CONSOLIDATED FINANCIAL STATEMENTS OF SUEZ ENVIRONNEMENT COMPANY FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND 2011

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FINANCIAL INFORMATION RELATING TO THE COMPANY'S ASSETS, FINANCIAL POSITION AND REVENUES

1 CONSOLIDATED FINANCIAL STATEMENTS

1.1 Consolidated statements of financial position

In millions of euros	Note	December 31, 2012	December 31, 2011 (1)
NON-CURRENT ASSETS			
Intangible assets, net	10	4,060.8	4,045.9
Goodwill	9	3,256.9	3,264.7
Property, plant and equipment net	11	8,882.0	8,782.6
Available-for-sale securities	12	395.9	410.9
Loans and receivables carried at amortized cost	12	700.7	662.3
Derivative financial instruments	12	259.1	193.5
Investments in associates		490.9	498.2
Other assets		80.0	87.3
Deferred tax assets	7	755.1	754.7
TOTAL NON-CURRENT ASSETS		**18,881.4**	**18,700.1**
CURRENT ASSETS			
Loans and receivables carried at amortized cost	12	266.6	196.8
Derivative financial instruments	12	5.5	34.4
Trade and other receivables	12	3,805.3	4,118.0
Inventories		290.1	331.0
Other assets		1,116.8	1,172.9
Financial assets measured at fair value through income	12	23.5	14.7
Cash and cash equivalents	12	2,247.3	2,493.5
TOTAL CURRENT ASSETS		**7,755.1**	**8,361.3**
TOTAL ASSETS		**26,636.5**	**27,061.4**
Shareholders' equity, Group share		4,863.9	4,946.1
Non-controlling interests		1,995.3	1,871.1
TOTAL SHAREHOLDERS' EQUITY	14	**6,859.2**	**6,817.2**
NON-CURRENT LIABILITIES			
Provisions	15	1,431.5	1,289.0
Long-term borrowings	12	8,554.8	8,035.6
Derivative financial instruments	12	90.7	156.4
Other financial liabilities	12	2.7	3.1
Other liabilities		645.3	602.1
Deferred tax liabilities	7	573.9	583.9
TOTAL NON-CURRENT LIABILITIES		**11,298.9**	**10,670.1**
CURRENT LIABILITIES			
Provisions	15	563.7	545.6
Short-term borrowings	12	1,363.6	2,035.2
Derivative financial instruments	12	11.3	32.8
Trade and other payables	12	2,871.0	2,752.5
Other liabilities		3,668.8	4,208.0
TOTAL CURRENT LIABILITIES		**8,478.4**	**9,574.1**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**26,636.5**	**27,061.4**

NB: The values in the tables are generally expressed in millions of euros. Rounding may in some cases produce a non-material discrepancy in totals or variances.

(1) Restated data at December 31, 2011. See Note 1.3.

1.2 Consolidated income statements

In millions of euros	Note	December 31, 2012	December 31, 2011
Revenues	3	15,101.6	14,829.6
Purchases		(3,486.9)	(3,439.5)
Personnel costs		(3,764.4)	(3,663.3)
Depreciation, amortization and provisions		(1,036.0)	(1,178.8)
Other operating expenses		(5,925.2)	(5,757.6)
Other operating income		256.7	249.0
CURRENT OPERATING INCOME	**4**	**1,145.8**	**1,039.4**
Mark-to-market on operating financial instruments		3.5	(4.5)
Impairment on property, plant and equipment, intangible and financial assets		(87.5)	(69.0)
Restructuring costs		(78.4)	(39.9)
Scope effects		63.5	122.4
Other gains and losses on disposals and non-recurring items		5.2	43.4
INCOME FROM OPERATING ACTIVITIES	**5**	**1,052.1**	**1,091.8**
Financial expenses		(563.5)	(557.4)
Financial income		144.3	152.6
Net financial income (loss)	**6**	**(419.2)**	**(404.8)**
Income tax expense	7	(185.7)	(174.2)
Share in net income of associates		22.4	37.4
NET INCOME		**469.6**	**550.2**
of which:			
Group share		251.4	322.8
non-controlling interests		218.2	227.4
Net income (Group share) per share *(in euros)*	**8**	**0.45**	**0.60**

1.3 Statements of changes in consolidated shareholders' equity

In millions of euros	Number of shares	Share Capital	Premiums	Consolidated reserves	Change in fair value and other	Translation adjustments	Treasury shares	Undated deeply subordinated notes	Shareholders' equity, Group share	Non controlling interests	Total
Shareholders' equity at December 31, 2010	**489,699,060**	**1,958.8**	**4,002.9**	**(1,881.4)**	**(43.4)**	**21.1**	**(30.2)**	**744.8**	**4,772.6**	**1,854.2**	**6,626.8**
Net income				322.8					322.8	227.4	550.2
Other comprehensive income items				(51.9)	(109.1)	115.7	-		(45.3)	(80.4)	(125.7)
Comprehensive income				**270.9**	**(109.1)**	**115.7**	**-**	**-**	**277.5**	**147.0**	**424.5**
Employee share issues *(a)*	9,896,038	39.6	46.1						85.7		85.7
Share-based payment				29.0					29.0		29.0
Dividends distributed in cash *(b)*				(68.8)					(68.8)	(172.7)	(241.5)
Scrip dividends *(b)*	19,008,731	76.0	171.7	(247.7)					-		-
Interests of undated deeply subordinated notes issue								(23.7)	(23.7)		(23.7)
Purchase/sale of treasury shares				(16.4)			(6.2)		(22.6)		(22.6)
Capital increase/reduction *(c)*	(8,370,000)	(33.5)	(65.3)						(98.8)	34.9	(63.9)
Allocation to legal reserves			(8.2)	8.2							
Transactions between shareholders				(12.6)					(12.6)	29.6 *(d)*	17.0
Business combinations				4.2					4.2	(22.2)	(18.0)
Other changes				3.6					3.6	0.3	3.9
Shareholders' equity at December 31, 2011	**510,233,829**	**2,040.9**	**4,147.2**	**(1,911.0)**	**(152.5)**	**136.8**	**(36.4)**	**721.1**	**4,946.1**	**1,871.1**	**6,817.2**
Shareholders' equity at December 31, 2011	**510,233,829**	**2,040.9**	**4,147.2**	**(1,911.0)**	**(152.5)**	**136.8**	**(36.4)**	**721.1**	**4,946.1**	**1,871.1**	**6,817.2**
Net Income				251.4					251.4	218.2	469.6
Other comprehensive income items		-	-	(80.5)	35.4	13.2			(31.9)	99.1	67.2
Comprehensive income		**-**	**-**	**170.9**	**35.4**	**13.2**	**-**	**-**	**219.5**	**317.3**	**536.8**
Share-based payment				23.1					23.1		23.1
Dividends distributed in cash *(e)*				(330.8)					(330.8)	(231.2)	(562.0)
Interests of undated deeply subordinated notes issue								(23.7)	(23.7)		(23.7)
Purchase/sale of treasury shares				(4.5)			26.4		21.9		21.9
Capital increase/ reduction									-	0.7	0.7
Transactions between shareholders				0.6					0.6	22.2 *(f)*	22.8
Business combinations				0.6					0.6	14.8	15.4
Other changes				6.6					6.6	0.4	7.0
Shareholders' equity at December 31, 2012	**510,233,829**	**2,040.9**	**4,147.2**	**(2,044.5)**	**(117.1)**	**150.0**	**(10.0)**	**697.4**	**4,863.9**	**1,995.3**	**6,859.2**

(a) As a result of the SHARING 2011 global employee shareholding plan, share capital increased by 9.9 million shares or €85.7 million after expenses.

(b) The Shareholders' Meeting of May 19, 2011 gave shareholders the option to receive the €0.65 per share dividend either in cash or as a scrip dividend. This dividend was paid out on June 27, 2011 in the form of €68.8 million in cash and €247.7 million in shares, increasing the number of shares by 19,008,731.

(c) At its meeting of December 8, 2011, the Board of Directors decided to reduce capital by cancelling 8,370,000 shares.

(d) Change mainly due to the impact of the dilution of SITA France, without loss of control, in the company Boone Comenor, following a capital increase subscribed exclusively by Renault, cutting the holding of SITA France to 76.31%.

(e) The Shareholders' Meeting of May 24, 2012 decided to distribute a dividend of €0.65 per share for the financial year 2011, this means a total dividend distribution of €330.8 million.

(f) Change mainly due to the impact of the dilution of Sita France, without loss of control, in Boone Comenor, following a sale of shares to Renault and a capital increase subscribed exclusively by Renault, cutting the holding of SITA France to 66.97%.

1.4 Consolidated statements of comprehensive income

In millions of euros	Note	December 31, 2012	December 31, 2012 of which group shares	December 31, 2012 of which non controlling interests	December 31, 2011	December 31, 2011 of which group shares	December 31, 2011 of which non controlling interests
NET INCOME		**469.6**	**251.4**	**218.2**	**550.2**	**322.8**	**227.4**
Available-for-sale securities	12	57.0 (a)	57.0	-	(57.0)	(56.8)	(0.2)
Net investment hedges		(14.2)	(11.4)	(2.8)	(37.5)	(39.2)	1.7
Cash flow hedges (excluding commodities)	13	(1.9)	0.9	(2.8)	(6.0)	(2.7)	(3.3)
Commodity cash-flow hedges	13	(1.2)	(1.0)	(0.2)	1.1	2.0	(0.9)
Deferred taxes on items above	7	0.1	(0.5)	0.6	15.9	15.4	0.5
Share of associates in reclassifiable items, net of taxes		(9.6)	(9.6)	-	(27.8)	(27.8)	-
Translation adjustments		118.2 (b)	13.2	105.0	38.8	115.7	(76.9)
TOTAL RECLASSIFIABLE ITEMS		**148.4**	**48.6**	**99.8**	**(72.5)**	**6.6**	**(79.1)**
Actuarial gains and losses		(111.3)	(110.5)	(0.8)	(81.1)	(79.3)	(1.8)
Deferred taxes on actuarial gains and losses	7	30.1	30.0	0.1	27.9	27.4	0.5
TOTAL NON-RECLASSIFIABLE ITEMS		**(81.2)**	**(80.5)**	**(0.7)**	**(53.2)**	**(51.9)**	**(1.3)**
COMPREHENSIVE INCOME		**536.8**	**219.5**	**317.3**	**424.5**	**277.5**	**147.0**

(a) Change linked mainly to the reversal of the negative change in fair value of Acea shares. This impairment is henceforth recorded in the income statement (see Notes 5 and 12).
(b) This change mainly arises as a result of the appreciation of the chilean peso.

1.5 Consolidated statements of cash flows

In millions of euros	December 31, 2012	December 31, 2011
Net income	**469.6**	**550.2**
- Share in net income of associates	(22.4)	(37.4)
+ Dividends received from associates	39.4	32.3
- Net depreciation, amortization and provisions	1,117.5	1,142.8
- Scope effects, other gains and losses on disposal and non-recurring items	(67.9)	(165.9)
- Other items with no cash impact	23.6	29.4
- Income tax expense	185.7	174.2
- Financial income	419.2	404.8
Cash flows from operations before financial income/(expense) and income tax	**2,164.7**	**2,130.4**
+ Tax paid	(112.9)	(163.2)
Change in working capital requirements	**305.3**	**(65.3)**
Cash flows from operating activities	**2,357.1**	**1,901.9**
Investments in property, plant and equipment and intangible assets	(1,222.4)	(1,409.7)
Takeover of subsidiaries net of cash and cash equivalents acquired	(6.4)	(186.5)
Acquisitions of interests in associates and joint-ventures	(65.2)	(51.1)
Acquisitions of available-for-sale securities	(20.1)	(22.0)
Disposals of property, plant and equipment and intangible assets	33.8	69.0
Loss of controlling interests in subsidiaries net of cash and cash equivalents sold	77.3	69.7
Disposals of interests in associates and joint ventures	2.6	3.5
Disposals of available-for-sale securities	31.0	14.9
Interest received on non-current financial assets	13.4	9.0
Dividends received on non-current financial assets	19.1	34.0
Change in loans and receivables issued by the Company and others	(146.4)	(92.2)
Cash flows from investing activities	**(1,283.3)**	**(1,561.4)**
Dividends paid *(a)*	(601.1)	(280.6)
Repayment of borrowings	(1,491.2)	(1,472.3)
Change in financial assets at fair value through income *(b)*	(9.0)	251.0
Financial interest paid	(432.1)	(379.2)
Financial interest received on cash and cash equivalents	48.1	46.0
Flows on financial derivatives qualifying net investment hedges and compensation payments on financial derivatives *(c)*	(67.8)	6.4
Increase in financial debt	1,157.2	2,130.3
Increase in share capital	(0.1)	20.2
Purchase/sale of treasury shares	20.2	(24.3)
Change in share of interests in controlled entities	0.6	(0.5)
Cash flows from financing activities	**(1,375.2)**	**297.0**
Impact of changes in exchange rates and other	55.2	29.5
TOTAL CASH FLOWS FOR THE PERIOD	**(246.2)**	**667.0**
OPENING CASH AND CASH EQUIVALENTS	**2,493.5**	**1,826.5**
CLOSING CASH AND CASH EQUIVALENTS	**2,247.3**	**2,493.5**

(a) Including withholding tax.

The change in dividend distribution between the two fiscal years is the result of dividends partly paid in stock in 2011 and fully paid in cash in 2012.

(b) In 2011 SUEZ ENVIRONNEMENT COMPANY redeemed €229 million in money market mutual funds shares held-for-trading.

(c) The Group has applied a new definition of total "Net debt" (see Note 12.3).

In order to ensure consistency with this new definition and clearly present the non-recurring impact of compensation payments associated with the unwinding of financial derivatives, the cash flows related to net investment hedges and compensation payments made/received in connection with the unwinding of financial derivatives are presented in the statement of cash flows on the line entitled "Flows on financial derivatives qualifying net investment hedges and compensation payments on financial derivatives". Comparative information from 2011 has been restated in order to present the relevant cash flows in accordance with this new procedure.

1.6 Notes to the consolidated financial statements

NOTE 1 BASIS OF PRESENTATION, PRINCIPLES AND ACCOUNTING POLICIES

1.1 Basis of presentation

SUEZ ENVIRONNEMENT COMPANY SA., the Parent Company of the Group, is a French *société anonyme* subject to the provisions of Book II of the French Commercial Code, as well as to all other legal provisions applying to French commercial corporations. It was incorporated in November 2000. The Group's headquarter is in the CB21 tower - 16 place de l'Iris - 92040 Paris La Défense – France.

The Group is a major international player in the water and waste industries. It came about as the result of the SUEZ Group's 2008 regrouping of all its subsidiaries and holdings in the environment sector, within SUEZ ENVIRONNEMENT COMPANY, as part of the merger between Gaz de France and SUEZ. SUEZ ENVIRONNEMENT COMPANY has been listed on the Euronext Paris market (Compartiment A) and Euronext Brussels market since July 22, 2008.

On February 13, 2013, the Board of Directors of SUEZ ENVIRONNEMENT COMPANY approved and authorized the publication of the Group's consolidated financial statements for the fiscal year ended December 31, 2012.

1.2 Accounting standards

Pursuant to European Commission Regulation (EC) 809/2004 on Prospectus dated April 29, 2004, the financial information concerning the assets, liabilities, financial position, and profit and loss of SUEZ ENVIRONNEMENT COMPANY has been provided for the last two fiscal years ended December 31, 2010 and 2011, and was prepared in accordance with European Regulation (EC) 1606/2002 of July 19, 2002 relating to the application of international accounting standards (IFRS). The Group's Consolidated Financial Statements for the year ended December 31, 2012 were prepared in accordance with IFRS as issued by the IASB and endorsed by the European Union[1].

The accounting standards applied in preparing the financial statements at December 31, 2012 are consistent with those applied in preparing the financial statements of December 31, 2011, with the exception of the items mentioned in Note 1.2.1 below.

1.2.1 Mandatory IFRS standards, amendments and IFRIC interpretations applicable to the 2012 annual financial statements

- Amendments to IAS 12 – Deferred tax: Recovery of underlying assets. The Group is not concerned by these amendments.
- Amendments to IFRS 7 - Disclosures: Transfers of Financial Assets. See Note 12.3.3 of the present chapter.

1.2.2 IFRS amendments applicable in 2013 that have been early adopted by the Group in 2011

- Amendment to IAS 1 - Presentation of items of Other Comprehensive Income.

1.2.3 IFRS standards and amendments applicable in 2013

- IFRS 13 – Fair Value Measurement
- Amendments to IAS 19 – Employee Benefits
- Amendments to IFRS 7 - Disclosures - Offsetting financial assets and financial liabilities

[1] *Basis of presentation available on the website of the European Commission, http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm*

- Improvements to IFRS 2009-2011[2].

The impact resulting from the application of these standards and amendments is currently being assessed.

As concerns IAS 19's revision impact, the group has elected in 2006 to recognize the actuarial gains and losses in other comprehensive income, therefore this latter should be non significant. The preliminary analysis carried out confirm the minor significance of this impact.

1.2.4 IFRS standards and amendments effective in 2014

- IFRS 10 – Consolidated financial statments;
- IFRS 11 –Joint Arrangements;
- IFRS 12 –Disclosure of Interests in Other Entities;
- Amendments to IAS 28 – Investments in Associates and Joint Ventures;
- Amendments to IAS 32 – Presentation - Offsetting financial assets and financial liabilities.

  The impact resulting from the application of these standards and amendments is currently being assessed.

1.2.5 Reminder of IFRS 1 transition options

The Group used some of the options available under IFRS 1 for its transition to IFRS in 2005. The options that continue to have an effect on the consolidated financial statements are:

- translation adjustments: the Group elected to reclassify cumulative translation adjustments within equity in the consolidated reserves at January 1, 2004;
- business combinations: the Group elected not to restate business combinations that took place prior to January 1, 2004 in accordance with IFRS 3.

1.3 Restatement of the 2011 consolidated financial statements according to IAS 8

In the second half of 2012, it has been identified that the use of an incomplete model and some inappropriate calculation parameters produced erroneous margin calculations at Utility Service Group (USG), a fully consolidated group, which provides maintenance services for 4,500 water towers in the United States, whose functional currency is the USD.

Audits performed in 2012 showed that the cumulative impact of this error already existed by August 1, 2008 – the date of the takeover of Utility Service Group by SUEZ ENVIRONNEMENT – and thus affected the fair value of the assets acquired and liabilities assumed in this transaction and therefore the goodwill, the cost of the business combination remaining unchanged.

The management systems in place at Utility Service Group helped to quantify the cumulative impact of this error. Accordingly, as of December 31, 2011 Other non-current liabilities and Deferred tax assets have been adjusted in the consolidated statement of financial position by +€32.8 million and +€13.4 million, respectively, and offset against goodwill for +€19.4 million. Insofar as this error had no impact on the consolidated income statement for fiscal year 2011, and since the impacts on the statement of financial position as at January 1 and December 31, 2011 were identical except for an insignificant foreign exchange effect, no adjusted consolidated statements of financial position as at January 1, 2011 have been disclosed.

