and roads. The health sector is also of strategic importance to Dalkia.

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 services generally have shorter terms (six to seven years on average), while contracts in the facilities management sector generally have terms of three to five years.

Dalkia proposes energy management solutions encompassing the entire conversion cycle from the purchase of energies entering the site (fuel, gas, coal) to the sale on the market of the electricity produced. Dalkia has thereby 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), solar energy (thermal, photovoltaic, solar concentration), 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 with the innovative services offered to the public sector.

***Heating and Cooling Networks***

Dalkia is one of Europe s leading operators of large urban heating and cooling networks. Dalkia currently manages 887 urban heating and cooling networks worldwide, particularly in France, the United Kingdom, the United States, Italy, Germany, Eastern and Central Europe and the Baltic states. The networks operated by Dalkia provide heating, sanitary 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.

***Thermal and Multi-Technical Services***

Thermal services consist of operating heating, sanitary 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 implements new services to satisfy demands for improved energy efficiency. It manages more than 119,600 energy plants throughout the world.

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***Industrial Utilities, Installation and Maintenance of Production Equipment***

Dalkia is a leading provider of industrial utilities services in Europe. It has developed expertise in the analysis of industrial processes, the enhancement of productivity and the operation, maintenance and repair of equipment.

Dalkia provides services at approximately 4,500 industrial sites and increasingly develops integrated solutions for its customers that allow for a reduction in energy consumption and limiting greenhouse gas emissions. The re-use of lost energy and process by-products or co-products often contributes to these solutions.

***Integrated Facilities Management***

Facilities global management contracts combine a comprehensive range of services from the maintenance of thermal, electrical and mechanical equipment to logistics. Accordingly, the various needs of customers are satisfied by a single company. Dalkia provides facilities management services for industrial and service sector customers (business premises, corporate offices, health institutions, etc.), covering a total surface areas of over 90 million square meters.

***Street Lighting Services***

Citélum, a subsidiary of Dalkia, has earned a worldwide reputation for the management of urban street lighting, urban traffic signal lights, and the lighting of monuments and other structures. Citélum operates and maintains lighting in a number of cities in France and abroad, and provides artistic lighting services at important architectural works and sites.

***Services to Individuals***

Together with Veolia Eau, Dalkia provides residential services to private individuals and cooperative housing customers through Proxiserve, a joint subsidiary (energy/water services), including the maintenance of heating systems, plumbing and renewable energy, and meter-reading services.

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

contract management: distinguishing the risks borne by us from those borne by our customers. Contract management includes monitoring regulatory developments and implementing a research and development program to enable further improvements to our performance and competitive advantage;

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

environmental protection: optimization of energy efficiency, control of atmospheric emissions and a renewable energies-based offering.

**Description of Activities in 2010**

In 2010, the Energy Services Division reported revenue growth of 7.7% (6.2% at constant consolidation scope and exchange rates), mainly due to favorable weather conditions and construction work on the installation of solar parks in Southern Europe.

During 2010, the Division implemented asset arbitrage programs, leading to the entry of local investors into the share capital in the Czech Republic and the reorganization of the shareholding structure in Poland. In France, despite a difficult commercial environment, Dalkia France renewed 80% of its contracts expiring during the year.

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New business and the development of existing contracts, at a rate nearly twice that of erosion, enabled the Division to sign new business that should contribute estimated future revenue growth of €98 million on an annualized basis, assuming all other parameters are equal. The projects selected in the latest call for tenders in France for biomass-fired electricity production (CRE 3), alone accounted for estimated annualized revenue of €42 million. Overall, contracts not renewed in 2010 represented less than 1.5% of Dalkia revenue in France.

Major contracts lost in 2010 include the Soissons urban heating plant and the Daher Socata industrial contract in Tarbes. Within the framework of the previous call for tenders for biomass-fired electricity production (CRE 2), the Smurfit project was completed and electricity production commenced during the year. This represents one of the largest biomass-fired power plants in Western Europe.

In Central Europe, commercial activities performed well. New contracts signed during the year (representing approximately €46 million in estimated annual revenue) enabled Dalkia to maintain growth at 2009 levels and offset the substantial drop in electricity prices, particularly in the Czech Republic. In addition, 90% of contracts expiring during the year were renewed, representing estimated revenue of €45 million on an annualized basis.

