

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.

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 CO₂ 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.

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.

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.

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.

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.