Corrective measures were put in place in 2012 to strengthen the reliability of the model for determining the margins of USG and to adapt the internal control mechanisms accordingly.

Amounts billed to USG customers were in no way affected by these errors.

1.4 Measurement basis for preparation of the consolidated financial statements

The Consolidated Financial Statements have been prepared using the historical cost convention, except for financial instruments that are accounted for according to the financial instrument categories defined by IAS 39.

[2] *As these standards and interpretations have not yet been adopted by the European Union their exact terminology may change.*

1.5 Use of judgment and estimates

As a result of the financial crisis, the Group has strengthened its risk management procedures and now includes an assessment of risk – in particular counterparty risk – in the measurement of its financial instruments. The severe market volatility caused by the crisis has been taken into account by the Group in the estimates made such as for its business plans and in the various discount rates used in impairment testing and computing provisions.

1.5.1 Estimates

The preparation of the Consolidated Financial Statements requires the use of estimates and assumptions to determine the value of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date, as well as the revenues and expenses reported during the period.

Due to uncertainties inherent in the estimation process, the Group regularly revises its estimates in light of currently available information. Final outcomes could differ from those estimates. The key estimates used by the Group in preparing the Consolidated Financial Statements relate mainly to:

- the measurement of the fair value of assets acquired and liabilities assumed in a business combination,
- the measurement of the recoverable amount of goodwill, property, plant and equipment and intangible assets (see Notes 1.6.4.1 and 1.6.7),
- the measurement of provisions, particularly for legal and arbitration proceedings and for pensions and other employee benefits (see Note 1.6.15),
- capital renewal and replacement liabilities,
- financial instruments (see Note 1.6.10),
- unmetered revenues (see Note 1.6.16),
- margin at termination relating to construction contracts,
- the measurement of capitalized tax-loss carry-forwards.

1.5.1.1 Measurement of the fair value of assets acquired and liabilities assumed in a business combination

The fair value of the assets acquired and liabilities assumed is based on estimates and assumptions regarding in particular the expected market outlook and future cash flows as well as the discount rate to apply. The values used reflect management's best estimates.

1.5.1.2 Recoverable amount of goodwill, property, plant and equipment and intangible assets

The recoverable amount of goodwill, intangible assets and property, plant and equipment is based on estimates and assumptions regarding in particular the expected market outlook and future cash flows associated with the assets and the discount rate to apply. Any changes in these assumptions may have a material impact on the measurement of the recoverable amount and could result in adjustments to the impairment losses already booked.

1.5.1.3 Estimates of provisions

Parameters with a significant influence on the amount of provisions include the timing of expenditure and the discount rate applied to cash flows, as well as the actual level of expenditure. These parameters are based on information and estimates deemed to be appropriate by the Group at the current time.

To the Group's best knowledge, there is no information suggesting that the parameters used taken as a whole are not appropriate. Furthermore, the Group is not aware of any developments that are likely to have a material impact on the provisions booked.

1.5.1.4 Pensions and other employee benefit obligations

Pension obligations are measured on the basis of actuarial calculations. The Group considers that the assumptions used to measure its obligations are appropriate and documented. However, any change in these assumptions may have a material impact on the resulting calculations.

1.5.1.5 Capital renewal and replacement liabilities

This item includes concession operators' liabilities for renewing and replacing equipment and for restoring sites. The liabilities are determined by estimating the cost of renewing or replacing equipment and restoring the sites under concession (as defined by IFRIC 12), discounted each year at rates linked to inflation. The related expense is calculated on a contract-by-contract basis with probable capital renewal and site restoration costs allocated over the life of each contract.

1.5.1.6 Financial instruments

To determine the fair value of financial instruments that are not listed on an active market, the Group uses valuation techniques that are based on certain assumptions. Any change in these assumptions could have a material impact on the resulting calculations.

1.5.1.7 Revenues

Revenues generated from customers whose consumption is metered during the accounting period are estimated at the reporting date based on historical data, consumption statistics and estimated selling prices. The Group has developed measuring and modelling tools that allow it to estimate revenues with a satisfactory degree of accuracy and subsequently ensure that risks of error associated with estimating quantities sold and the resulting revenues can be considered as not material.

1.5.1.8 Margin at termination relating to construction contracts

The determination of total expected revenue and costs at termination involves significant estimates related to technical solutions, duration of project and contractual issues.

Management reassesses those estimates for the preparation of consolidated financial statements on a quarterly basis or more frequently if required by significant new developments in the course of the projects. Any significant change in expected revenue or expected costs implies an immediate adjustment of the margin already recognized for the portion of the project already performed, and impacts future margin for works still to be performed.

1.5.1.9 Measurement of capitalized tax loss carry-forwards

Deferred tax assets are recognized on tax loss carry-forwards when it is probable that future taxable profit will be available to the Group against which the tax loss carry-forwards can be utilized. The likelihood of future taxable profits is estimated taking into account the existence of temporary taxable differences from the same tax entity and is passed on to the same deadlines towards the tax authority as well as the estimates of future taxable profits. Estimates of taxable profit and utilizations of tax loss carry-forwards were prepared on the basis of profit and loss forecasts as included in the medium-term business plan and, if necessary, on the basis of additional forecasts.

1.5.2 Judgment

As well as relying on estimates, the Group management also makes judgments to define the appropriate accounting treatment to apply to certain activities and transactions, when the effective IFRS standards and interpretations do not specifically deal with the related accounting issue.

This particularly applies in relation to the recognition of concession arrangements, the classification of agreements that contain a lease, and the recognition of acquisitions of non-controlling interests prior to January 1, 2010.

In accordance with IAS 1, the Group's current and non-current assets and current and non-current liabilities are shown separately on the consolidated statement of financial position. For most of the Group's activities, the breakdown into current and non-current items is based on when assets are expected to be realized, or liabilities extinguished. Assets expected to be realized or liabilities extinguished within 12 months of the reporting date are classified as current, while all other items are classified as non-current.

1.6 Accounting policies

1.6.1 Scope and methods of consolidation

The consolidation methods used by the Group include the full consolidation method, the proportionate consolidation method and the equity method:

- Subsidiaries over which the Group exercises exclusive control are fully consolidated;
- Companies over which the Group exercises joint control are consolidated by the proportionate method, based on the Group's percentage of interest;

- The equity method is used for all associate companies over which the Group exercises significant influence. In accordance with this method, the Group recognizes its proportionate share of the investee's net income or loss on a separate line of the consolidated income statement under "Share in net income of associates."

The Group analyses what type of control exists on a case-by-case basis, taking into account the situations illustrated in IAS 27, 28 and 31.

The special purpose entities set up in connection with the Group's securitization programs that are controlled by the Group are consolidated in accordance with the provisions of IAS 27 concerning consolidated financial statements and the related interpretation SIC 12 concerning the consolidation of special purpose entities.

All intercompany balances and transactions are eliminated in the Consolidated Financial Statements.

A list of the main fully and proportionately consolidated companies, together with investments accounted for by the equity method, is presented in Note 26 - List of the main consolidated companies at December 31, 2012 and 2011.

1.6.2 Foreign currency translation methods

1.6.2.1 Presentation currency of the consolidated financial statements

The Group's Consolidated Financial Statements are presented in euros (€).

1.6.2.2 Functional currency

Functional currency is the currency of the primary economic environment in which an entity operates. In most cases, the functional currency corresponds to the local currency. However, certain entities may have a different functional currency from the local currency when that other currency is used for an entity's main transactions and better reflects its economic environment.

1.6.2.3 Foreign currency transactions

Foreign currency transactions are recorded in the functional currency at the exchange rate prevailing at the date of the transaction. At each reporting date:

- Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. The related translation gains and losses are recorded in the income statement for the year to which they relate;

- Non-monetary assets and liabilities denominated in foreign currencies are recognized at the historical cost applicable at the date of the transaction.

1.6.2.4 Translation of the financial statements of consolidated companies with a functional currency other than the euro

The statement of financial position is translated into euros at year-end exchange rates. Income statement and statement of cash flow items are translated using the average exchange rate for the year. Any differences arising from the translation of the financial statements of consolidated companies are recorded under "Cumulative translation adjustment" as Other Comprehensive Income.

Goodwill and fair value adjustments arising from the acquisition of foreign entities are classified as assets and liabilities of those foreign entities. Therefore, they are denominated in the functional currencies of the entities and translated at the year-end exchange rate.

1.6.3 Business combinations and changes in ownership interests

Business combinations accomplished before January 1, 2010 have been recognized in accordance with IFRS 3 prior to the revision effective January 1, 2010. In accordance with IFRS 3 Revised, these business combinations have not been restated.

Since January 1, 2010, the Group applies the purchase method as defined in IFRS 3 Revised, which consists of recognizing at the acquisition date the identifiable assets acquired and liabilities assumed at their fair values, including any non-controlling interests in the acquired company. Non-controlling interests are measured either at fair value or at proportionate interest in the net identifiable assets. The Group determines on a case-by-case basis which measurement option is to be used to recognize non controlling interests.

1.6.4 Intangible assets

Intangible assets are recognized at cost less any accumulated amortization and any accumulated impairment losses.

1.6.4.1 Goodwill

A. Recognition of goodwill

The application of IFRS 3 Revised on January 1, 2010 requires the Group to identify business combinations carried out before or after that date.

Business combinations carried out before January 1, 2010

Goodwill represents the excess of the cost of a business combination (acquisition price of shares plus any costs directly attributable to the business combination) and the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognized at the acquisition date (except if the business combination is achieved in stages).

For a business combination achieved in stages - i.e. where the Group acquires a subsidiary through successive share purchases - the amount of goodwill is determined separately for each exchange transaction based on the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of each exchange transaction.

Business combinations carried out after January 1, 2010

Goodwill is measured as being the amount by which the total of

i. the consideration transferred,

ii. the amount of any non-controlling interest in the acquired company, and

iii. in a business combination achieved in stages, the fair value at acquisition-date of the previously held interests in the acquired company;

exceeds the net balance of identifiable assets acquired and liabilities assumed.

The amount of goodwill recognized at the acquisition date cannot be adjusted after the end of the measurement period.

Goodwill relating to associates is recorded under "Investments in associates."

B. Measurement of goodwill

Goodwill is not amortized but is tested for impairment each year, or more frequently when an indication of impairment is identified. Impairment tests are carried out at the level of cash-generating units (CGUs), which constitute groups of assets generating cash inflows that are largely independent of the cash inflows from other cash-generating units.

The methods used to carry out these impairment tests are described in Note 1.6.7 "Impairment of property, plant and equipment and intangible assets."

Impairment losses in relation to goodwill cannot be reversed and are shown under "Impairment" in the income statement.

Impairment losses on goodwill relating to associates are reported under "Share in net income of associates."

1.6.4.2 Other intangible assets

A. Development costs

Research costs are expensed as incurred.

Development costs are capitalized when the asset recognition criteria set out in IAS 38 are met. Capitalized development costs are amortized over the useful life of the intangible asset recognized. In view of the Group's activities, capitalized development costs are not material.

B. Other internally generated or acquired intangible assets

Other intangible assets include mainly:

- amounts paid or payable as consideration for rights relating to concession arrangements or public service contracts,
- customer portfolios acquired on business combinations,
- surface and underground water drawing rights, which are not amortized as they are granted indefinitely,
- concession assets,
- exclusive rights to distribute drinking water in a defined geographic area in perpetuity.

Intangible assets are amortized on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. If this cannot be reliably calculated, the straight-line method is used, as a function of the useful lives presented in the table below (in years).

	Useful life	
	Minimum	**Maximum**
Concession rights	10	50
Customer portfolios	10	25
Other intangible assets	1	40

Some intangible assets with an indefinite useful life are not amortized.

1.6.5 Property, plant and equipment

1.6.5.1 Property, plant and equipment - initial measurement and subsequent measurement

Items of property, plant and equipment are recognized at their historical cost of acquisition, production or entry to the Group, less any accumulated depreciation and any accumulated impairment losses.

The carrying amount of these items is not revalued as the Group has elected not to apply the allowed alternative method, which consists of regularly revaluing one or more categories of property, plant and equipment.

Investment subsidies are deducted from the gross value of the assets concerned under the heading they were received.

In accordance with IAS 16, the initial cost of the item of property, plant and equipment includes an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, when the entity has a present legal or constructive obligation to dismantle the item or restore the site. In counterpart, a provision is recorded for the same amount.

Property, plant and equipment acquired under finance leases are carried in the consolidated statement of financial position at the lower of the market value and the present value of the related minimum lease payments. The corresponding liability is recognized under financial debt. These assets are also depreciated using the methods and useful lives set out below.

The Group applies IAS 23 Revised, which consists in capitalizing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

1.6.5.2 Depreciation

In accordance with the components approach, the Group uses different depreciation terms for each significant component of a sole tangible asset when one of these significant components has a different useful life from that of the main tangible asset to which it relates.

Depreciation is calculated on a straight-line basis over normal useful lives.

The range of useful lives is due to the diversity of the assets and contractual terms in each category. The shortest periods relate to smaller equipment and furniture, while the longest useful lives concern network infrastructure.

Standard useful lives are as follows:

	Main depreciation periods (years)
Constructions *	3 to 100
Plant and equipment	2 to 70
Transport equipment	3 to 14

* *Including fittings*

With respect to the assets accounted for as counterpart for the site restoration provisions, they are amortized according to the method set forth in Note 15.4.

1.6.6 Concessions arrangements

SIC 29 interpretation – Services Concession agreements - Disclosures – relates to concession contracts that should be disclosed in the Notes to the financial statements, while IFRIC 12 relates to the accounting treatment of certain concession arrangements.

These interpretations set out the common features of concession arrangements:

- concession arrangements involve the provision of a public service and the management of associated infrastructure, together with specific capital renewal and replacement obligations,
- the grantor is contractually obliged to provide these services to the public (this criterion must be met for the arrangement to qualify as a concession),
- the operator is responsible for at least some of the management of the infrastructure and does not merely act as an agent on behalf of the grantor,
- the contract sets the initial prices to be levied by the operator and regulates price revisions over the concession period.

For a concession arrangement to fall within the scope of IFRIC 12, usage of the infrastructure must be controlled by the concession grantor. The requirement is met when the following two conditions are satisfied:

- the grantor controls or regulates what services the operator must provide with the infrastructure and determines to whom it must provide them, and at what price, and
- the grantor controls the infrastructure, i.e. retains the right to take back the infrastructure at the end of the concession.

Under IFRIC 12, the operator's rights over infrastructure operated under concession arrangements should be accounted for based on the party primarily responsible for payment. Thus:

- the "intangible asset model" is applied when the operator is entitled to bill the users of the public service and when the users have primary responsibility to pay for the concession services;
- and the "financial asset model" is applied when the operator has an unconditional right to receive cash or another financial asset, either directly from the grantor or indirectly by means of warranties given by the grantor for amounts receivable from the users of the public service (e.g. via a contractually guaranteed internal rate of return), i.e., the grantor has the primary responsibility to pay the operator.

"Primary responsibility" means that while the identity of the payer of the services is not an essential criterion, the person ultimately responsible for payment should be identified.

In cases where the local authority pays the Group but merely acts as an intermediary fee collector and does not guarantee the amounts receivable ("pass through arrangement"), the intangible asset model should be used to account for the concession since the users are, in substance, primarily responsible for payment.

However, where the users pay the Group, but the local authority guarantees the amounts that will be paid for the duration of the contract (e.g., via a guaranteed internal rate of return), the financial asset model should be used to account for the concession infrastructure, since the local authority is, in substance, primarily responsible for payment. In practice, the financial asset model is used to account for BOT (Build, Operate and Transfer) contracts entered into with local authorities for public services such as wastewater treatment and household waste incineration).

Pursuant to these principles:

- infrastructure to which the operator is given access by the grantor of the concession at no consideration is not recognized in the statement of financial position,

- start-up capital expenditure is recognized as follows:

  - under the intangible asset model, the fair value of construction and other work on the infrastructure represents the acquisition cost of the intangible asset and should be recognized when the infrastructure is built provided that this work is expected to generate future economic benefits (e.g., the case of work carried out to extend the network). Where no such economic benefits are expected, the present value of commitments in respect of construction and other work on the infrastructure is recognized from the outset, with a corresponding adjustment to concession liabilities,

  - under the financial asset model, the amount receivable from the grantor is recognized at the time the infrastructure is built, at the fair value of the construction and other work carried out,

  - when the grantor has a payment obligation for only part of the investment, the cost is recognized in financial assets for the amount guaranteed by the grantor, with the balance included in intangible assets ("mixed model").

Renewal costs consist of obligations under concession arrangements with potentially different terms and conditions (obligation to restore the site, renewal plan, tracking account, etc.).

Renewal costs are recognized as either (i) intangible or financial assets depending on the applicable model, when the costs are expected to generate future economic benefits (i.e. they bring about an improvement); or (ii) expenses, where no such benefits are expected to be generated (i.e. the infrastructure is restored to its original condition).

Costs incurred to restore the asset to its original condition are recognized as a renewal asset or liability when there is a timing difference between the contractual obligation calculated on a time proportion basis, and its realization.

The costs are calculated on a case-by-case basis based on the obligations associated with each arrangement.

1.6.7 Impairment of property, plant and equipment and intangible assets

In accordance with IAS 36, impairment tests are carried out on intangible assets and on property, plant and equipment whenever there is an indication that the assets may be impaired. Such indications may be based on events or changes in the market environment, or on internal sources of information. Intangible assets that are not amortized are tested for impairment annually.

Impairment indicators

This impairment test is only carried out for property, plant and equipment and intangible assets for the defined useful lives when they are indications of an alteration in their value. In general, this arises as a result of significant changes in the operational environment of the assets or from a poorer than expected economic performance.

The main indications of impairment used by the Group are:

- External sources of information

  - Significant changes in the economic, technological, political or market environment in which the entity operates or to which the asset is dedicated;

  - Fall in demand,

- Internal sources of information

    - Evidence of obsolescence or physical damage not budgeted for in the depreciation/amortization schedule;

    - Worse-than-expected performance.

Impairment

Items of property, plant and equipment or intangible assets are tested for impairment at the level of the individual asset or cash-generating unit as appropriate, determined in accordance with IAS 36. If the recoverable amount of an asset is lower than its carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment loss. Upon recognition of an impairment loss, the depreciable amount - and possibly the useful life - of the asset concerned is revised.

Impairment losses recorded in relation to property, plant and equipment or intangible assets may be subsequently reversed if the recoverable amount of the assets is once again higher than their carrying value. The increased carrying amount of an item of property, plant or equipment attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of depreciation/amortization) had no impairment loss been recognized in prior periods.

Measurement of recoverable amount

In order to review the recoverable amount of property, plant and equipment and intangible assets, the assets are, where appropriate, grouped into cash-generating units (CGUs), and the carrying amount of each unit is compared with its recoverable amount.

For operating entities which the Group intends to hold on a long-term and going concern basis, the recoverable amount of a CGU corresponds to the higher of its fair value less costs to sell and its value in use. Value in use is primarily determined based on the present value of future operating cash flows and a terminal value. Standard valuation techniques are used based on the following main economic data:

- discount rates based on the specific characteristics of the operating entities concerned,

- terminal values in line with the available market data specific to the operating segments concerned and growth rates associated with these terminal values, not to exceed inflation.