Commercial development in Italy, Spain and Latin America remained strong, with new contracts worth €118 million largely offsetting €48 million of lost estimated annual revenue from non-renewed contracts. This growth was primarily achieved in the Healthcare sector, through public-private partnerships in Brazil, Mexico and Spain.

In North America, the Division consolidated its position based on the platform acquired in 2007, with the takeover of the Baltimore cooling network and the Boston Medical Area network.

In the Middle East, the Division developed its presence with the new Saadiyat Island contract in Abu Dhabi for the construction and management of a cooling network for the new neighborhood where the Guggenheim and Louvre museums are located.

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***Principal Contracts in 2010***

The following table shows the major contracts signed in 2010 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*** | | | | | |
| Fort d Issy, Issy-les-Moulineaux (92) Real Estate Developers | July | New | 25 years | 27 million | Shallow-depth geothermal heating network for an eco-neighborhood |
| Villejust (91) | December | Renewal | 24 years | 60 million | Courtaboeuf heating network |
| Evreux (27) | July | Renewal | 20 years | 85 million | La Madeleine heating network |
| Sitpa (Nestlé) | December | New | 10 years | 31 million | Operation and maintenance of an industrial site |
| Rosières en Santerre (80) | | | | | biomass-fired heating plant |
| APH Marseille (13) | November | New | 25 years | 142 million | PPP for a hospital logistics hub |
| Clermont-Ferrand (63) | May 2010 | Renewal | 24 years | 49 million | La Gauthière neighborhood heating network |
| | | | | | Biomass-fired heating plant |
| CEA Marcoule (30) | September | New | 10 years | 52 million | Utilities management |
| Michelin | November | New | 12 years | 35 million | Utilities management, renovation of installations, |
| Clermont-Ferrand (63) | | | | | operation of cooling equipment |
| Metz-Thionville Regional Hospital (57) | March | New | 20 years | 42 million | PPP for the future energy plant for the new Metz hospital |
| PSA Peugeot Citroën Mulhouse (68) | June | Renewal | 12 years | 58 million | Supply of heating |
| | | | | | Installation of a new co-generation plant |
| ***Europe*** | | | | | |
| ***(excl. France)*** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Dairy Crest Ltd (agri-food)<br><br>Cornwall (United Kingdom) | April | New | 10 years | 29 million | Construction, operation and maintenance of a biomass-fired power plant |
| OKD (mines)<br><br>North Moravia, (Czech Republic) | June | New | 20 years | 1,611 million | Sale of utilities |
| Tor Vegata University Campus<br><br>Rome (Italy) | September | New | 21 years | 176 million | University campus facilities management |
| ***Latin America*** | | | | | |
| Suburbio Bahia Hospital (Brazil) | May | New | 10 + 10 years | 12 million | Hospital PPP |
| ***North America*** | | | | | |
| MATEP<br><br>Boston (United States) | May | New | 12 years | 72 million | Operation of a plant supplying utilities to 6 Boston hospitals |
| ***Middle East*** | | | | | |
| Saadiyat Island<br><br>Abu Dhabi | December | New | 29 years | 373 million | Engineering, construction and operation of 3 cooling plants |

(1) Revenues expected under the contracts won in 2010 have been converted into euros at the closing exchange rate as of December 31, 2010 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.

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***Main Acquisitions and Divestitures in 2010***

The main acquisitions and divestitures in 2010 took place in Central Europe and North America.

Financial restructuring measures were implemented in Central Europe in 2010, targeting two major countries, the Czech Republic and Poland. In May 2010 in the Czech Republic, Dalkia International sold interests in its subsidiary, Dalkia Ceska Republica, to the CEZ group and its affiliates, and Dalkia Ceska Republica subsequently sold 85% of its subsidiary Dalkia Usti nad Labem to CEZ. Dalkia Ceska Republica also acquired New World Energy Resources Energy (NWR Energy), which operates in the Czech Republic and Poland. Financial restructuring transactions in Poland led the Austalian investment fund IFM to acquire 28.74% of the share capital of Dalkia Polska in exchange for its shareholding in Dalkia Lodz, and concomitantly the withdrawal of the EBRD. See Item 5. Operating and Financial Review and Prospects-Partnerships below.