Discount rates are determined on a post-tax basis and applied to post-tax cash flows. The recoverable amounts calculated on the basis of these discount rates are the same as the amounts obtained by applying the pre-tax discount rates to cash flows estimated on a pre-tax basis, as required by IAS 36.

For operating entities which the Group has decided to sell, the related carrying amount of the assets concerned is written down to the estimated market value less costs of disposal. When negotiations are ongoing, this is determined based on the best estimate of their outcome as of the reporting date.

In the event of a decline in value, the impairment loss is recorded in the consolidated income statement under "Impairment".

1.6.8 Leases

The Group holds assets for its various activities under lease contracts.

These leases are analyzed based on the situations and indicators set out in IAS 17 in order to determine whether they constitute operating leases or finance leases.

A finance lease is defined as a lease which transfers substantially all the risks and rewards incidental to the ownership of the related asset to the lessee. All leases which do not comply with the definition of a finance lease are classified as operating leases.

The following main factors are considered by the Group to assess whether or not a lease transfers substantially all the risks and rewards incidental to ownership: whether (i) the lease transfers ownership of the asset to the lessee by the end of the lease term; (ii) the lessee has an option to purchase the asset and if so, the conditions applicable to exercising that option; (iii) the lease term covers the major part of the estimated economic life of the asset; and (iv) the asset is of a highly specialized nature. A comparison is also made between the present value of the minimum lease payments and the fair value of the asset concerned.

1.6.8.1 Accounting for finance leases

On initial recognition, assets held under finance leases are recorded as property, plant and equipment and the related liability is recognized under borrowings. At inception of the lease, finance leases are recorded at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

1.6.8.2 Accounting for operating leases

Payments made under operating leases are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

1.6.8.3 Accounting for arrangements that contain a lease

IFRIC 4 deals with the identification of services and take-or-pay sales or purchase contracts that do not take the legal form of a lease but convey rights to customers/suppliers to use an asset or a group of assets in return for a payment or a series of fixed payments. Contracts meeting these criteria should be identified as either operating leases or finance leases. In the latter case, a financial receivable should be recognized to reflect the financing deemed to be granted by the Group where it is considered as acting as lessor and its customers as lessees.

This interpretation applies to some contracts with industrial or public customers relating to assets financed by the Group.

1.6.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value corresponds to the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is determined based on the first-in, first-out method or the weighted average cost formula.

1.6.10 Financial instruments

Financial instruments are recognized and measured in accordance with IAS 32 and IAS 39.

1.6.10.1 Financial assets

Financial assets comprise available-for-sale securities, loans and receivables carried at amortized cost including trade and other receivables, and financial assets measured at fair value through income including derivative financial instruments. Financial assets are broken down into current and non-current assets in the statement of financial position.

A. Available-for-sale securities

Available-for-sale securities include the Group's investments in non-consolidated companies and equity or debt instruments that do not satisfy the criteria for classification in another category (see below). These items are measured by using a weighted average cost formula. On initial recognition, they are measured at fair value which generally corresponds to the acquisition cost plus transaction costs.

At each reporting date, available-for-sale securities are measured at fair value. For listed companies, fair value is determined based on the quoted market price at the closing date. Unlisted securities are measured using valuation models based primarily on the most recent market transactions, discounted dividends or cash flow and net asset value.

Changes in fair value are recognized directly in Other Comprehensive Income, except when the decline in the value of the investment below its historical acquisition cost is judged significant or prolonged enough to require an impairment if needed. In this case, loss is recognized in income under "Impairment." Only impairment losses recognized on debt instruments (debt securities/bonds) may be reversed through income (refer to note 12.1.1.2).

B. Loans and receivables carried at amortized cost

This item primarily includes loans and advances to associates or non-consolidated companies, and guarantee deposits as well as trade and other receivables.

On initial recognition, these loans and receivables are recorded at fair value plus transaction costs. At each reporting date, they are measured at amortized cost using the effective interest rate method.

On initial recognition, trade and other receivables are recorded at fair value, which generally corresponds to their nominal value. Impairment losses are recorded based on the estimated risk of non-recovery.

C. Financial assets measured at fair value through income

These financial assets meet the qualification or designation criteria set out in IAS 39.

This item mainly includes trading securities and short-term investments which do not meet the criteria for classification as cash or cash equivalents (see Note 1.6.11). The financial assets are measured at fair value at the reporting date and changes in fair value are recorded in the consolidated income statement.

1.6.10.2 Financial liabilities

Financial liabilities include borrowings, trade and other payables, derivative financial instruments, and other financial liabilities.

Financial liabilities are broken down into current and non-current liabilities in the statement of financial position. Current financial liabilities primarily comprise:

- financial liabilities with a settlement or maturity date within 12 months of the reporting date,
- financial liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date,
- financial liabilities held primarily for trading purposes,
- derivative financial instruments qualifying as fair value hedges where the underlying is classified as a current item,
- all derivative financial instruments not qualifying as hedges.

A. Measurement of borrowings and other financial liabilities

Borrowings and other financial liabilities are measured at amortized cost using the effective interest rate method.

On initial recognition, any issue premiums/discounts, redemption premiums/discounts and issuing costs are added to/deducted from the nominal value of the borrowings concerned. These items are taken into account when calculating the effective interest rate and are therefore recorded in the consolidated income statement over the life of the borrowings using the amortized cost method.

As regards structured debt instruments that do not have an equity component, the Group may be required to separate an "embedded" derivative instrument from its host contract. The conditions under which these instruments must be separated are detailed below. When an embedded derivative is separated from its host contract, the initial carrying amount of the structured instrument is broken down into an embedded derivative component, corresponding to the fair value of the embedded derivative, and a financial liability component, corresponding to the difference between the amount of the issue and the fair value of the embedded derivative. The separation of components upon initial recognition does not give rise to any gains or losses. Subsequently, the debt is recorded at amortized cost using the effective interest method, while the derivative is measured at fair value, with changes in fair value taken to income.

B. Put options on non-controlling interests granted before January 1, 2010

Other financial liabilities primarily include put options on non-controlling interests granted by the Group. As no specific guidance is provided by IFRS, the Group has adopted the following accounting treatment for these commitments:

- when the put option is initially granted, the present value of the exercise price is recognized as a financial liability, with a corresponding reduction in non-controlling interests. When the value of the put option is greater than the carrying amount of the non-controlling interests, the difference is recognized as goodwill,
- at each reporting date, the amount of the financial liability is revised and any changes in the amount are recorded with a corresponding adjustment to goodwill,
- payments of dividends to non-controlling interests result in an increase in goodwill,
- in the income statement, non-controlling interests are allocated their share in income. In the statement of financial position, the share in income allocated to non-controlling interests reduces the carrying amount of goodwill. No finance costs are recognized in respect of changes in the fair value of liabilities recognized against goodwill.

1.6.10.3 Derivatives and hedge accounting

The Group uses financial instruments to manage and reduce its exposure to market risks arising from fluctuations in interest rates, foreign currency exchange rates and commodity prices. Use of derivative instruments is governed by a Group policy for managing interest rate, currency and commodity risks.

Definition and scope of derivative financial instruments

Derivative financial instruments are contracts whose value changes in response to the change in one or more observable variables that do not require any material initial net investment and that are settled at a future date.

Derivative instruments therefore include swaps, options and futures, as well as forward commitments to purchase or sell listed and unlisted securities.

Embedded derivatives

An embedded derivative is a component of an agreement known as a host contract, which meets the definition of a derivative instrument and whose economic characteristics are not closely related to those of its host contract.

At Group level, the main contracts likely to contain embedded derivatives are those containing clauses or options that can affect the price, volume or maturity of the contract. In particular, these are contracts to buy or sell non-financial assets whose price may be adjusted in accordance with fluctuations of an index, foreign currency prices, or the price of an asset other than the asset underlying the contract.

Embedded derivatives are separately recognized in the following cases:

- if the host contract is not a financial instrument already recognized at fair value with any fair value adjustment shown in income;
- if when separated from the host contract, the component still meets the definition of a derivative product (existence of an underlying instrument, absence of initial and future settlement);
- if the characteristics of the identified derivative are not closely related to those of the host contract. The determination of "closely related" is carried out on the date that the contract is signed.

When an embedded derivative is separated from its host contract, it is recognized at fair value in the statement of financial position and variations in fair value are recognized in income (if the embedded derivative is not documented in a hedge relationship).

Derivative hedging instruments: recognition and presentation

Derivative instruments qualifying as hedging instruments are recognized in the statement of financial position and measured at fair value. However, their accounting treatment varies according to whether they are classified as:

- a fair value hedge of an asset or liability,
- a cash flow hedge,
- a hedge of a net investment in a foreign operation.

Fair value hedges

A fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset or liability, such as a fixed-rate loan or borrowing, or of assets, liabilities or an unrecognized firm commitment denominated in a foreign currency.

The gain or loss from re-measuring the hedging instrument at fair value is recognized in income. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is also recognized in income even if the hedged item is in a category in respect of which changes in fair value are recognized through equity (Other Comprehensive Income). These two adjustments are presented net in the income statement, with the net effect corresponding to the ineffective portion of the hedge.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that could affect the Group's consolidated income. The hedged cash flows may be attributable to a particular risk associated with a recognized financial or non-financial asset or a highly probable forecast transaction.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in Other Comprehensive Income, net of tax, while the ineffective portion is recognized in income. The gains or losses accumulated in shareholders' equity are reclassified to the income statement, under the same caption as the loss or gain on the hedged item - i.e. current operating income for operating cash flows and financial income/expense for other cash flows - in the same periods in which the hedged cash flows affect income.

If the hedging relationship is discontinued, in particular because the hedge is no longer considered effective, the cumulative gain or loss on the hedging instrument remains separately recognized in shareholders' equity until the forecast transaction occurs. However, if a forecast transaction is no longer highly probable, the cumulative gain or loss on the hedging instrument is recognized in income.

Hedge of a net investment in a foreign operation

In the same way as for a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge of the currency risk is recognized directly in Other Comprehensive Income, net of tax, while the ineffective portion is recognized in income. The gains or losses accumulated in Other Comprehensive Income are transferred to the consolidated income statement when the investment is sold or liquidated.

Identification and documentation of hedging relationships

The hedging instruments and hedged items are designated at the inception of the hedging relationship. The hedging relationship is formally documented in each case, specifying the hedging strategy, the hedged risk and the method used to assess hedge effectiveness. Only derivative contracts entered into with external counterparts are considered eligible for hedge accounting.

Hedge effectiveness is assessed and documented at the inception of the hedging relationship and on an ongoing basis throughout the periods for which the hedge was designated. Hedges are considered to be effective when changes in fair value or cash flows between the hedging instrument and the hedged item are offset within a range of 80%-125%.

Hedge effectiveness is demonstrated both prospectively and retrospectively using various methods, based mainly on a comparison between changes in the fair value or cash flows between the hedging instrument and the hedged item. Methods based on an analysis of statistical correlations between historical price data are also used by the Group.

Derivative instruments not qualifying for hedge accounting: recognition and presentation

These items mainly concern derivative financial instruments used in economic hedges that have not been - or are no longer - documented as hedging relationships for accounting purposes.

When a derivative financial instrument does not qualify or no longer qualifies for hedge accounting, changes in fair value are recognized directly in income, under "Mark-to-Market on commodity contracts other than trading instruments", in current operating income for derivative instruments with non-financial assets as the underlying, and in financial income or expenses for currency, interest rate and equity derivatives.

Derivative expiring in less than 12 months are recognized in the consolidated statement of financial position in current assets and liabilities, while derivatives expiring after this period are classified as non-current items.

Measurement of fair value

The fair value of listed instruments on an active market is determined based on the market price. In this case, these instruments are presented at Level 1 of the fair value measurement.

The fair value of non-listed financial instruments for which there is observable market data is determined by using valuation techniques such as the valuation models applied for options, or by using the discounted cash flows method.

The models used to value these instruments include assumptions based on market data:

- the fair value of interest rate swaps is calculated based on discounted future cash flows;

- the fair value of forward exchange contracts and currency swaps is calculated based on current prices for contracts with similar maturity profiles by discounting the differential of future cash flows (the difference between the forward price of the contract and the recalculated forward price based on new market conditions applied to the nominal amount);
- the fair value of currency or interest rate options is determined using valuation techniques for options;
- commodity derivatives are valued as a function of market quotes based on discounted future cash flows (firm contracts: commodity swaps or commodity forwards), and option valuation models (optional contracts) for which it may be necessary to observe market price volatility. For contracts with maturity exceeding the depth of transactions for which prices are observable, or that are particularly complex, valuations may be based on internal assumptions;
- for complex contracts entered into with independent financial institutions, the Group uses valuations carried out by counterparties, on an exceptional basis.

These instruments are presented in Level 2 of the fair value measurement hierarchy, unless their valuation depends significantly on non-observable parameters. In this case, they are presented at Level 3 of the fair value measurement hierarchy. These largely involve derivative financial instruments with maturities exceeding the observable horizon for the forward prices of the underlying asset, or for which certain parameters, such as underlying volatility, are not observable.

1.6.11 Cash and cash equivalents

These items include cash equivalents as well as short-term investments that are considered to be readily convertible into a known amount of cash and where the risk of a change in their value is deemed to be negligible based on the criteria set out in IAS 7.

Bank overdrafts are not included in the calculation of cash and cash equivalents and are recorded under "Short-term borrowings".

1.6.12 Treasury shares

Treasury shares are recognized at cost and deducted from equity. Gains and losses on disposal of treasury shares are directly recorded in equity and do not therefore impact income for the period.

1.6.13 Construction contracts

The engineering operations carried out by Degrémont and OIS fall within the scope of IAS 11 - Construction Contracts.

In accordance with IAS 11, the Group applies the percentage of completion method as described in Section 1.6.16 ("Revenues") to determine the contract revenue and costs to be recorded in the consolidated income statement for each period.

When it is probable that total contract costs will exceed total contract revenue, the expected loss at termination is recognized as an expense immediately.

Partial payments received under construction contracts before the corresponding work has been carried out are recorded on the liabilities side of the statement of financial position as advances received from customers. The costs incurred plus any recognized profit less any recognized losses and progress billings are then determined. If this amount is positive, it is recognized as an asset under "Amount due from customers under construction contracts" within "Trade and other receivables." If the amount is negative, it is recognized as a liability under "Amount due to customers under construction contracts" within "Trade and other payables".

1.6.14 Share-based payments

Under IFRS 2, the Group is required to recognize an expense (personnel costs) corresponding to benefits granted to employees in the form of share-based payments, in consideration for services provided. These services are valued at the fair value of the instruments awarded.

This payment may take the form of instruments paid in shares or in cash.

Equity-settled instruments

1.6.14.1 Stock option plans

Options granted to Group employees are measured at the grant date using a binomial pricing model for options with no performance conditions, or a Monte Carlo pricing model for those with external performance conditions. These models take into account the characteristics of the plan concerned (exercise price, exercise period, performance conditions if any), market data at the time of grant (risk-free rate, share price, volatility, expected dividends), and a behavioral assumption in relation to beneficiaries. The value determined is recorded in personnel costs over the vesting period and offset against equity.

1.6.14.2 Allotment of bonus shares

The fair value of bonus share plans is estimated based on the share price on the allotment date, taking into account the absence of dividend payments over the vesting period, the turnover rate for the relevant staff in each plan and the likelihood of the Group's performance. The estimation of the fair value of the plans also takes into account the non-transferability period associated with these instruments. The cost is expensed over the vesting period of the rights and offset against equity. For performance shares that are allotted on a discretionary basis and include external performance conditions, a Monte Carlo model is used.

1.6.14.3 Employee share purchase plans

Employee share purchase plans enable employees to subscribe to company shares at a lower-than-market price. The fair value of the instruments awarded under employee share purchase plans is estimated on the allotment date based on the value of this discount awarded to employees and non-transferability period applicable to the share subscribed. As it is treated as a service rendered, the cost is recognized in full and offset against equity.

Cash-settled instruments

In specific cases where local legislation prohibits employee share purchase plans, share appreciation rights (SAR) are granted instead. When these instruments are settled in cash, their fair value is recognized in expenses over the vesting period, with an offsetting entry recorded in employee-related liabilities. Changes in the fair value of the liability are taken to income for each fiscal year.

1.6.15 Provisions

1.6.15.1 Provisions for post-employment benefit obligations and other long-term benefits

Depending on the laws and practices in force in the countries where SUEZ ENVIRONNEMENT COMPANY operates, Group companies have obligations in terms of pensions, early retirement payments, retirement bonuses and other benefit plans. Such obligations generally apply to all of the employees within the companies concerned.

The Group's obligations in relation to pensions and other employee benefits are recognized and measured in accordance with IAS 19. Accordingly:

- The cost of defined contribution plans is expensed based on the amount of contributions payable in the period;
- The Group's obligations concerning pensions and other employee benefits payable under defined benefit plans are assessed on an actuarial basis. These calculations are based on assumptions relating to mortality, staff turnover and estimated future salary increases, as well as the economic conditions specific to each country or subsidiary of the Group. Discount rates are determined by reference to the yield, at the measurement date, on high-quality corporate bonds in the related geographical area (or on government bonds in countries where no representative market for such corporate bonds exists).

Provisions are recorded when commitments under these plans less the unrecognized past service cost exceed the fair value of plan assets. When the value of plan assets (capped where appropriate) is greater than the related commitments, the surplus is recorded as an asset under "Other current assets" or "Other non-current assets."

As regards post-employment benefit obligations, the Group has elected to use the option available under IAS 19 to discontinue the corridor method, and to recognize actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments directly to Other Comprehensive Income (equity) items.

Actuarial gains and losses are recognized in Other Comprehensive Income. Where appropriate, adjustments resulting from applying the asset ceiling to net assets relating to overfunded plans are treated in a similar way.

However, actuarial gains and losses on other long-term benefits such as long-service awards, continue to be recognized immediately in income.

The interest cost in respect of pensions and other employee benefit obligations, and the expected return on related plan assets, are presented as a financial expense.

1.6.15.2 Other provisions

The Group records a provision where it has a present obligation (legal or constructive), the settlement of which is expected to result in an outflow of resources embodying economic benefits with no corresponding consideration in return.

A provision for restructuring costs is recorded when the general criteria for setting up a provision are met, i.e., when the Group has a detailed formal plan relating to the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions with a maturity of over 12 months are discounted when the effect of discounting is material. The Group's main long-term provisions are provisions for site restoration costs (relating to the waste services business). The discount rate (or rates) used reflect current market measurements of the time value of money and the risks specific to the liability concerned. Expenses corresponding to the reversal of discounting adjustments to long term provisions are recorded under other financial income and expenses.

A provision is recognized when the Group has a present legal or constructive obligation to restore a site. The counterpart for this provision is included in the carrying amount of the asset concerned. Adjustments to the provision due to subsequent changes in the expected outflow of resources, the site restoration date or the discount rate are deducted from or added to the cost of the corresponding asset in a symmetrical manner. The impacts of unwinding the discount are recognized in expenses for the fiscal year.

1.6.16 Revenues

Group revenues (as defined by IAS 18) are mainly generated from the following:

- Water services
- Waste services
- Engineering and construction contracts and other services

Revenues on sales of goods are recognized on delivery (i.e., when the significant risks and rewards of ownership are transferred to the buyer), or as a function of the progress of the contract, in the case of provisions of services and construction contracts, when the price is fixed or determinable and receivables are likely to be recoverable.

Revenues are measured at the fair value of the consideration received or receivable. Where deferred payment has a material impact on the measurement of the fair value of this consideration, this is taken into account by discounting future receipts.

1.6.16.1 Water services

Revenues generated by water distribution are recognized based on volumes delivered to customers, either specifically metered and invoiced or estimated based on the output of the supply networks.

The price for wastewater services and wastewater treatment is either included in the water distribution invoice, or is sent in a separate invoice to the local municipality or industrial client.

Commission fees received from the grantors of concessions are recorded as revenues.

1.6.16.2 Waste services

Revenues arising from waste collection are generally based on the tonnage collected and the service provided by the operator.

Revenues from other forms of treatment (principally sorting and incineration) are recognized based on volumes processed by the operator and the incidental revenues generated by recycling and reuse, such as the sale of paper, cardboard, glass, metals and plastics for sorting centers, and the sale of electricity and heat for incinerators.

1.6.16.3 Engineering, construction contracts and services rendered

Revenues from construction contracts are determined using the percentage of completion method and more generally according to the provisions of IAS 11 (see Section 1.6.13). Depending on the contract concerned, the stage of completion may be determined either based on the proportion that costs incurred to date bear to the estimated total costs of the contract, or on the physical progress of the contract based on factors such as contractually defined stages.

Revenues also include revenues from financial concession assets (IFRIC 12) and lease receivables (IFRIC 4).

1.6.17 Current operating income (COI)

Current operating income is an indicator used by the Group to present "a level of operational performance that can be used as part of an approach to forecast recurring performance" (in accordance with CNC Recommendation 2009-R03 in the financial statements of companies applying IFRS). Current operating income is a sub-total which helps management to better understand the Group's performance because it excludes elements which are inherently difficult to predict due to their unusual, irregular or non-recurring nature. For the Group, these elements relate to the marked-to-market (MtM) value of trading instruments, asset impairments, restructuring costs, scope effects, other gains and losses on disposals, and non-recurring items. They are defined as follows:

- MtM of trading instruments: This corresponds to changes in the fair value (marked-to-market) of financial instruments relating to commodities and gas which do not qualify as either trading or hedging instruments. These contracts are used in economic hedges of operating transactions,

- Impairment: This includes impairment losses on non-current assets,

- Restructuring costs: These relate to costs of a restructuring program planned and controlled by management that materially changes either the scope of a business undertaken by an entity, or the manner in which that business is conducted, based on the criteria set out in IAS 37,

- Scope effects

  This line includes:

  - direct costs related to acquisitions of controlling interests;

  - in the event of a business combination achieved in stages, impacts of the remeasurement of the previously held interest at acquisition-date fair value;

  - subsequent changes in the fair value of contingent consideration;

  - gains or losses from disposals of interests which result in a change in consolidation method, as well as any impact of the remeasurement of retained interests.

- Other gains and losses on disposals and non-recurring items: This includes mainly capital gains and losses on disposals of non-current assets and available-for-sale securities.

1.6.18 Statement of cash flows

The Group consolidated statement of cash flows is prepared based on net income, using the indirect method.

"Interest received on non-current financial assets" is classified within investing activities because it represents a return on investments. "Interest received on cash and cash equivalents" is shown as a component of financing activities because the interest can be used to reduce borrowing costs.

Impairment losses on current assets are identified as definitive losses, and therefore any change in current assets is shown net of impairment.

Cash flows related to payment of taxes are treated separately.

1.6.19 Income tax expense

The Group computes taxes in accordance with the prevailing tax legislation in the countries where income is taxable.

In accordance with IAS 12, deferred taxes are recognized according to the liability method on temporary differences between the book values of assets and liabilities in the consolidated financial statements and their tax bases, using tax rates that have been enacted or substantively enacted by the reporting date. However, under the provisions of IAS 12, no deferred taxes are recognized for temporary differences arising from goodwill for which impairment losses are not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting income nor taxable income. In addition, deferred tax assets are only recognized to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized.

Temporary differences arising on restatements of finance leases result in the recognition of deferred taxes.

A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Net balances of deferred tax are calculated based on the tax position of each company or on the total income of the companies included within the consolidated tax group and the net position of each fiscal entity is recorded on the statement of financial position under assets or liabilities, as appropriate. Deferred taxes are reviewed at each reporting date to take into account factors including the impact of changes in tax laws and the prospects of recovering deferred tax assets arising from deductible temporary differences.

Deferred tax assets and liabilities are not discounted.

1.6.20 Earnings per share

Earnings per share are calculated by dividing the adjusted net income Group share for the fiscal year attributable to ordinary shares by the weighted average number of shares outstanding during the fiscal year. The adjusted net income Group share takes into account the cost of the coupon attributable to holders of undated deeply subordinated notes issued by SUEZ ENVIRONNEMENT COMPANY. The average number of shares outstanding during the fiscal year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the course of the year.

NOTE 2 Major transactions in 2012

2.1 Sale of Eurawasser

On February 13, 2012, SUEZ ENVIRONNEMENT finalized the sale of its German subsidiary Eurawasser, which specializes in drinking-water distribution and wastewater services, to the Remondis group. Announced in December 2011, the transaction for a consideration of €95 million received the approval of the relevant antitrust authorities.

2.2 SUEZ ENVIRONNEMENT and RWE sign an agreement with the city of Budapest to purchase their interest in Budapest Water Works

In accordance with the preliminary agreement signed on April 16, 2012, SUEZ ENVIRONNEMENT and RWE sold their respective 25% stake in Budapest Water Works, acquired in 1997, to the city of Budapest on June 29, 2012.

This amicable agreement was an outcome of the city's wish to directly manage the water service operations and was signed in accordance with the terms of the contract.

2.3 Intermediated Tender Offer on the 2014 bond and new bond issue

On June 11, 2012, SUEZ ENVIRONNEMENT COMPANY launched an intermediated tender offer for the 2014 tranche issued in 2009 bearing a fixed coupon of 4.875%. At the end of the process, €191.3 million of the tranche maturing in 2014 had been redeemed. The purpose of this operation was not only to refinance part of the tranche maturing in 2014, but also to extend the Group's average debt maturity.

On the same day, SUEZ ENVIRONNEMENT COMPANY further extended for €250 million the 10-year bond tranche, maturing June 24, 2022 and bearing a fixed coupon of 4.125%.

The 2014 tranche was hedged by "fixed-to-floating" swaps, qualified as fair value hedges that have been unwound or dequalified for a total of €191.3 million. Moreover, the new 2022 tranche has been fully hedged by "fixed-to-floating" swaps, also qualified as fair value hedges.

2.4 Melbourne desalination plant contract

An additional provision of €83 million was recognized at June 30, 2012 for the construction of the Melbourne desalination plant. This provision was mainly intended to cover the additional costs and various contingencies related to the complex local and contractual situation.

Construction of the plant was completed in the second half of 2012, which meant that all contractual milestones for the plant's progressive delivery were achieved:

- Provisional commercial acceptance on September 29 and delivery of a volume of 150,000 cubic meters/day,
- Commercial acceptance on November 17, confirming the achievement of full production capacity (450,000 cubic meters/day),
- Reliability Testing Finalization ("RTF") on December 17, following the success of reliability testing.

On this basis, and given the lifting of certain contingencies, the Group reversed a portion (€20 million) of the provision booked on June 30, 2012. For the full year, the impact on current operating income (EBIT) was a loss of €63 million.

The plant's operation and maintenance will be handled by the joint venture between Degrémont (60%) and Thiess (Leighton Group) (40%) for the next 27 years.

SUEZ ENVIRONNEMENT and its partner, the Leighton group, believe, however, that the majority of additional costs incurred to date are linked to elements, many of which can be attributed to force majeure and cannot be fully attributed to them. A first compensation claim has been lodged on January 30, 2013, by Aquasure with the Victoria's State regarding the impacts of extraordinary climatic problems during the project completion.

2.5 Sale of United Water Connecticut (USA)

On September 4, 2012, United Water, a subsidiary of SUEZ ENVIRONNEMENT, completed the sale of its regulated water activities in Connecticut to the Aquarion Water Company for USD 37.6 million.

2.6 Sale of Altiservice

SUEZ ENVIRONNEMENT, through its subsidiary Lyonnaise des Eaux France, sold 100% of its stake in Altiservice, a company that operates mechanical lifts at ski resorts in the French Pyrenees, to the COGAC company, a subsidiary of GDF SUEZ.

2.7 Agreement to sell PT PAM Lyonnaise Jaya

SUEZ ENVIRONNEMENT signed an agreement on October 18th to sell its 51% interest in PT PAM Lyonnaise Jaya to Manila Water Co.

The transaction remains subject to obtaining government approvals.

PT PAM Lyonnaise Jaya has been responsible for water management in West Jakarta since 1998 under a 25-year agreement with PAM Jaya, a company controlled by the Province of Jakarta.

2.8 Global GDF SUEZ bonus share allocation plan

On October 30, 2012, the GDF SUEZ Board of Directors decided to implement a new bonus share allocation plan to benefit its employees, including those of SUEZ ENVIRONNEMENT, who will thus eventually receive 15 GDF SUEZ shares each.

The terms of this plan are disclosed in Note 21 “Share-based payments”.

NOTE 3 Operating segments information

In accordance with the provisions of IFRS 8 – *Operating Segments*, the segments used below to present segment information have been identified based on internal reporting, in particular those segments monitored by the Management Committee, comprised of the Group's key operational decision-makers.

As for the preceding years, the Group uses four operating segments :

- Water Europe ;
- Waste Europe ;
- International ;
- Other.

A distinction is made between the water distribution and water treatment services and the waste collection and waste treatment services in Europe.

The activities conducted internationally are grouped together and separated from those conducted in the Europe region. This specific segmentation reflects the difference in development strategy implemented internationally compared to the strategy pursued in Europe and is consistent with the Group's internal organizational systems and management structure.

3.1 Operating segments

SUEZ ENVIRONNEMENT COMPANY's subsidiaries are divided into the following operating segments :

- Water Europe: water distribution and treatment services, particularly under concession contracts (water management). These services are rendered to individuals, local authorities and industrial clients ;
- Waste Europe: waste collection and treatment services for local authorities and industrial clients. These services include collection, sorting, recycling, composting, energy recovery and landfilling for both non-hazardous and hazardous waste ;
- International: the Group is expanding in these business segments, depending on the opportunities that may arise, in the areas of water, waste and engineering services, with a special focus on risk-management resulting from specific local environments by setting up partnerships, entering into hedges, and limiting invested capital or other investments in highly regulated environments.

The "Other" segment is made up of holding companies, including SUEZ ENVIRONNEMENT COMPANY.

The accounting principles and valuation methods used to prepare internal reporting are the same as those used to prepare the consolidated financial statements. EBITDA and industrial capital employed are reconciled with the consolidated financial statements.

3.2 Key indicators by operating segment

Revenues

	December 31, 2012			December 31, 2011		
In millions of euros	Non-Group	Group	TOTAL	Non-Group	Group	TOTAL
Water Europe	4,325.2	18.8	4,344.0	4,205.7	25.8	4,231.5
Waste Europe	6,542.3	41.9	6,584.2	6,416.6	45.8	6,462.4
International	4,219.7	32.9	4,252.6	4,197.2	38.2	4,235.4
Other	14.4	78.9	93.3	10.1	77.7	87.8
Intercompany eliminations		(172.5)	(172.5)		**(187.5)**	**(187.5)**
TOTAL REVENUES	**15,101.6**	**-**	**15,101.6**	**14,829.6**	**-**	**14,829.6**

EBITDA

In millions of euros	Dec. 31, 2012	Dec 31, 2011
Water Europe	1,182.7	1,212.5
Waste Europe	799.8	880.7
International	504.1	470.9
Other	(36.6)	(51.2)
TOTAL EBITDA	**2,450.0**	**2,512.9**

Current operating income

In millions of euros	Dec. 31, 2012	Dec 31, 2011
Water Europe	581.9	608.3
Waste Europe	309.4	387.7
International	323.1	130.8
Other	(68.6)	(87.4)
TOTAL CURRENT OPERATING INCOME	**1,145.8**	**1,039.4**

Depreciation and amortization

In millions of euros	Dec. 31, 2012	Dec 31, 2011
Water Europe	(400.1)	(378.0)
Waste Europe	(480.3)	(469.2)
International	(215.8)	(187.1)
Other	(4.9)	(4.2)
TOTAL DEPRECIATION AND AMORTIZATION	**(1,101.1)**	**(1,038.5)**

Capital employed

In millions of euros	Dec. 31, 2012	Dec 31, 2011
Water Europe	6,883.3	6,435.7
Waste Europe	4,240.4	4,439.7
International	3,384.2	3,484.8
Other	(71.7)	33.5
TOTAL CAPITAL EMPLOYED	**14,436.2**	**14,393.7**

N.B.: The total of capital employed has been modified for 2011, to take into account the correction of USG amounting to €13.4 million detailed in Note 1.3.

Investments in property, plant and equipment, intangible assets and financial assets

In millions of euros	Dec. 31, 2012	Dec 31, 2011
Water Europe	(465.6)	(613.8)
Waste Europe	(472.2)	(559.9)
International	(356.2)	(486.1)
Other	(19.5)	(10.0)
TOTAL INVESTMENTS	**(1,313.5)**	**(1,669.8)**

Financial investments include the acquisitions of additional interests in controlled entities which are accounted for in cash flows used in financing activities in the statement of cash flows.

3.3 Key indicators by geographical area

The indicators below are analyzed by:

- destination of products and services sold for revenues ;
- geographical location of consolidated companies for capital employed.

	Revenues		Capital Employed	
In millions of euros	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
France	5,446.5	5,344.7	2,589.3	2,673.3
Europe	5,038.2	5,183.1	8,461.2	8,239.4
International	4,616.9	4,301.8	3,385.7	3,481.0
TOTAL	**15,101.6**	**14,829.6**	**14,436.2**	**14,393.7**

3.4 Reconciliation of EBITDA with current operating income

In millions of euros	December 31, 2012	December 31, 2011
Current Operating Income	1,145.8	1,039.4
(-) Depreciation, amortization and provisions	1,036.0	1,178.8
(-) Share-based payments (IFRS 2)	23.6	29.3
(-) Disbursements under concession contracts	244.6	265.4
EBITDA	**2,450.0**	**2,512.9**

3.5 Reconciliation of capital employed with the statements of financial position

In millions of euros	December 31, 2012	December 31, 2011
(+) Tangible and intangible assets, net	12,942.8	12,828.5
(+) Goodwill, net	3,256.9	3,264.7
(+) Available-for-sale securities (excluding marketable securities and impact of revaluation of available-for-sale securities to fair value)	388.2	460.1
(+) Loans and receivables carried at amortized cost (excluding assets related to financing)	962.7	859.1
(+) Investments in associates	490.9	498.2
(+) Trade and other receivables	3,805.3	4,118.0
(+) Inventories	290.1	331.0
(+) Other current and non-current assets	1,196.8	1,260.2
(-) Provisions and actuarial losses/gains on pensions plans	(1,709.6)	(1,660.4)
(-) Trade and other payables	(2,871.0)	(2,752.5)
(-) Other current and non-current liabilities	(4,314.2)	(4,810.1)
(-) Other financial liabilities	(2.7)	(3.1)
CAPITAL EMPLOYED	**14,436.2**	**14,393.7**

N.B.: The total of capital employed has been modified for 2011, to take into account the correction of USG amounting to €13.4 million detailed in Note 1.3.

NOTE 4 Current operating income

In millions of euros	December 31, 2012	December 31, 2011
Revenues	15,101.6	14,829.6
Purchases	(3,486.9)	(3,439.5)
Personnel costs	(3,764.4)	(3,663.3)
Depreciation, amortization and provisions	(1,036.0)	(1,178.8)
Other operating income and expenses	(5,668.5)	(5,508.6)
CURRENT OPERATING INCOME	**1,145.8**	**1,039.4**

4.1 Revenues

The following table shows Group revenues per category :

In millions of euros	December 31, 2012	December 31, 2011
Sale, transport and distribution of electricity	494.6	432.9
Water and waste	13,113.2	12,722.2
Engineering and construction contracts and other services	1,493.8	1,674.5
TOTAL	**15,101.6**	**14,829.6**

4.2 Personnel costs

In millions of euros	December 31, 2012	December 31, 2011
Short-term benefits	(3,636.3)	(3,566.7)
Share-based payments	(23.6)	(28.8)
Post-employment benefit obligations and other long-term benefits	(104.5)	(67.8)
TOTAL	**(3,764.4)**	**(3,663.3)**

Short-term benefits correspond to salaries and expenses recognized for the period.

Share-based payments are broken down in Note 21.

Post-employment benefit obligations and other long-term benefits are disclosed in Note 16. This amount corresponds to defined-benefit plan expenses (see Note 16.2.3) and to defined-contribution plan expenses (see Note 16.3).

4.3 Depreciation, amortization and provisions

The amounts shown below are net of reversals.

In millions of euros	December 31, 2012	December 31, 2011
Depreciation and amortization	(1,101.1)	(1,038.5)
Depreciation of inventories and trade receivables	(24.4)	(42.1)
Net change in provisions	89.5	(98.2)
TOTAL	**(1,036.0)**	**(1,178.8)**

The depreciation breakdown is €772.0 million for property, plant and equipment and €329.1 million for intangible assets. The breakdown by type of asset is shown in Notes 10 and 11.

The net change in provisions is mainly due to the reversal of the provision for loss-making contract for the seawater desalination plant in Melbourne following its commissioning in 2012.

4.4 Other operating income and expenses

Other operating income and expenses include the following amounts :

In millions of euros	December 31, 2012	December 31, 2011
Other operating income	**256.7**	**249.0**
Other operating expenses	**(5,925.2)**	**(5,757.6)**
Sub-contracting	(1,819.8)	(1,809.8)
Taxes excluding corporate income tax	(679.5)	(601.4)
Other expenses	(3,425.9)	(3,346.4)
TOTAL	**(5,668.5)**	**(5,508.6)**

“Other expenses” mainly include the following types of costs: rental expenses, external personnel, professional fees and compensation of intermediaries.

NOTE 5 Income from operating activities

In millions of euros	December 31, 2012	December 31, 2011
CURRENT OPERATING INCOME	**1 145,8**	**1 039,4**
MtM on operating financial instruments	3,5	(4,5)
Impairment on property, plant and equipment, intangible and financial assets	(87,5)	(69,0)
Restructuring costs	(78,4)	(39,9)
Scope effects	63,5	122,4
Other gains and losses on disposals and non-recurring items	5,2	43,4
INCOME FROM OPERATING ACTIVITIES	**1 052,1**	**1 091,8**

5.1 MtM on operating financial instruments

The mark-to-market on operating financial instruments amounted to a total gain of €3.5 million at December 31, 2012, resulting primarily from the following factors:

- to optimize their margins, certain Group entities implement economic hedging strategies through forward contracts traded on the wholesale markets, aimed at reducing the sensitivity of the Group's margins to commodity price fluctuations. However, to the extent that these strategies hedge net exposure to the price risk of the entities in question, they are not eligible for the recognition of hedging in accordance with the provisions of IAS 39 – *Financial instruments – recognition and measurement*. Consequently, all changes in the fair value of the forward contracts concerned must be reflected in the income statement.