In total, over the course of 2010, the Energy Services Division consolidated or purchased 32 companies, and sold, liquidated or merged 9 companies. As a result, it held 558 consolidated companies, including 300 foreign companies, as of December 31, 2010, compared to a total of 535 consolidated companies as of December 31, 2009.

**Transportation**

Through our Transportation Division, Veolia Transport, we are a leading private operator of public transportation in Europe.[(1)] Veolia Transport operates passenger transportation services on behalf of national, regional and local authorities.

Veolia Transport 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 Transport estimates that the worldwide transportation market currently represents revenue of €334 billion, of which only 28%, or approximately €92 billion, is currently open to competition. Global growth in the market open to competition is expected to be primarily concentrated in the rail transport sector. The main drivers are the liberalization of markets in Europe (pursuant to the 3rd rail package) and the increase in of PPP projects in North America and Asia.

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

As of December 31, 2010, Veolia Transport had 80,756 employees around the world. It has a presence in more than twenty-seven countries and conducts its business mainly in Europe, North America and Asia. While continuing to strengthen its position in France, Veolia Transport also has a strong presence internationally, where it generates more than 60% of its revenue. In 2010, Veolia Transport continued its growth in North America, Asia and Europe.

(1) Sources: annual reports of main competitors and internal studies.

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The following table shows the consolidated revenue (revenue from ordinary activities under IFRS) and operating income of the Transportation Division, after elimination of inter-company transactions. For a breakdown of total revenues by category of activity and geographic market for each of the last three financial years, see Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Revenue by Geographical Region and Results of Operations Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Revenue by Geographical Region below.

On March 3, 2011, Veolia Transport was combined with Transdev, a leading transport operator. We own 50% of the new entity, and the Caisse des Dépôts et Consignations, a French State-owned financial institution, owns the remainder. See Item 5. Operating and Financial Review and Prospects Partnerships and Item 10. Additional Information Material Contracts for further information. This section describes the activities of Veolia Transport in 2010, prior to the combination.

**Transportation***

| (€ million) | **2010** | **2009** | **Change 2010/2009** |
|---|---|---|---|
| Revenue | 5,764.7 | 5,860.7 | -1.6% |
| Operating income* | 119.7 | 152.9 | -21.7% |

* Adjusted operating income totaled €145.8 million for the year ended December 31, 2010 compared to €158.3 million for the year ended December 31, 2009, representing a drop of 7.9% (see Item 5. Operating and Financial Review and Prospects ).

**Overview of the Transportation Division**

Veolia Transport 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 retain ownership of the infrastructure, particularly in urban areas). Contracts are awarded following public tenders.

Veolia Transport 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 Transport 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 Transport s activities fall into four main categories:

urban mass transportation (urban transport, urban beltway and other specific transportation services);

Intercity and Regional Transportation;

infrastructure management and airport services; and

transportation management (passenger information services, clearing-houses, call centers).

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

managing contractual risks: our Transportation Division carries on its activity under long-term contracts, which may hinder its ability to react rapidly and appropriately to new financially unfavorable situations;

managing the various sustainable development aspects, which are increasingly included in transportation authority requirements;

the ability to control contractual changes; and

the ability to carry out activities in densely populated, vast and increasingly complex areas: increasing operating complexity and greater inter-modality in particular.

**Urban Mass Transportation**

Veolia Transport operates a number of bus networks, suburban trains, tramways and metros, and provides customized transportation-on-demand services. Veolia Transport is either partially or fully responsible for designing, planning and operating services, managing personnel, providing drivers and ticket inspectors, marketing efforts and customer service, as well as the maintenance, cleanliness and security of vehicles and network stations.

In many urban areas, Veolia Transport provides interconnected bus, tramway, metro and train transportation services through a ticketing system coordinated by the principal transportation provider or transportation authority. Veolia Transport also offers services within networks managed by several different operators in large urban areas, including, particularly, the Paris suburbs and Düsseldorf.

Veolia Transport also operates ferry 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 Norway, the Netherlands and Sweden.