- gains and losses are recorded in the income statement in respect of the ineffective portion of future cash flow hedging strategies on non-financial assets (cash flow hedges).

5.2 Impairments of property, plant and equipment, intangible assets and financial assets

In millions of euros	December 31, 2012	December 31, 2011
Impairments:		
Goodwill	(1.7)	-
Property, plant and equipment and other intangible assets	(29.2)	(17.8)
Financial assets	(65.3)	(57.4)
Total	**(96.2)**	**(75.2)**
Write-back of impairments:		
Property, plant and equipment and other intangible assets	4.9	3.6
Financial assets	3.8	2.6
Total	**8.7**	**6.2**
TOTAL	**(87.5)**	**(69.0)**

5.2.1 Impairments of goodwill

No significant impairment on goodwill was recognized in 2012 or 2011, pursuant to the procedure described in Note 9 – Goodwill.

5.2.2 Impairments of property, plant and equipment and intangible assets excluding goodwill

In 2012, this item mainly recognized impairment of property, plant and equipment in the Water Europe and Waste Europe operating segments.

In 2011, impairment of property, plant and equipment and intangible assets mainly related to problems arising in one plant of the plastics recycling business (Waste Europe).

5.2.3 Impairments of financial assets

In 2012, this item essentially consisted of an impairment of €60.0 million recorded by the Group on non-consolidated Acea shares, a company listed on the Milan stock exchange, based on the share price at December 31, 2012 (see Note 12.1.1).

In 2011, this item mainly reflected impairment of interest in the water business in Europe. It also included impairment of receivables relating to concession contracts outside France.

5.3 Restructuring costs

In 2012, this item mainly recognized the costs associated with restructuring plans decided by Agbar (in Spain) and by Degrémont (mainly in France), and the costs of adaptation plans for the Waste Europe segment related to the slowdown in activity.

In 2011, restructuring costs mainly related to decisions taken by Sita Australia as part of the takeover of WSN Environmental Solutions.

5.4 Scope effects

In 2012, this item mainly included:
- a gain of €34 million arising from the sale of Eurawasser shares, as described in Note 2;
- a gain of €18 million recorded on the sale by Lyonnaise des Eaux of its Altiservice shares, as described in Note 2;
- a gain of €6 million resulting from the sale of United Water's regulated water activities in Connecticut (USA) (see Note 2).

In 2011, this item mainly included a €57 million gain from Agbar's sale of 70% of the regulated activities of Bristol Water, as well as a €31 million gain from remeasurement at fair value of €65 million of the portion retained, pursuant to IAS 27 revised §34. The external costs related to this transaction were included in this item.

5.5 Other gains/losses on disposals and non-recurring items

In millions of euros	December 31, 2012	December 31, 2011
Disposals of property, plant and equipment and intangible assets	1.2	35.2
Disposals of shares	4.0	8.2
Total	**5.2**	**43.4**

In 2012 this item shows only insignificant individual amounts.

In 2011, this item mainly included the capital gain made by Degrémont on the sale of its former head office in Rueil-Malmaison (Paris area), for €34 million.

NOTE 6 Net financial income/loss

In millions of euros	December 31, 2012			December 31, 2011		
	Expenses	Incomes	Total	Expenses	Incomes	Total
Cost of net debt	(466.2)	55.6	(410.6)	(446.3)	49.2	(397.1)
Other financial income and expenses	(97.3)	88.7	(8.6)	(111.1)	103.4	(7.7)
Financial income/(loss)	**(563.5)**	**144.3**	**(419.2)**	**(557.4)**	**152.6**	**(404.8)**

Following the change in the definition of the aggregate "net debt" (see Note 12.3 "Net Debt"), reclassifications have been made between "cost of net debt" and "other financial income and expenses". In order to ensure comparability between the two periods, an income of €2.1 million has been reclassified in 2011 from "cost of net debt" to "other financial income and expenses".

6.1 Cost of net debt

This item primarily includes interest expenses related to gross borrowings (calculated using the effective interest rate – EIR), gains and losses arising from foreign currency and interest rate hedging transactions on gross borrowings, as well as interest income on cash investments and changes in the fair value of financial assets measured at fair value through profit or loss.

In millions of euros	Expenses	Income	Total Dec. 31, 2012	Expenses	Income	Total Dec. 31, 2011
Interest expense on gross borrowings	(428.8)	-	(428.8)	(404.4)	-	(404.4)
Exchange gain/(loss) on borrowings and hedges	(22.1)	-	(22.1)	(41.4)	-	(41.4)
Unrealized income/(expense) from economic hedges on borrowings	-	-	-	(0.5)	-	(0.5)
Income/(expense) on cash and cash equivalents, and financial assets at fair value through income	-	45.7	45.7	-	46.0	46.0
Capitalized borrowing costs	-	6.7	6.7	-	2.5	2.5
Financial income (expense) relating to a financial debt or receivable restructuring	(15.3)	3.2	(12.1)	-	0.7	0.7
Cost of net debt	**(466.2)**	**55.6**	**(410.6)**	**(446.3)**	**49.2**	**(397.1)**

As at December 31, 2012 the increase in debt cost by €13.5 million was largely caused by:

- The rise in interest-bearing bonds subsequent to the 2011 corporate bond issue and the impacts for €12.1 million of the new securitization program, which allows to derecognize the receivables (see Note 12.3.3 on securitization of receivables);
- Debt cost was partially offset against the decrease in value of the net exchange losses on borrowings and hedges on borrowings, directly relating to exchange rate exposures.

6.2 Other financial income and expenses

In millions of euros	December 31, 2012	December 31, 2011
Other financial expenses		
Unwinding of discounting adjustments to provisions	(83.3)	(87.0)
Interest expense on trade and other payables	(7.2)	(12.2)
Losses on currency exchange	-	(1.1)
Other financial expenses	(6.8)	(10.8)
Total	**(97.3)**	**(111.1)**
Other financial income		
Return on economic hedges for other financial items	1.9	3.3
Expected return on plan assets	26.9	32.4
Income from available-for-sale securities	25.1	30.8
Interest income on trade and other receivables	12.0	15.7
Interest income on loans and receivables carried at amortized cost	8.2	10.7
Other financial Income	14.6	10.6
Total	**88.7**	**103.4**
Total other financial income and expenses	**(8.6)**	**(7.7)**

NOTE 7 Income tax

7.1 Income tax expense in the income statement

7.1.1 Breakdown of income tax expense in the income statement

Income tax expense for the fiscal year amounted to €185.7 million (compared to €174.2 million in 2011) and breaks down as follows:

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Current income tax	(171.7)	(96.6)
Deferred taxes	(14.0)	(77.6)
Total income tax expense recognized in income	**(185.7)**	**(174.2)**

7.1.2 Theoretical income tax expense and actual income tax expense

The reconciliation between the Group's theoretical income tax expense and actual income tax expense is shown in the following table:

In millions of euros		Dec. 31, 2012	Dec. 31, 2011
Net income		**469.6**	**550.2**
- Share in net income of associates		22.4	37.4
- Income tax expense		(185.7)	(174.2)
Income before income tax and share in net income of associates (A)		**632.9**	**687.0**
Of which French companies		72.9	128.1
Of which companies outside France		560.0	558.9
Statutory income tax rate of SUEZ ENVIRONNEMENT COMPANY **(B)**	*(1)*	36.10%	36.10%
Theoretical income tax expense (C) = (A) x (B)		**(228.5)**	**(248.0)**
Actual income tax expense:			
Difference between the normal tax rate applicable to SUEZ ENVIRONNEMENT COMPANY and the normal tax rate applicable in jurisdictions in France and outside France		66.5	73.9
Permanent differences	*(2)*	(45.2)	(10.3)
Income taxed at a reduced rate or tax-exempt	*(3)*	17.0	5.8
Additional tax expense	*(4)*	(23.2)	(23.4)
Effect of unrecognized deferred tax assets on tax-loss carryforwards and on other tax-deductible temporary differences	*(5)*	(18.4)	(69.4)
Recognition or utilization of tax income on previously unrecognized tax loss carry-forwards and other tax-deductible temporary differences		33.0	20.6
Impact of changes in tax rates	*(6)*	(17.2)	14.1
Tax savings and credits	*(7)*	11.7	65.7
Other		18.7	(3.2)
Actual income tax expense		**(185.7)**	**(174.2)**
Effective tax rate (actual income tax expense divided by income before income tax and share in net income of associates)		**29.3%**	**25.4%**

(1) In 2011, the overall rate of corporate income tax in France increased to 36.10% for companies with revenues in excess of €250 million. This rate results from the introduction of an exceptional 5% levy for fiscal years 2011 and 2012. This measure was extended in December 2012 for another two years, until 2014. For French companies, temporary differences which are scheduled to be repaid after 2014 continue to be measured at the rate of 34.43%.
(2) In 2012, the increase in permanent differences is mainly due to the impact of the non-deductibility of impairment losses on Acea shares and the effect of the limitation on the deductibility of net financial expenses for French companies.
(3) Includes the impact of reduced or zero tax rates on capital gains from the sales of Eurawasser in Germany and Altiservice in France.
(4) Mainly includes the French taxation on dividends.
(5) In 2011, this related mainly to the non-recognition of a part of the deferred tax assets on Degrémont subsidiaries in Australia.

(6) Mainly includes the impact of the revaluation of deferred tax liabilities at Agbar due to the increase in the tax rate (from 17% to 20%) of its Chilean subsidiary Aguas Andinas in 2012.
(7) Includes the impact of the venture capital deduction in Belgium, as well as the impact of tax credits and the tax regime in French overseas departments (DOM). In 2011, this item mainly included the effect of reversals of provisions for tax risks amounting to €53 million.

The increase in the effective rate of tax at December 31, 2012, compared to 2011, is mainly due to:

- The revaluation of deferred tax liabilities at Agbar, due to the increase in the tax rate in Chile (17% to 20%).
- The non-deductibility of impairment losses on Acea shares.
- The impact of new French tax rules limiting the deductibility of net financial expenses.

These factors are partly offset by:

- The increase in capital gains taxed at reduced or zero tax rates.

The low effective tax rate at December 31, 2012 is, as in 2011, mainly due to the Group's presence in countries with more favorable tax rates, such as Chile and the United Kingdom.

7.1.3 Analysis by type of temporary difference in deferred tax income/expenses on the income statement

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Deferred tax assets		
Loss carry-forwards	73.4	49.8
Pension obligations	7.7	(8.5)
Concessions arrangements	(21.4)	2.8
Non-deductible provisions	2.1	(14.1)
Differences between the carrying amount of PPE and their tax bases	(2.2)	4.3
Measurement of financial instruments at fair value (IAS 32/39)	(6.5)	(11.8)
Other	(13.7)	(67.1)
Total	**39.4**	**(44.6)**
Deferred tax liabilities		
Differences between the carrying amount of PPE and their tax bases	(22.5)	(21.3)
Concessions arrangements	7.1	(2.9)
Tax-driven provisions	(2.8)	0.6
Measurement of assets and liabilities at fair value (IAS 32/39)	1.9	(2.2)
Other	(37.1)	(7.2)
Total	**(53.4)**	**(33.0)**
Net Deferred Tax	**(14.0)**	**(77.6)**

In 2012, the amounts posted under "Loss carry-forwards" mainly reflect the recognition of deferred tax assets on loss carry-forwards in the Australian tax consolidation group.

In 2011, the amount shown as "Other" deferred tax assets mainly related to the use by Agbar of deferred tax assets for tax credit purposes on investments abroad.

7.2 Deferred tax income and expense recognized in “other comprehensive income”

Deferred tax income and expense recognized in “Other comprehensive income” break down as follows:

In millions of euros	December 31, 2012	December 31, 2011
Available-for-sale securities	(0.7)	0.7
Actuarial gains and losses	30.1	27.8
Net investment hedges	1.0	15.2
Cash flow hedges	(0.2)	-
Total excluding share of associates	**30.2**	**43.7**
Share of Associates	(1.4)	12.0
Total	**28.8**	**55.7**

7.3 Deferred tax in the statement of financial position

7.3.1 Change in deferred taxes

Movements in deferred taxes recorded in the statement of financial position, after netting off the deferred tax assets and liabilities by tax entity, are broken down as follows:

In millions of euros	Assets	Liabilities	Net Balances
At December 31, 2011	**741.3**	**(583.9)**	**157.4**
Correction of prior-period error (see Note 1.3)	13.4	-	13.4
Restated balance at January 1st, 2012	**754.7**	**(583.9)**	**170.8**
From income statement	39.4	(53.4)	(14.0)
From other comprehensive income	30.3	(0.2)	30.2
Scope effects	(10.5)	11.3	0.8
Translation adjustments	2.3	(13.3)	(11.1)
Other impacts	(24.5)	29.0	4.5
Deferred tax netting off by tax entity	(36.6)	36.6	-
At December 31, 2012	**755.1**	**(573.9)**	**181.2**

7.3.2 Analysis of the net deferred tax position recognized on the statement of financial position (before netting off deferred tax assets and liabilities by tax entity), by type of temporary difference

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Deferred tax assets		
Loss carry-forwards and tax credit	399.7	335.4
Pension obligations	241.2	200.1
Concessions arrangements	95.7	111.4
Non-deductible provisions	202.7	215.0
Differences between the carrying amount of PPE and their tax bases	122.8	124.0
Measurement of financial instruments at fair value (IAS 32/39)	27.5	22.5
Other	193.2	174.1
Total	**1,282.7**	**1,182.5**
Deferred tax liabilities		
Differences between the carrying amount of PPE and their tax bases	(951.1)	(861.3)
Concessions arrangements	(18.8)	(16.4)
Tax-driven provisions	(11.7)	(16.7)
Measurement of assets and liabilities at fair value (IAS 32/39)	(1.5)	(3.7)
Other	(118.4)	(113.6)
Total	**(1,101.5)**	**(1,011.7)**
Net Deferred Taxes	**181.2**	**170.8**

The deferred tax assets recognized on loss carry-forwards amounted to €399.7 million as of December 31, 2012 (versus €335.4 million as of December 31, 2011).
As of December 31, 2012, net deferred tax assets within the French tax consolidation Group, including all temporary differences, totaled €334 million, unchanged from the opening amount.

Management considers that the French tax consolidation Group will be able to use up all of its deferred tax assets on loss carry-forwards over the medium-term plan (approximately 45% of them) or beyond.

As a reminder, approval was granted in 2008 by the French Finance authorities to transfer to SUEZ ENVIRONNEMENT COMPANY a maximum tax loss of €464 million, to which subsidiaries joining the SUEZ ENVIRONNEMENT COMPANY tax consolidation Group contributed. To prepare consolidated financial statements, tax losses transferred under this agreement are updated every year to take into account any tax adjustments relating to the time when the subsidiaries were part of the SUEZ tax Group.

7.4 Unrecognized deferred tax

7.4.1 Deductible temporary differences not recognized

Temporary differences on losses carried forward

As of December 31, 2012, unused tax losses carried forward and not recognized in the statement of financial position (because they did not meet the criteria for recognition as a deferred tax asset) amounted to €150.8 million for ordinary tax loss carry-forwards, versus €172.8 million as of December 31, 2011.

Other temporary differences not recognized

The amount of deferred tax assets on other unrecognized temporary differences amounted to €71.0 million as of December 31, 2012, compared to €76.6 million as of December 31, 2011.

7.4.2 Unrecognized deferred tax liabilities on taxable temporary differences relating to investments in subsidiaries, joint ventures and associates

No significant deferred tax liability has been recognized on temporary differences when the Group is able to control the timing of their reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 8 Earnings per share

	Dec. 31, 2012	Dec. 31, 2011
Numerator (in millions of euros)		
Net income, Group share	**251.4**	**322.8**
- coupon attributable to holders of undated deeply subordinated notes issued by SUEZ ENVIRONNEMENT COMPANY in september 2010	(23.7)	(23.7)
Adjusted Net Income, Group Share	**227.7**	**299.1**
Denominator (in millions)		
Weighted average number of outstanding shares	**508.7**	**489.1**
- dividends paid in shares at June 27th 2011	-	9.8
Adjusted weighted average number of shares outstanding *(a)*	**508.7**	**498.9**
Earnings per share (in euros)		
Net income Group share per share	**0.45**	**0.60**
Net diluted income Group share per share	**0.45**	**0.60**

(a) The average number of shares outstanding in 2011 takes into account, on a prorata temporis basis, the impact of the scrip dividend payment on June 27, 2011.

The employee bonus share allocation plans, as well as the stock option plans reserved for employees, had no significant impact as of December 31, 2012 or 2011.

NOTE 9 Goodwill

9.1 Movements in the carrying amount of goodwill

In millions of euros	Gross amount	Impairment losses	Carrying amount
At December 31, 2010	**3,228.7**	**(100.7)**	**3,128.0**
Correction of prior period error (cf. Note 1.3)	19.4		19.4
Restated balance as at January 1st, 2011	**3,248.1**	**(100.7)**	**3,147.4**
Scope effects	81.8	-	81.8
Impairment losses	-	-	-
Translation adjustments	40.2	(1.5)	38.7
Other	(3.2)	-	(3.2)
At December 31, 2011	**3,366.9**	**(102.2)**	**3,264.7**
Scope effects	(11.8)	-	(11.8)
Impairment losses	-	(1.7)	(1.7)
Translation adjustments	6.0	(0.7)	5.3
Other	0.4	-	0.4
At December 31, 2012	**3,361.5**	**(104.6)**	**3,256.9**

In 2012, the net change in goodwill came to -€7.8 million. This is largely the result of:

- the sale of Eurawasser and the sale by United Water of its regulated water activities in Connecticut, as described in Note 2;
- the first-time consolidation of entities in the Waste Europe operating segment; and
- translation adjustments (mainly related to fluctuations in the US dollar, the Hong Kong dollar, the pound sterling, the Swedish krona and the Chilean peso).

The main changes break down as follows:

- sale of Eurawasser: -€26.2 million;
- sale by United Water of regulated water activities: -€2.3 million;
- consolidation of entities in the Waste Europe operating segment: +€10.7 million;
- translation adjustments: +€5.3 million.

In 2011, the net change in goodwill was €117.3 million. This stemmed mainly from:

- the recognition of new goodwill generated by the takeover of entities in the international segment (WSN Environmental Solutions in Australia) and the full consolidation of previously non-consolidated entities in the Water Europe segment;
- the impact of the measurement at fair value, on the transaction date, of the identifiable assets and liabilities involved in these transactions.

In the end, this change mainly broke down as follows:

- Sita Australia: +€39.5 million;
- Consolidation of entities in the Water Europe operating segment: +€26.5 million;
- translation adjustments: +€38.7 million.

Translation adjustments related mainly to exchange rate fluctuations of the Australian dollar, the US dollar, and the pound sterling.

9.2 Main goodwill cash generating units (CGUs)

Goodwill CGUs break down as follows:

In millions of euros	Operating segment	Dec. 31, 2012	Dec. 31, 2011
Material CGUs			
Sita France	Waste Europe	540.2	529.3
Agbar *(a)*	Water Europe	518.9	391.1
Sita News	Waste Europe	514.5	515.4
United Water	International	396.4	410.0
Sita UK	Waste Europe	381.1	372.3
Lyonnaise des Eaux	Water Europe	312.0	304.5
Sita Australia	International	185.2	185.0
Sita Waste Services	International	179.5	182.6
Other CGUs (individual goodwill of less than €150 million or 5% of total amount)		229.1	374.5
TOTAL		**3,256.9**	**3,264.7**

(a) As of 2012, the Agbar CGU now includes the entity USG. The comparable amount in 2011 would have been € 516.5 million.

9.3 Impairment test

All goodwill cash-generating units (CGUs) are tested for impairment. Impairment tests were carried out based on actual results at the end of June, on the last forecast of the year taking into account the upcoming events in the second half of the year, and on the medium-term plan (MTP) for the rest of the business plan.

The recoverable value of goodwill CGUs is calculated by applying various methods, primarily the discounted cash flow (DCF) method, which is based on the following:

- cash flow projections prepared over the duration of the medium-term plan approved by the Group Management Committee. These are linked to operating conditions estimated by the Management Committee, specifically the duration of contracts carried by entities of the CGU in question, changes in pricing regulations and future market outlooks;
- a terminal value for the period after the MTP, calculated by applying the long-term growth rate, which is between 2% and 3% depending on the activity, to normalized Free Cash Flow[3] (used specifically in impairment tests) in the final year of the projections;
- a discount rate appropriate for the CGU depending on the business, country and currency risks of each CGU. The after-tax discount rates applied in 2012 range from 5.1% to 7.0%, the same as in 2011.

When this method is used, the measurement of the recoverable value of goodwill CGU is based on three scenarios (low, medium and high), distinguished by a change in a key assumption: the discount rate. The medium scenario is preferred.

Valuations thus obtained are systematically compared with valuations obtained using the market multiples method or the stock exchange capitalization method, when applicable.

Based on events reasonably foreseeable at this time, the Group believes there is no reason to find material impairment on the goodwill shown in the statement of financial position, and that any changes affecting the key assumptions described below should not result in excess book value over recoverable amounts.

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[3] *The "normalized" Free Cash Flow used in impairment tests is different from Free Cash Flow in the following aspects: no financial interest, use of a normalized tax rate, taking into account all investment flows (maintenance capital expenditures and financial disposals, already committed development capital expenditures and financial acquisitions).*

Main assumptions used for material goodwill

The following table describes the method and discount rate used in examining the recoverable amount of material goodwill CGUs:

Cash-generating units	Measurement method	Discount rates
Sita France	DCF + confirmation by multiple (*)	5.61%
Sita News	DCF + confirmation by multiple (*)	5.83%
United Water - regulated activity	multiples (*) + DCF	5.08%
Agbar	DCF + confirmation by multiple (*)	5.91%
Sita UK	DCF + confirmation by multiple (*)	6.02%
Lyonnaise des Eaux	DCF + confirmation by multiple (*)	5.14%
Sita Waste Services	DCF + confirmation by multiple (*)	6.82%
Sita Australia	DCF + confirmation by multiple (*)	7.05%

(*) valuation multiples of comparable entities: market value of transactions

A change of 50 basis points upward or downward in the discount rate or growth rate of normalized Free Cash Flow does not affect the recoverable amounts of goodwill CGUs, which remain higher than their book values.

The table below shows the sensitivity of the measurements of recoverable value exceeding book value, in response to changes in discount rates and growth rates:

Impact in % on excess of recoverable value over book value	Discount rates		Growth rate of "normalized" Free Cash Flow	
	- 50 bp	+ 50 bp	- 50 bp	+ 50 bp
Sita France	36%	-27%	-23%	30%
Sita News	36%	-27%	-23%	30%
United Water - regulated activity	119%	-73%	-25%	41%
Agbar	56%	-44%	-36%	47%
Sita UK	56%	-44%	-36%	46%
Lyonnaise des Eaux	30%	-21%	-18%	25%
Sita Waste Services	34%	-28%	-22%	27%
Sita Australia	15%	-13%	-10%	12%

Change in a CGU

The “Agbar” CGU now includes the entity USG (Utility Service Group), in accordance with the definition of CGUs under IAS 36.

Agbar has developed specific services and solutions, known collectively as “Aqualogy”, through which it provides industrial solutions and technologies (construction, environmental technologies), and services (insurance, information systems, smart metering, customer management, knowledge management and R&D). Agbar now sells these services in the United States through USG.

This requires the complete integration of USG in Agbar’s business development and sales plan for its technologies, and the setting of internal transfer prices on some patented technologies developed by Agbar in-house.

Therefore, the cash flows generated by USG are no longer treated as independent from those of Agbar.

In addition to this financial and operational convergence, a single management reporting structure has been implemented for these entities.

9.4 Segment information

The carrying amount of goodwill can be analyzed by operating segments as follows:

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Water Europe	836.2	726.7
Waste Europe	1,536.8	1,513.6
International	883.9	1,024.4
Other	-	-
Total	**3,256.9**	**3,264.7**

The segment breakdown above is based on the operating segment of the acquired entity (and not on that of the acquirer).

NOTE 10 Intangible assets

10.1 Movements in the carrying amount of intangible assets

In millions of euros	Softwares	Intangible rights arising on concession	Other	Total
A. Gross amount				
at December 31, 2010	**320.9**	**3,845.8** *(a)*	**1,410.6**	**5,577.2**
Acquisitions	55.1	257.4	55.4	367.9
Disposals	(10.4)	(29.0)	(9.7)	(49.1)
Translation adjustments	(2.1)	74.0	(4.1)	67.8
Changes in scope of consolidation	(1.5) *(b)*	28.3 *(b)*	79.7 *(b)*	106.5
Other	9.8	29.8	(8.1)	31.5
at December 31, 2011	**371.8**	**4,206.3**	**1,523.8**	**6,101.8**
Acquisitions	58.6	274.9	50.4	383.9
Disposals	(9.4)	(61.3)	(4.8)	(75.5)
Translation adjustments	1.1	(6.1)	3.1	(1.9)
Changes in scope of consolidation	3.3	(54.4) *(c)*	14.4	(36.7)
Other	38.4	(155.1)	81.4	(35.3)
at December 31, 2012	**463.8**	**4,204.3**	**1,668.3**	**6,336.3**
B. Accumulated depreciation and impairment				
at December 31, 2010	**(227.5)**	**(1,181.8)** *(a)*	**(389.1)**	**(1,798.4)**
Depreciation	(34.1)	(204.6)	(54.9)	(293.6)
Impairment losses	(4.5)	0.2	(1.1)	(5.4)
Disposals	9.1	29.1	9.4	47.6
Translation adjustments	1.5	(9.5)	(0.2)	(8.2)
Changes in scope of consolidation	(0.1) *(b)*	5.2 *(b)*	(0.7) *(b)*	4.4
Other	(4.3)	(14.7)	16.7	(2.3)
at December 31, 2011	**(259.9)**	**(1,376.1)**	**(419.9)**	**(2,055.9)**
Depreciation	(52.6)	(223.6)	(52.9)	(329.1)
Impairment losses	(0.1)	(5.5)	(3.8)	(9.4)
Disposals	8.4	59.2	3.8	71.4
Translation adjustments	(0.2)	3.6	0.3	3.7
Changes in scope of consolidation	0.4	38.4 *(c)*	0.3	39.1
Other	0.1	(117.2)	121.7	4.6
at December 31, 2012	**(303.9)**	**(1,621.2)**	**(350.5)**	**(2,275.6)**
C. Carrying Amount				
at December 31, 2010	93.3	2,663.9	1,021.6	3,778.8
at December 31, 2011	111.8	2,830.1	1,104.0	4,045.9
at December 31, 2012	**159.8**	**2,583.0**	**1,317.8**	**4,060.8**

(a) Reclassification at Lyonnaise des Eaux following implementation of a tool for the tracking of concessions restatements: -€109.6 million on intangible rights gross value arising on concession contracts; +€109.6 million on related amortization.

(b) Changes in the scope of consolidation in 2011 were due to:
1. *Agbar's loss of control of Bristol Water's regulated activity in the United Kingdom, resulting in this activity being consolidated under the equity method.*
2. *Finalization of the opening statements of financial position of WSN Environmental Solutions on February 1, 2011, and in particular measurement at fair value of the permits and residual capacities of the landfill sites owned by WSN.*

(c) Changes in the scope of consolidation in 2012 were mainly due to the sale of Altiservice, a company that operates ski lifts in the French Pyrenees under public service contracts. "See Note 2 - Major transactions".

10.1.1 Intangible rights arising on concession contracts

The Group manages a large number of concession contracts as defined by SIC 29 (see Note 20) in the drinking water distribution, wastewater treatment, and waste management businesses. Infrastructure rights granted to the Group as concession operator, falling within the scope of application of IFRIC 12, and corresponding to the intangible model, are recognized under this category. These include the rights to charge users recognized under the intangible asset model in IFRIC 12.

10.1.2 Non-depreciable intangible assets

Non-depreciable intangible assets amounted to €326 million as of December 31, 2012, versus €223 million as of December 31, 2011, and were included in the "Other" column.

No significant impairment was posted in this asset category in 2012.

10.2 Information on Research and Development expenses

Research and Development activities relate to various studies regarding technological innovation, improvements in plant efficiency, safety, environmental protection and service quality.

Research and Development activities that do not meet the assessment criteria defined in IAS 38 were posted to expenses in the amount of €74 million, unchanged from 2011.

Expenses related to in-house projects in the development phase that meet the criteria for recognition as an intangible asset are not material.

NOTE 11 Property, plant and equipment

11.1 Movements in the carrying amount of property, plant and equipment

In millions of euros	Land	Constructions	Plant and equipment	Transport equipment	Capitalized dismantling and restoration costs	Construction in progress	Other	Total property, plant and equipment
A. Gross amount								
at December 31, 2010	**1,767.6**	**3,197.8**	**6,720.3**	**1,438.2**	**522.3**	**825.0**	**370.9**	**14,842.1**
Acquisitions	38.0	56.2	301.9	89.7	1.5	498.2	37.8	1,023.3
Disposals	(24.6)	(50.0)	(139.5)	(66.7)	-	-	(22.7)	(303.5)
Translation adjustments	(8.2)	(64.7)	(89.1)	3.0	3.8	(10.0)	3.2	(162.0)
Changes in scope of consolidation	84.4	(38.3)	(237.2)	2.9	-	(14.9)	0.5	(202.6)
Other	42.8	43.7	349.3	35.4	2.5	(539.9)	17.2	(49.0)
at December 31, 2011	**1,900.0**	**3,144.7**	**6,905.7**	**1,502.5**	**530.1**	**758.4**	**406.9**	**15,148.3**
Acquisitions	67.0	53.6	239.1	78.6	-	294.7	69.3	802.3
Disposals	(21.0)	(33.0)	(103.0)	(112.9)	-	-	(12.9)	(282.8)
Translation adjustments	32.5	81.5	69.0	10.9	3.2	24.1	(1.8)	219.4
Changes in scope of consolidation	(12.4)	2.7	(71.7)	(1.1)	5.7	3.8	(4.5)	(77.5)
Other	(49.3)	162.9	266.5	50.1	4.3	(445.9)	(39.3)	(50.7)
at December 31, 2012	**1,916.8**	**3,412.4**	**7,305.6**	**1,528.1**	**543.3**	**635.1**	**417.7**	**15,759.0**
B. Accumulated depreciation and impairment								
at December 31, 2010	**(716.5)**	**(965.1)**	**(2,600.8)**	**(947.8)**	**(518.3)**	**(4.0)**	**(234.4)**	**(5,986.9)**
Depreciation	(67.8)	(130.9)	(370.1)	(113.7)	(1.7)	-	(60.7)	(744.9)
Impairment losses	(0.4)	(2.4)	(9.7)	-	-	-	-	(12.5)
Disposals	22.2	42.4	128.1	64.8	-	-	21.5	279.0
Translation adjustments	(14.1)	3.3	76.1	(0.9)	(3.8)	0.3	(0.2)	60.7
Changes in scope of consolidation	(0.8)	1.0	-	(0.3)	-	-	0.1	-
Other	3.0	1.9	0.5	4.5	(2.5)	(0.1)	31.6	38.9
at December 31, 2011	**(774.4)**	**(1,049.8)**	**(2,775.9)**	**(993.4)**	**(526.3)**	**(3.8)**	**(242.1)**	**(6,365.7)**
Depreciation	(78.0)	(141.4)	(370.0)	(128.5)	(0.2)	-	(53.9)	(772.0)
Impairment losses	(1.3)	(5.6)	(12.3)	-	-	(0.5)	(0.1)	(19.8)
Disposals	16.5	27.1	88.8	102.4	-	0.6	12.8	248.2
Translation adjustments	(7.4)	(6.7)	(2.7)	(7.0)	(3.2)	(0.2)	0.8	(26.4)
Changes in scope of consolidation	2.8	(4.6)	25.7	2.7	(5.7)	-	3.3	24.2
Other	(13.7)	0.7	29.2	(0.4)	(4.3)	0.5	22.5	34.5
at December 31, 2012	**(855.5)**	**(1,180.3)**	**(3,017.2)**	**(1,024.2)**	**(539.7)**	**(3.4)**	**(256.7)**	**(6,877.0)**
C. Carrying Amount								
at December 31, 2010	1,051.1	2,232.7	4,119.5	490.4	4.0	821.0	136.5	8,855.2
at December 31, 2011	1,125.6	2,094.9	4,129.8	509.1	3.8	754.6	164.8	8,782.6
at December 31, 2012	**1,061.3**	**2,232.1**	**4,288.4**	**503.9**	**3.6**	**631.7**	**161.0**	**8,882.0**

In 2012, changes in the scope of consolidation had a net impact on property, plant and equipment of -€53.3 million. They relate mainly to the sale of Eurawasser as described in Note 2, "Major transactions".

In 2011, changes in the scope of consolidation had a net impact on property, plant and equipment of -€202.6 million. This mainly reflected the takeover of WSN Environmental Solutions (+€143.8 million) by Sita Australia and the sale of 70% of the regulated activities of Bristol Water (-€379.7 million) by Agbar.

At December 31, 2012, the main translation adjustments on the gross value of property, plant and equipment concern the Chilean peso (+€205 million), the US dollar (-€33.6 million) and the British pound (+€10.3 million).

11.2 Pledged and mortgaged assets

Assets pledged and mortgaged as collateral for borrowings amounted to €157.4 million at December 31, 2012 against €123.7 million at December 31, 2011. This change mainly reflects SFWD assets (€33.5 million) pledged as collateral for bank debt.

11.3 Contractual commitments for the acquisition of property, plant and equipment

In the course of ordinary operations, some Group companies also entered into commitments to invest in technical facilities, with a corresponding commitment by related third parties to deliver these facilities.

The Group's contractual commitments for capital expenditure amounted to €468.3 million at December 31, 2012, against €601.5 million at December 31, 2011. This change is mainly due to the €96.4 million reduction in Agbar's commitments for capital expenditure due to the completion of various projects.

NOTE 12 Financial instruments

12.1 Financial assets

The following table shows the various financial asset categories and their breakdown as “non-current” and “current”:

In millions of euros	December 31, 2012			December 31, 2011		
	Non-current	Current	Total	Non-current	Current	Total
Available-for-sale securities	**395.9**	**-**	**395.9**	**410.9**	**-**	**410.9**
Loans and receivables carried at amortized cost	700.7	4,071.9	4,772.6	662.3	4,314.8	4,977.1
Loans and receivables carried at amortized cost (excluding trade and other receivables)	700.7	266.6	967.3	662.3	196.8	859.1
Trade and other receivables	-	3,805.3	3,805.3	-	4,118.0	4,118.0
Financial assets measured at fair value through income	259.1	29.0	288.1	193.5	49.1	242.6
Derivative financial instruments	259.1	5.5	264.6	193.5	34.4	227.9
Financial assets at fair value through income excluding derivatives	-	23.5	23.5	-	14.7	14.7
Cash and cash equivalents	-	2,247.3	2,247.3	-	2,493.5	2,493.5
Total	**1,355.7**	**6,348.2**	**7,703.9**	**1,266.7**	**6,857.4**	**8,124.1**

12.1.1 Available-for-sale securities

In millions of euros

At December 31, 2011	**410.9**	
Acquisitions	20.1	
Net book value of disposals	(42.4)	
Changes in fair value posted to equity as other comprehensive income	57.0	*(a)*
Changes in fair value posted to income statement	(65.1)	*(a)*
Changes in scope, exchange rates and other	15.4	
At December 31, 2012	**395.9**	

(a) Mainly due to the re-measurement at fair value of Acea shares (see Note 12.1.1.2).

The value of available-for-sale securities held by the Group amounts to €395.9 million as of December 31, 2012, which is divided between €193.5 million for listed securities and €202.4 million for unlisted securities (versus €147.2 million and €263.7 million respectively in 2011).

Disposals for the period mainly include the sale by SUEZ ENVIRONNEMENT of its share in Budapest Water Works (see Note 2).

12.1.1.1 Gains and losses posted to equity and income from available-for-sale securities

Gains and losses posted to equity and income from available-for-sale securities are as follows:

In millions of euros	Dividends	Remeasurement			Income/(loss) on disposals
		Change in fair value	Impact of exchange rates	Impairment	
Shareholders' equity *(a)*		57.0	-		
Income statement	25.1	-		(65.1)	4.9
Total at December 31, 2012	**25.1**	**57.0**	**-**	**(65.1)**	**4.9**
Shareholders' equity *(a)*		(57.1)	-		
Income statement	30.8	-		(36.6)	8.1
Total at December 31, 2011	**30.8**	**(57.1)**	**-**	**(36.6)**	**8.1**

(a) Excluding tax impact

12.1.1.2 Analysis of available-for-sale securities as part of impairment tests

The Group examines the value of the various available-for-sale securities on a case-by-case basis and taking the market context into consideration, to determine whether it is necessary to recognize impairments.

Among the factors taken into consideration for listed securities, the Group believes that a decline in the share price of more than 50% below historical cost or a decline in the share price below historical cost for more than 12 months consecutively are indicators of impairment.

With regard to Acea, by applying its criteria and taking into account the prolonged nature of the decline in share price below historical cost and the future uncertainty regarding its recovery, the Group has decided to record an impairment of €60.0 million through income at December 31, 2012.

This €60.0 million loss, shown in “Impairment of property, plant and equipment and intangible and financial assets” on the income statement (see Note 5), includes the decline in the listed price between December 31, 2011 and December 31, 2012, as well as the effect of reclassifying in the income statement the loss relating to these securities, i.e. €54.2 million previously recorded in equity as “Other comprehensive income” at December 31, 2011.