***Urban and Suburban Transportation***

In France, Veolia Transport operates the tramway, bus and light rail networks in Rouen, Saint-Etienne, Nancy and Nice. In addition, Veolia Transport renewed a number of contracts in 2010, including the contract to operate the Béziers network. It operates bus networks in nearly seventy urban areas in France.

Veolia Transport 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 Melun, Rambouillet, Argenteuil, St. Germain-en-Laye and in the Seine-Saint-Denis department as well as several highway express routes.

In Northern and Central Europe, Veolia Transport operates tramway, metro and light rail networks in Görlitz and Berlin (Germany), Dublin (Ireland), Trondheim (Norway) and Norrköping (Sweden). It also operates bus routes in Scandinavia, Switzerland, Belgium, the Czech Republic, Serbia, Croatia, Slovenia and several cities in Poland. In the Netherlands, Veolia Transport operates the regional transport in The Hague and the bus network serving this city s suburbs since 2009. Veolia Transport also operates all integrated (inter-modal) public transport networks in Limburg province (bus, transportation-on-demand, suburban rail transportation).

In Southern Europe, Veolia Transport operates the Bilbao urban bus network and, via its subsidiary FCC-CONNEX, a joint venture with the Spanish group FCC, manages urban transportation services in several other cities, including the Barcelona tramway.

In North America, Veolia Transport provides bus transportation services in 33 States and two Canadian provinces, and particularly in Las Vegas, New Orleans and part of the Washington DC area. Veolia Transport also manages suburban train services in Boston, San Diego and Miami.

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In Australia, Veolia Transport has operated the Sydney monorail and light rail network and bus services in Perth, Brisbane and Sydney. In New Zealand, Veolia Transport operates regional train services around the city of Auckland. In Asia, Veolia Transport operates the bus network in five cities in the Jiangsu and Anhui Chinese provinces, as well as the Hong Kong tramway. In South Korea, Veolia Transport has been operating metro line 9 in Seoul since July 2009.

In India, Veolia Transport launched the pre-operation phase of the Mumbai metro.

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

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

In certain cities, Veolia Transport offers innovative transportation services that supplement traditional transportation networks. For example, Veolia Transport offers Créabus, an on-demand minibus service that is tracked by a Global Positioning System, or GPS, which operates in Dieppe, Le Havre, Dunkirk, Aix-en-Provence, the Greater Paris region and Fairfax, Virginia (United States).

Since 2009, transportation-on-demand-services have been strengthened in the U.S. through the following contracts: Raleigh-Durham airport (North Carolina), student transportation to the Stanford University campus and transportation of Continental Airlines employees to Newark airport. Veolia Transport manages taxi services in the United States, in particular in Baltimore, Denver, Kansas City and Pittsburgh and in the Netherlands and Sweden. It provides transport for persons with reduced mobility in Rouen, Le Mans, Le Havre and Tours and several other regions of France and in the United States (para-transit), and particularly California, Arizona, Nevada, Texas, Maryland, South Carolina, New Orleans and the Washington DC area. In addition, via its specialized subsidiary, Veloway, Veolia Transport operates self-service bicycle rental systems in the city of Vannes and Greater Nice.

**Intercity and Regional Transportation**

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

In France, Veolia Transport has a strong presence in the intercity and school transportation markets. Veolia Transport is present in all regions and, in particular, saw the renewal of its intercity transportation contract in the Eure department.

Veolia Transport also operates a number of regional rail networks, covering approximately 300 kilometers, through contracts with regional public authorities (primarily in the Provence-Alpes-Côte d Azur region) and through sub-contracts with the French national railroad company, SNCF (particularly in Brittany). In Europe, Veolia Transport has a particularly strong presence in Germany, with over 2,500 kilometers of regional railway lines. Through its subsidiary, Eurolines, Veolia Transport provides transport by motor coach on regular international routes serving over 600 cities throughout Europe. In Sweden, Veolia Transport operates a rail network between Stockholm and Malmö since the opening of this market to competition in 2009. In the rail transportation sector in the United States, Veolia Transport operates suburban networks in Boston and Los Angeles, the Sprinter network in South Los Angeles and the Miami suburban network (Tri-Rail).