12.1.2 Loans and receivables carried at amortized cost

	December 31, 2012			December 31, 2011		
In millions of euros	Non-current	Current	Total	Non-current	Current	Total
Loans and receivables carried at amortized cost (excluding trade and other receivables)	**700.7**	**266.6**	**967.3**	**662.3**	**196.8**	**859.1**
Loans granted to affiliated companies	216.2	84.5	300.7	182.1	104.3	286.4
Other receivables at amortized cost	89.0	20.6	109.6	70.0	12.1	82.1
Concession receivables	392.0	160.7	552.7	407.1	76.3	483.4
Finance lease receivables	3.5	0.8	4.3	3.1	4.1	7.2
Trade and other receivables	**-**	**3,805.3**	**3,805.3**	**-**	**4,118.0**	**4,118.0**
Total	**700.7**	**4,071.9**	**4,772.6**	**662.3**	**4,314.8**	**4,977.1**

Depreciation and impairment on loans and receivables carried at amortized cost are shown below:

	December 31, 2012			December 31, 2011		
In millions of euros	Gross	Depreciation & Impairment	Net	Gross	Depreciation & Impairment	Net
Loans and receivables carried at amortized cost (excluding trade and other receivables)	1,083.2	(115.9)	967.3	979.4	(120.3)	859.1
Trade and other receivables	4,039.2	(233.9)	3,805.3	4,351.2	(233.2)	4,118.0
Total	**5,122.4**	**(349.8)**	**4,772.6**	**5,330.6**	**(353.5)**	**4,977.1**

Information on the maturity of receivables that are past due but not impaired and on the monitoring of counterparty risk on loans and receivables at amortized cost (including trade and other receivables) is presented in Note 13.2, “Counterparty risk”.

Net income and expenses on loans and receivables carried at amortized cost and recognized in the income statement break down as follows (including trade receivables):

	Interests	Remeasurement post-acquisition	
In millions of euros		Translation adjusment	Impairment
at December 31, 2011	63.3	(1.1)	(43.1)
at December 31, 2012	**60.6**	**-**	**(23.4)**

LOANS AND RECEIVABLES CARRIED AT AMORTIZED COST (EXCLUDING TRADE RECEIVABLES)

"Loans granted to affiliated companies" primarily includes loans to associates accounted for by the equity method and to non-consolidated companies, and amounted to €246.4 million as of December 31, 2012, versus €245.6 million as of December 31, 2011.

The carrying amount of these loans was €300.7 million as of December 31, 2012, versus €286.4 million in 2011.

TRADE AND OTHER RECEIVABLES

On initial recognition, trade receivables are recorded at fair value, which generally corresponds to their nominal value. Impairment losses are recorded based on the estimated risk of non-recovery.

The carrying amount posted to the statement of financial position represents a good measurement of fair value.

12.1.3 Financial assets measured at fair value through income

This item comprises derivative financial instruments as well as financial assets measured measured at fair value through income or loss excluding derivatives, and can be analyzed as follows:

In millions of euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total
DERIVATIVE FINANCIAL INSTRUMENTS	**259.1**	**5.5**	**264.6**	**193.5**	**34.4**	**227.9**
Debt-related derivatives (a) (see Note 12.3.1)	237.1	-	237.1	182.5	0.1	182.6
Derivative hedging commodities (see Note 13.1.1.2)	-	3.3	3.3	-	4.0	4.0
Derivative hedging other items (b)	22.0	2.2	24.2	11.0	30.3	41.3
FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME EXCLUDING DERIVATIVES	**-**	**23.5**	**23.5**	**-**	**14.7**	**14.7**
Financial assets measured at fair value through income (see Note 12.3.1)	-	23.5	23.5	-	14.7	14.7
Financial assets designated at fair value through income	-	-	-	-	-	-
Total	**259.1**	**29.0**	**288.1**	**193.5**	**49.1**	**242.5**

(a) Following the Group's review of the aggregate "net financial debt", debt-related derivatives now include qualifying or non-qualifying hedging instruments for which the underlying items are also recorded under "Net financial debt" (see Note 12.3 "Net debt").

(b) The interest rate component of derivatives (non-qualifying or qualifying as cash flow hedges) as well as the derivatives subscribed to in order to reduce the Group's exposure linked to its investments in companies in which the currency used is not the euro, are now classified as instruments relating to other items, and are thus excluded from the aggregate "net financial debt".

In both cases, the data for 2011 have been restated to ensure comparability.

Commodities derivatives, debt-related derivatives, and derivatives hedging other items are set up as part of the Group's risk management policy and are analyzed in Note 13.

Financial assets valued at fair value through income (excluding derivatives) are mainly UCITS held for trading purposes and are included in the calculation of the Group's net debt (see Note 12.3).

As part of its policy to boost its cash position, SUEZ ENVIRONMENT COMPANY issued €4.4 billion in bonds since 2009, including €59 million in bonds issued in 2012 (see Note 12.3.2). A portion of the funds has been invested in deposit certificates and term deposits.

Income recognized on all financial assets measured at fair value through income as of December 31, 2012 was €0.3 million.

12.1.4 Cash and cash equivalents

The Group's financial risk management policy is described in Note 13.

"Cash and cash equivalents" amounted to €2,247.3 million as of December 31, 2012 versus €2,493.5 million as of December 31, 2011.

This item mainly includes term deposits of less than three months in the amount of €513.4 million, versus €1,274.0 million as of December 31, 2011, and cash equivalent assets in the amount of €1,726.2 million versus €1,212.0 million as of December 31, 2011.

In addition, restricted cash amounted to €7.7 million as of December 31, 2012, unchanged from 2011, and related mainly to guarantees on the issuance of bank letters of credit.

Income recognized in respect of "Cash and cash equivalents" as of December 31, 2012 amounted to €45.4 million unchanged from 2011.

12.1.5 Pledged and mortgaged assets

In millions of euros	December 31, 2012	December 31, 2011
Pledged and mortgaged assets	**148.3**	147.7

12.2 Financial liabilities

Financial liabilities are accounted for:

- in "Liabilities at amortized cost" for borrowings and debt, trade and other payables, and other financial liabilities.
- or in "liabilities measured at fair value through income" for derivative financial instruments.

The following table shows the various financial liability categories as of December 31, 2012, as well as their breakdown as "non-current" and "current":

	December 31, 2012			December 31, 2011		
In millions of euros	Non-current	Current	Total	Non-current	Current	Total
Borrowings	8,554.8	1,363.6	9,918.4	8,035.6	2,035.2	10,070.8
Derivative financial instruments	90.7	11.3	102.0	156.4	32.8	189.2
Trade and other payables	-	2,871.0	2,871.0	-	2,752.5	2,752.5
Other financial liabilities	2.7	-	2.7	3.1	-	3.1
Total	**8,648.2**	**4,245.9**	**12,894.1**	**8,195.1**	**4,820.5**	**13,015.6**

12.2.1 Borrowings and debt

	December 31, 2012			December 31, 2011		
In millions of euros	Non-current	Current	Total	Non-current	Current	Total
Bonds issues	5,913.5	61.4	5,974.9	5,640.0	100.2	5,740.2
Draw downs on credit facilities	909.1	118.6	1,027.7	594.3	395.4	989.7
Borrowings under finance leases	390.7	51.5	442.2	451.3	55.3	506.6
Other bank borrowings	871.0	185.2	1,056.2	976.8	450.7	1,427.5
Other borrowings	321.9	102.4	424.3	292.0	314.5	606.5
BORROWINGS	**8,406.2**	**519.1**	**8,925.3**	**7,954.4**	**1,316.1**	**9,270.5**
Overdrafts and current cash accounts	-	758.4	758.4	-	626.5	626.5
OUTSTANDING FINANCIAL DEBT	**8,406.2**	**1,277.5**	**9,683.7**	**7,954.4**	**1,942.6**	**9,897.0**
Impact of measurement at amortized cost	(11.5)	86.1	74.6	(12.8)	92.6	79.8
Impact of fair value hedge	160.1	-	160.1	94.0	-	94.0
BORROWINGS AND DEBT	**8,554.8**	**1,363.6**	**9,918.4**	**8,035.6**	**2,035.2**	**10,070.8**

The fair value of gross financial debt as of December 31, 2012 was €10,865.8 million for a net book value of €9,918.4 million.

Gains and losses on borrowings and debt recognized in the income statement mainly comprise interest and are detailed in Note 6, "Financial income". Borrowings are analyzed in Note 12.3 "Net debt".

12.2.2 Derivative financial instruments (including commodities)

Derivative instruments recorded as liabilities are measured at fair value and may be analyzed as follows:

In millions of euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total
Debt-related derivatives (a)	28.1	1.8	29.9	66.2	2.5	68.7
Derivatives hedging commodities (See Note 13.1.1.2)	-	0.5	0.5	-	-	-
Derivatives hedging other items (b)	62.6	9.0	71.6	90.2	30.3	120.5
Total	**90.7**	**11.3**	**102.0**	**156.4**	**32.8**	**189.2**

(a) Following the Group's review of the aggregate "net financial debt", derivatives hedging borrowings now include qualifying or non-qualifying hedging instruments for which the underlying items are also recorded under "Borrowings and debt" (see Note 12.3 "Net debt").

(b) The interest rate component of derivatives (non-qualifying or qualifying as cash flow hedges) as well as the derivatives subscribed to in order to reduce the Group's exposure related to its investments in companies in which the currency used is not the euro, are henceforth classified as instruments relating to other elements and thus excluded from the aggregate "net financial debt".

In both cases, the data for 2011 have been restated to ensure comparability.

These instruments are set up according to the Group's risk management policy and are analyzed in Note 13.

12.2.3 Trade and other payables

In millions of euros	December 31, 2012	December 31, 2011
Trade payables	2,621.3	2,435.5
Payables on fixed assets	249.7	317.0
Total	**2,871.0**	**2,752.5**

The carrying amount recorded to the statement of financial position represents a good measurement of fair value.

12.2.4 Other financial liabilities

Other financial liabilities are analyzed as follows:

In millions of euros	December 31, 2012	December 31, 2011
Liabilities on share purchases	2.7	3.1
Total	**2.7**	**3.1**

12.3 Net debt

In 2012, the Group has reviewed its definition of net debt in order to gain economic coherence between the different elements included within the aggregate. Therefore, the derivative financial instruments subscribed to in order to reduce Group exposure related to its investments in consolidated companies with a currency other than the euro, as well as the interest rate component for derivative instruments (not qualifying as hedges or qualifying as cash flow hedges) are henceforth excluded for the definition of net debt.

Indeed, the elements that cause Group exposure (for which derivative instruments are subscribed to in order to reduce the exposure) are not included in this figure.

In addition, the financial assets relating to the debt instruments, essentially deposits pledged as part of project financing arrangements, will from now on be recognized in the deduction of gross borrowings.

The data at December 31, 2011 have been restated to ensure comparability between the two periods, which translates into a reduction in net debt for 2011 of €109 million compared with the previous definition.

The definition of the cost of net financial debt in the income statement has also been adjusted (see Note 6 “Financial Income”) in order to ensure consistency with net debt as henceforth defined.

12.3.1 Analysis by type of debt

	December 31, 2012			December 31, 2011		
In millions of euros	Non-current	Current	Total	Non-current	Current	Total
Outstanding borrowings	8,406.2	1,277.5	9,683.7	7,954.4	1,942.6	9,897.0
Impact of measurement at amortized cost	(11.5)	86.1	74.6	(12.8)	92.6	79.8
Impact of fair value hedge *(a)*	160.1	-	160.1	94.0	-	94.0
BORROWINGS AND DEBTS	**8,554.8**	**1,363.6**	**9,918.4**	**8,035.6**	**2,035.2**	**10,070.8**
Debt-related derivatives under liabilities *(b)* (see Note 12.2.2)	28.1	1.8	29.9	66.2	2.5	68.7
GROSS DEBT	**8,582.9**	**1,365.4**	**9,948.3**	**8,101.8**	**2,037.7**	**10,139.5**
Assets related to financing *(c)*	(4.6)	-	(4.6)	-	-	-
Assets related to financing	**(4.6)**	**-**	**(4.6)**	**-**	**-**	**-**
Financial assets at fair value through income excluding financial derivative instruments (see Note 12.1.3)	-	(23.5)	(23.5)	-	(14.7)	(14.7)
Cash and cash equivalents	-	(2,247.3)	(2,247.3)	-	(2,493.5)	(2,493.5)
Debt-related derivatives under assets *(b)* (see Note 12.1.3)	(237.1)	-	(237.1)	(182.5)	(0.1)	(182.6)
NET CASH	**(237.1)**	**(2,270.8)**	**(2,507.9)**	**(182.5)**	**(2,508.3)**	**(2,690.8)**
NET DEBT	**8,341.2**	**(905.4)**	**7,435.8**	**7,919.2**	**(470.6)**	**7,448.6**
Outstanding borrowings	8,406.2	1,277.5	9,683.7	7,954.4	1,942.6	9,897.0
Assets related to financing *(c)*	(4.6)	-	(4.6)	-	-	-
Financial assets measured at fair value through income excluding financial derivative instruments (see Note 12.1.3)	-	(23.5)	(23.5)	-	(14.7)	(14.7)
Cash and cash equivalents	-	(2,247.3)	(2,247.3)	-	(2,493.5)	(2,493.5)
Net debt excluding amortized cost and impact of derivative financial instruments	**8,401.6**	**(993.3)**	**7,408.3**	**7,954.4**	**(565.6)**	**7,388.8**

(a) This item corresponds to the revaluation of the interest rate component of debt in a designated fair value hedging relationship.

(b) This item represents the fair value of debt-related derivatives regardless of whether or not they are designated as hedges according to the new definition of net financial debt.

(c) The financial assets related to financing are henceforth shown in reduction of the amount of debt. These generally refer to pledged deposits for financing subsidiaries.

The 2011 data have been restated to allow comparability.

The sensitivity of the debt (including interest rate and currency derivatives) to interest rate risk and currency risk is presented in Note 13 “Risks arising from financial instruments”.

12.3.2 Bond issues

SUEZ ENVIRONNEMENT COMPANY conducted the following transactions on its bond debt during 2012:

- On June 11, 2012, SUEZ ENVIRONNEMENT COMPANY launched an intermediated tender offer for the 2014 tranche issued in 2009 bearing a fixed coupon of 4.875%. At the end of the process, €191.3 million of the tranche maturing in 2014 had been redeemed.

- On the same day, SUEZ ENVIRONNEMENT COMPANY further extended for €250 million the 10-year bond tranche, maturing June 24, 2022 bearing a fixed coupon of 4.125%.

- The 2014 tranche was hedged by “fixed-to-floating” swaps, qualified as fair value hedges, that have been unwound or dequalified for a total of €191.3 million. Moreover, the new 2022 tranche has been fully hedged by “fixed-to-floating” swaps, qualified as fair value hedges.

12.3.3 Securitization of receivables

Context

Since 2002, SUEZ ENVIRONNEMENT has implemented a program for the sales of commercial receivables to a special purpose vehicle (SPV) called “Fonds Commun de Créances”. The receivables transferred related to invoices linked to the Waste Europe activity in France, Belgium and the Netherlands.

This program had a 5-year initial duration and was renewed in 2007 for 5 additional years that ended June 18, 2012.

The risks associated with securitized receivables, mainly credit risk and the risk of late payment, were retained by the Group. Consequentely the receivables sold could not be derecognized in the sense of IAS 39 (Financial Instruments: Recognition and Measurement) and were maintained on the consolidated statement of financial position. Sums received for the sales were therefore entered against a debt on the Group's consolidated statement of financial position.

Description of the program

The program ending June 18, 2012 was renewed and modified in order to set up conditions allowing for derecognition of the receivables under IAS 39.

The main characteristics of the program are as follows:

(a) a new SPV was created, called “Fonds Commun de Titrisation” (or FCT) to replace the previous one;

(b) the preexisting securitization program was subject to a “simple” renewal;

(c) a compartment dedicated to the Group’s receivables was created within the FCT;

(d) on the implementation date, part of receivables from the former securitization program were transferred to the new compartment; the other part continued to fund the former SPV compartment and switched in November 2012 (with the exception of Belgium, which continues to fund the former program);

(e) the FCT used in the program is financing the new compartment by issuing 3 types of instruments:

- shares known as “senior”, issued on the markets through a dedicated channel;
- a deposit known as “mezzanine”, underwritten by the Group;
- shares known as “subordinated”, underwritten by an investor taking part in the program and with contracted involvement with the Group.

(f) these shares are presented here in order of payment priority related to each other; the senior shares are therefore the first to be reimbursed and the subordinated shares are the last.

(g) the Group subsidiaries involved remain in charge of recovering the receivables transferred against remuneration.

The sales of receivables are made by Group subsidiaries at their nominal value, minus a discount that covers the cost of financing the receivables, the risk of late payment and the credit risk.

The main commitments of the Group towards the securitization fund are the following:

(h) set-up of a security deposit for the compartment, earning interest, and designed to cover, if the FCT reserves and the “subordinated” shares ever came to run out, any defaults and late payments on transferred receivables exceeding the amount estimated during the transfer and invoiced through the discount applied to the transfer price, to a set maximum limit (Cash Collateral 1 or CC1); this deposit is effective from the launch of the program and corresponds to the “mezzanine” deposit presented above;

(i) set-up of a security deposit for the compartment, earning interest, and designed to preserve the correct execution of all financial obligations of Group entities party to the program, to a set maximum limit (Cash Collateral 2 or CC2); this deposit is only effective if certain events or triggers occur linked to the downgrading of SUEZ ENVIRONNEMENT COMPANY or to the non-respect by the Group of its contractual obligations. At December 31, 2012, this security deposit had not yet been formed.
(j) existence of a mechanism known as “excess fee” through which, in certain cases, the FCT can give back part of the excess cash accumulated in the compartment when recovering receivables (transferred at discount prices). This mechanism corresponds to a part of the remuneration of Group subsidiaries for collecting receivables (see below);
(k) an option, for all Group subsidiaries, to jointly request buyback at fair value of the receivables held by the compartment in a single and unique transaction, in case of program amortization, planned (with a 5-year term), or accelerated, and after agreement with the holders of “subordinated” shares. To date, accelerated amortization of the program is not expected before its maturity date;
(l) issue of a guarantee for the risk of modification of tax rules;
(m) preservation by each Group subsidiary of the follow-up and collection of receivables that it has transferred to the compartment; to this effect, a follow-up and collection agreement was signed by each of the subsidiaries acting as collector and by the compartment, this service being remunerated by FCT.

The Group remains exposed to the risks linked to the receivables transferred within the limit of the security deposits. It also receives part of the benefits from the FCT via the collection of an excess fee in its role as servicer.

However, the discount applied to the sales and the sizing of the “subordinated” shares allow almost all possible losses of the compartment to be absorbed. The probability that the “mezzanine” deposit is impacted is very low. Finally, the holders of the “subordinated” shares benefit from almost all the advantages through excess fees more favorable than those attributable to the Group, and the granting of the liquidation profit.

Accounting treatment

The new compartment of the FCT is not controlled by the Group and is therefore not consolidated.