Veolia Transport continues to develop ferry transportation services in areas such as Finnmark and Norrland (Norway), Zeeland province (Netherlands) and Gothenburg (Sweden), as well as through its 66% shareholding in the Société Nationale Maritime Corse Méditerranée (SNCM), which manages passenger and freight maritime transportation services between Marseille, Nice, Corsica and North Africa.

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**Transportation Management**

Growth in Veolia Transport s businesses also depends on increased use of public transportation networks, which is in turn closely linked to the quality of service provided by these networks.

Veolia Transport focuses on matching service offerings with demand for such services, and developing passenger information services. For this purpose, Veolia Transport developed Optio, a comprehensive passenger information system (call center, Internet, text messages and WAP) covering all transportation networks in a region (regardless of the operator). This system currently operates in the French departments of Oise and Isère. In addition, Veolia Transport has recently created several internet sites in France and Australia that allow users to prepare their itineraries using local transportation systems.

**Description of Activities in 2010**

In 2010, the Transportation Division reported a fall in revenue of 1.6% compared to 2009 at current exchange rates and of 4.3% at constant consolidation scope and exchange rates, due primarily to the non-renewal of contracts in Stockholm, Melbourne and Bordeaux.

In the urban transportation sector, Veolia Transport strengthened its presence by winning, in 2010, new contracts to operate the Sophia-Antipolis, Rochefort and Bayonne bus networks and by renewing its contracts for the Dieppe, Libourne, Brive, Saint Lô, Tulle, Lunéville, Thonon-Les-Bains, Soissons and Verdun networks. As part of its intercity activities, Veolia Transport also renewed transportation contracts for Bezier and the Eure and Haute-Garonne departments. In addition, Veolia Transport was awarded the remote ticketing contract by the Oise department. Finally, in December 2010, Veolia Transport in a consortium with EDF, was awarded a 12-year contract to set-up and operate an electric vehicle car-sharing service in the City of Nice (to be launched in March 2011).

Veolia Transport strengthened its position in the German rail market, particularly by winning a contract to operate short-distance rail links between Munich and Austria and Rosenheim. Veolia Transport also renewed two regional line contracts with the Mecklemburg-Pomerania Land and the Rhine-Westphalia Land for two and four years, respectively, and negotiated a one-year contract extension with the city of Leipzig for services to eight regional cities. Veolia Transport was also awarded operating contracts for part of the Frankfurt urban transportation network and the Ostholstein urban, suburban and school transport networks by the Schleswig-Holstein Lander.

In the Czech Republic, Veolia Transport was awarded a 12-year contract for the Prague suburban transportation network and rail links between Prague and Beroun and the west of the country. In Sweden, Veolia Transport was awarded the bus link between Umea and Haparanda in 2010.

Veolia Transport strengthened its presence in the United States by winning and renewing several contracts, including the operating contracts for the Denver, Colorado; Phoenix, Arizona and Savannah, Georgia bus lines.

Through its joint venture with RATP Développement, Veolia Transport continued its expansion in Asia, winning the operating contract for the Macau bus network. A technical assistance contract was also signed in China for maintenance services on the Wuhan metro line 1.

Veolia Transport renewed 78% of major contracts expiring in 2010, representing renewed average annual revenue of €373 million.

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**Principal Contracts in 2010**

The following table shows the major contracts signed in 2010 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*** | | | | | |
| Béziers | December | Renewal | 8 years | 87.4 million | Operation of the Béziers urban transportation network |
| ***Europe*** **(excl. France)** | | | | | |
| Rosenheim (Germany) | December *(award letter, contract signed in 2011)* | New (plus 3 years at the customer s option) | 12 years | 1,092 million (excl. option) | Operation of 3 short-distance rail links between Munich and Austria and Rosenheim |
| Eskilstuna (Sweden) | July | New | 6 years | 91.1 million | Operation of urban and inter-city bus lines in Eskilstuna and the surrounding region |
| ***North America*** | | | | | |
| Phoenix | March | New | 5 years | 290.9 million | Management, operation and maintenance of the entire Phoenix urban network |
| Denver | January | Renewal | 3 years (+ 2 years at the customer s option) | 50 million (excl. option) | Operation of regular bus lines and maintenance services in Denver |
| ***Australia*** | | | | | |
| Perth | March | Renewal | 10 years | 140 million | |