According to IAS 39 and based on the terms of the new program and the quantitative analyses implemented, the Group transferred almost all the risks and rewards inherent to the ownership of the receivables sold. The receivables transferred within the scope of the new program are therefore fully derecognized from the Group’s consolidated statement of financial position.

The loss arising from the sale of these receivables, through the applied discount, is recorded in the income statement under financial expenses (see Note 6).

The security deposit paid and representing the “mezzanine” shares underwritten by the Group is recorded under the item “Loans and receivables carried at amortized cost” on the Group’s consolidated statement of financial position. Its remuneration is recorded in the income statement under financial income (see Note 6).
The remuneration of services provided by the group for follow-up and recovery of receivables transferred is shown in the income statement under financial income (see Note 6).

Figures at December 31, 2012

The new securitization program has been the object of the first monthly sale of receivables on June 26, 2012 for assignors within Sita France; on November 23, 2012, assignors within Sita Spécialités, Sita Nederland, Sita UK and Sita Deutschland also sold receivables to the new compartment for the first time.

The figures as of December 31, 2012 are presented below:

In millions of euros		
Total of receivables sold over the period	1,008.7	
Gain / (loss) arising from sale over the period	(15.3)	*(b)*
Remuneration for CC1	0.2	*(c)*
Remuneration of services for follow-up and recovery of receivables transferred over the period	3.2	*(d)*
Outstanding receivables transferred as of December 31, 2012	317.4	*(a)*
Book value of CC1 as of December 31, 2012	18.9	*(e)*
Fair value of CC1	18.9	
Book value of CC2	*	
Residual maturity of CC1	*53 months*	
Impact of sales of derecognized receivables in the sense of IAS 39 on net debt	286.6	(a) + (b) + (c) + (d) - (e)

** : no security deposit known as "CC2" had been made as of December 31, 2012; payment of this deposit is subject to the conditions described above.*

As a reminder, the subsidiaries Sita Wallonie and Sita Flanders, not involved in the new program, have sold their eligible receivables on a monthly basis under the renewal of the former program.
These sales were given the same accounting treatment as before: the receivables were therefore not derecognized from the Group's consolidated statement of financial position and a liability was recorded ro offset the cash proceeds from the sales.

The outstanding receivables used by Sita Wallonie and Sita Flanders related to this former program was as of December 31, 2012 amount to €30.8 million.

Total receivables sold during the period under the old program by Sita Wallonie and Sita Flandres, as well as by subsidiaries that took part in this before switching to the new program (Sita France, Sita Spécialités, Sita Nederland) amounted to €1,027.2 million.

12.3.4 Change in net debt

Net debt fell by €12.8 million in 2012:

- the cash dividend payment to SUEZ ENVIRONNEMENT COMPANY's shareholders generated a €330.8 million increase in net debt;
- the cash dividend payment to the non-controlling interests of the subsidiaries generated a €231.2 million increase in net debt;
- the exchange rate variations contributed to an increase in net debt of €107.7 million;
- the sale of Eurawasser generated a decrease of €89.6 million in net debt, net of expenses and tax on the disposal;
- the impact of the sale of receivables derecognized under IAS 39 as part of the securitization program resulted in a decrease of €286.6 million in net debt;
- net cash generated by the Group's activities as well as other changes in the scope of consolidation explain the balance of the variation in net debt.

12.3.5 Debt/equity ratio

In millions of euros	December 31, 2012	December 31, 2011
Net debt	7,435.8	7,448.6
Total equity	6,859.2	6,817.2
Debt/equity ratio	108.4%	109.3%

12.4 Fair value of financial instruments by level

12.4.1 Financial assets

Financial assets excluding commodities recognized at fair value are distributed as follows among the various levels of fair value (fair value levels are defined in Note 1.6.10.3):

	December 31, 2012				December 31, 2011			
In millions of euros	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available-for-sale securities	**395.9**	**193.5**		**202.4**	**410.9**	**147.2**		**263.7**
Loans and receivables carried at amortized cost (excluding trade and other receivables)	**967.3**		**967.3**		**859.1**		**859.1**	
Derivative financial instruments	**264.6**		**264.6**		**227.9**		**227.9**	
Debt-related derivatives	237.1		237.1		182.6		182.6	
Derivatives hedging commodities	3.3		3.3		4.0		4.0	
Derivatives hedging other items	24.2		24.2		41.3		41.3	
Financial assets measured at fair value through income excluding derivatives	**23.5**		**23.5**		**14.7**		**14.7**	
Total	**1,651.3**	**193.5**	**1,255.4**	**202.4**	**1,512.6**	**147.2**	**1,101.7**	**263.7**

Available-for-sale securities:

Listed securities – valued at the stock market price on the closing date – are considered Level 1.

Unlisted securities – measured using valuation models based primarily on the most recent transactions, discounted dividends or cash flow and net asset value, are considered Level 3.

As of December 31, 2012, the change in Level 3 available-for-sale securities breaks down as follows:

In millions of euros	
At December 31, 2011	**263.7**
Acquisitions	7.0
Disposals	(42.4)
Gains and losses posted to equity	(3.1)
Gains and losses posted to income	(5.1)
Changes in scope, exchange rates and other	(17.7)
At December 31, 2012	**202.4**

The main line of unlisted securities is Aguas de Valencia, the value of which is determined based on a multi-criteria analysis (DCF, multiples). A decline of 10% in the total value of Aguas de Valencia shares would result in a €10.8 million decline in equity.

Loans and receivables carried at amortized cost (excluding trade and other receivables):

Loans and receivables carried at amortized cost (excluding trade and other receivables) contain elements that contribute to a fair value hedging relationship. These loans and receivables, for which fair value is determined based on observable interest and exchange rate data, are considered Level 2.

Derivative financial instruments:

The portfolio of derivative financial instruments used by the Group within the context of its risk management consists primarily of interest rate and exchange rate swaps, interest rate options, and currency swaps. The fair value of virtually all of these contracts is determined using internal valuation models based on observable data. These instruments are considered Level 2.

Financial assets measured at fair value through profit or loss:

Financial assets measured at fair value, determined based on observable data, are considered Level 2.

12.4.2 Financial liabilities

Financial instruments excluding commodities posted to liabilities are distributed as follows among the various levels of fair value (fair value levels are defined in Note 1.6.10.3):

	December 31, 2012				December 31, 2011			
In millions of euros	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Borrowings	**9,918.4**		**9,918.4**		**10,070.8**		**10,070.8**	
Derivative financial instruments	**102.0**		**102.0**		**189.2**		**189.2**	
Debt-related derivatives	29.9		29.9		68.7		68.7	
Derivatives hedging commodities	0.5		0.5		-		-	
Derivatives hedging other items	71.6		71.6		120.5		120.5	
Total	**10,020.4**	**-**	**10,020.4**	**-**	**10,260.0**	**-**	**10,260.0**	**-**

Bonds and borrowings:

Bonds debt involved in fair value hedging is shown in this table as Level 2. These borrowings are revalued only in terms of the interest rate components, the fair value of which is based on observable data.

Derivative financial instruments:

See Note 12.4.1.

NOTE 13 Management of risks arising from financial instruments

The Group mainly uses derivative instruments to manage its exposure to market risks. The management of financial risks is explained in Chapter 4 – "Risk factors" of the Reference Document.

13.1 Market risks

13.1.1 Commodity market risks

13.1.1.1 Hedging operations

The Group sets up cash flow hedges on fuel and electricity as defined by IAS 39 by using the derivative instruments available on over-the-counter markets, whether they are firm commitments or options, but always settled in cash. The Group's aim is to protect itself against adverse changes in market prices, which may specifically affect its supply costs.

13.1.1.2 Fair value of derivative instruments linked to commodities

The fair values of derivative instruments linked to commodities at December 31, 2012 and 2011 are presented in the table below:

	December 31, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
In millions of euros	Current	Non-current	Current	Non-current	Current	Non-Current	Current	Non-Current
Cash flow hedges	3.3	-	0.5	-	4.0	-	-	-
Total	**3.3**	**-**	**0.5**	**-**	**4.0**	**-**	**-**	**-**

The fair value of cash flow hedging instruments by type of commodity breaks down as follows:

	December 31, 2012				December 31, 2011			
	Assets		Liabilities		Assets		Liabilities	
In millions of euros	Current	Non-current	Current	Non-current	Current	Non-Current	Current	Non-Current
ELECTRICITY	**0.7**	**-**	**-**	**-**	**0.8**	**-**	**-**	**-**
Swaps	0.7	-	-	-	0.8	-	-	-
OIL	**2.6**	**-**	**0.5**	**-**	**3.2**	**-**	**-**	**-**
Swaps	2.6	-	0.5	-	3.2	-	-	-
Total	**3.3**	**-**	**0.5**	**-**	**4.0**	**-**	**-**	**-**

13.1.2 Currency risk

The Group is exposed to financial statement translation risk due to the geographical spread of its activities: its statement of financial position and income statement are impacted by changes in exchange rates when consolidating the financial statements of its non-eurozone foreign subsidiaries (translation risk). Translation risk is mainly concentrated on equity holdings in the United States, United Kingdom, Chile and Australia. The Group's hedging policy with regard to investments in non-eurozone currencies consists in contracting liabilities denominated in the same currency as the cash flows expected to derive from the hedged assets.

Among the hedging instruments used, borrowings in the relevant currency constitute the most natural hedging tool. The Group also uses foreign currency derivatives (swaps), which allow for the creation of synthetic currency debts. Following the change in the definition of "net debt", the fair value measurement of foreign currency derivatives hedging translation risk is no longer included in the net debt. This change impacts the currency mix of outstanding borrowings and net debt, after taking hedging instruments into account.

Exposure to currency risk is reviewed monthly and the asset hedging coverage ratio (corresponding to the ratio between the carrying amount of an asset denominated in a foreign currency outside the eurozone, and the debt assumed for that asset) is periodically reviewed in the light of market conditions and whenever assets are acquired or sold. Any significant change in the hedging ratio is subject to prior approval by the Treasury Committee.

Taking financial instruments into account, 57% of net debt was denominated in euros, 15% in US dollars, 5% in pounds sterling, 16% in Chilean pesos and 2% in Australian dollars at the end of 2012, compared to 61% in euros, 15% in US dollars, 4% in pounds sterling, 14% in Chilean pesos and 3% in Australian dollars at the end of 2011 (taking into account the change in the definition of "net debt").

13.1.2.1 Analysis of financial instruments by currency

The breakdown by currency of outstanding borrowings and of net debt, before and after taking interest rate and currency hedges into account, is presented below:

Outstanding borrowings

In %	December 31, 2012 Before impact of derivatives	December 31, 2012 After impact of derivatives	December 31, 2011 Before impact of derivatives	December 31, 2011 After impact of derivatives (a)
Euro zone	67%	59%	69%	62%
US$ zone	8%	12%	8%	12%
£ zone	3%	5%	4%	6%
CLP (Chilean peso)	13%	13%	11%	10%
AUD (Australian dollar)	4%	4%	3%	3%
Other currencies	5%	7%	5%	7%
Total	**100%**	**100%**	**100%**	**100%**

(a) Following the Group's review of 'net debt' the fair value measurement of foreign currency derivatives hedging translation risk is no longer included in this figure (see Note 13.1.2 'Currency risk'). Net investment hedge derivatives are now excluded from this table.

Net Debt

In %	December 31, 2012 Before impact of derivatives	December 31, 2012 After impact of derivatives	December 31, 2011 Before impact of derivatives	December 31, 2011 After impact of derivatives (a)
Euro zone	67%	57%	68%	61%
US$ zone	10%	15%	10%	15%
£ zone	4%	5%	4%	4%
CLP (Chilean peso)	15%	16%	14%	14%
AUD (Australian dollar)	2%	2%	2%	3%
Other currencies	2%	5%	2%	3%
Total	**100%**	**100%**	**100%**	**100%**

(a) Following the Group's review of 'net debt', the fair value measurement of foreign currency derivatives hedging translation risk is no longer included in this figure (see Note 13.1.2 'Currency risk'). Net investment hedge derivatives are now excluded from this table.

13.1.2.2 Analysis of currency risk sensitivity

The sensitivity analysis was based on the net debt position (including interest rate and currency derivatives), and derivatives designated as net investment hedges at the reporting date.

As regards **currency risk**, the sensitivity calculation consists in evaluating the impact in the consolidated financial statements of a +/-10% change in foreign exchange rates compared to closing rates.

Impact on income:

Changes in exchange rates against the euro only affect income through gains and losses on liabilities denominated in a currency other than the reporting currency of the companies carrying the liabilities on their statement of financial position, and to the extent that these liabilities do not qualify as net investment hedges. A uniform +/- 10% change in exchange rates would generate a loss or a gain of €2.5 million.

Impact on equity:

For financial liabilities (debt and derivatives) designated as net investment hedges, a uniform 10% change in exchange rates would have a positive or negative impact on equity of €134.3 million. This impact is offset by a counter-effect on the net investment in the hedged currency.

13.1.3 Interest rate risk

The Group aims to reduce its financing costs by limiting the impact of interest rate fluctuations on its income statement.

The Group's policy is to diversify net debt interest rate references between fixed and floating rates. The Group's aim is to achieve a balanced interest rate structure for its net debt in the medium term (5 to 15 years). The interest rate mix may change depending on market trends.

The Group therefore uses hedging instruments (particularly swaps) to protect itself from increases in interest rates in the currencies in which the debt is denominated.

The Group's exposure to interest rate risk is managed centrally and regularly reviewed (generally on a monthly basis) during meetings of the Treasury Committee. Any significant change in the interest rate mix is subject to prior approval by Management.

The cost of debt is sensitive to changes in interest rates on all floating-rate debt. The cost of debt is also affected by changes in market value of derivative instruments not classified as hedges under IAS 39.

The Group's main exposure to interest rate risk arises from loans and borrowings denominated in euros, US dollars, pounds sterling, Chilean pesos and Australian dollars, which represented 95% of net debt as of December 31, 2012.

13.1.3.1 Financial instruments by rate type

The breakdown by type of rate of outstanding borrowings and net debt, before and after impact of hedging instruments, is shown in the following tables:

Outstanding borrowings

In %	December 31, 2012 Before impact of derivatives	December 31, 2012 After impact of derivatives	December 31, 2011 Before impact of derivatives	December 31, 2011 After impact of derivatives
Floating rate	30%	40%	34%	42%
Fixed rate	70%	60%	66%	58%
Total	**100%**	**100%**	**100%**	**100%**

Net Debt

In %	December 31, 2012 Before impact of derivatives	December 31, 2012 After impact of derivatives	December 31, 2011 Before impact of derivatives	December 31, 2011 After impact of derivatives
Floating rate	6%	19%	9%	19%
Fixed rate	94%	81%	91%	81%
Total	**100%**	**100%**	**100%**	**100%**

13.1.3.2 Analysis of interest rate risk sensitivity

The sensitivity analysis was based on the net debt position as at the reporting date (including interest rate and currency derivative instruments).

For **interest rate risk,** sensitivity is calculated based on the impact of a rate change of +/-1% compared with year-end interest rates.

Impact on income:

A +/- 1% change in short-term interest rates (for all currencies) on the nominal amount of floating-rate net debt and the floating-rate component of derivatives would have a negative or positive impact of €13.9 million on net interest expense.

A 1% increase in interest rates (for all currencies) would generate a gain of €1.5 million in the income statement due to the change in fair value of non qualified derivatives or derivatives designed as net investment hedges. Conversely, a 1% decrease in interest rates would generate a €1.5 million loss.

Impact on equity:

An increase of 1% in all interest rates (uniform for all currencies) would generate a gain of €12.2 million in equity, linked to the change in fair value for derivatives documented as cash flow hedges and accounted for in the statement of financial position. On the other hand, a decrease of 1% would generate a loss of €15.1 million.

The asymmetrical impacts are attributable to the low short-term interest rates (less than 1%) applicable to certain financial assets and liabilities.

13.1.4 Currency and interest rate risk hedges

The fair values and notional amounts of the financial derivative instruments used to hedge currency and interest rate risks are as follows:

Foreign currency derivatives

	December 31, 2012		December 31, 2011	
In millions of euros	Total market value	Total nominal value	Total market value	Total nominal value
Fair-value hedges	0.9	219.6	27.8	421.4
Cash-flow hedges	0.3	50.3	(0.8)	19.1
Net investment hedges	3.6	964.5	(50.8)	1,025.2
Derivative instruments not qualifying for hedge accounting	1.5	820.3	(20.6)	1,161.6
Total	**6.3**	**2,054.7**	**(44.4)**	**2,627.3**

Interest rate derivatives

	December 31, 2012		December 31, 2011	
In millions of euros	Total market value	Total nominal value	Total market value	Total nominal value
Fair-value hedges	209.4	1,820.5	135.5	1,761.8
Cash-flow hedges	(55.5)	864.2	(51.1)	825.2
Derivative instruments not qualifying for hedge accounting	(0.4)	420.5	(6.9)	329.6
Total	**153.5**	**3,105.2**	**77.5**	**2,916.6**

The market values shown in the table above are positive for an asset and negative for a liability.

The Group defines foreign currency derivatives hedging by firm foreign currency commitments, and instruments transforming fixed-rate debt into floating-rate debt, as fair value hedges.

Cash-flow hedges correspond mainly to hedges of future operating cash flows in foreign currency and the hedging of floating-rate debt.

Net investment hedging instruments are mainly foreign exchange swaps.

Interest rate derivatives not designated as hedges consist of structured instruments, which because of their type and because they do not meet the effectiveness criteria defined in IAS 39, cannot be qualified as hedges for accounting purposes.

Foreign currency derivatives not designated as hedges provide financial cover for foreign currency commitments. Furthermore, the effect of foreign currency derivatives is almost entirely offset by translation adjustments on the hedged items.

Fair-value hedges:

As of December 31, 2012, the net impact of fair value hedges recognized in the income statement was +€1.6 million.

Cash flow hedges:

The breakdown by maturity of the market value of the foreign currency and interest rate derivatives designated as cash flow hedges is as follows:

At December 31, 2012

In millions of euros	Total	2013	2014	2015	2016	2017	> 5 years
Fair value of derivatives by maturity date	**(55.3)**	(28.4)	(5.2)	(4.2)	(3.2)	(2.3)	(12.0)

At December 31, 2011

In millions of euros	Total	2012	2013	2014	2015	2016	> 5 years
Fair value of derivatives by maturity date	**(51.9)**	(14.9)	(21.5)	(8.1)	(3.7)	(2.5)	(1.2)

As of December 31, 2012 unrealized gains and losses directly recognized in shareholders' equity, Group share over the period amounted to €-7.3 million (including impacts on associates).

The ineffective portion of cash-flow hedges recognized in income was not material.

Net investment hedges:

The ineffective portion of net investment hedges recognized in income amounted to a loss of €1.8 million.

13.2 Counterparty risk

Through its operational and financial activities, the Group is exposed to the risk of default on the part of its counterparties (customers, suppliers, associates, intermediaries, banks) in the event that they find it impossible to meet their contractual obligations. This risk arises from a combination of payment risk (non-payment of goods or services rendered), delivery risk (non-delivery of goods or services already paid), and replacement risk on defaulting contracts (called *mark-to-market* exposure and corresponding to the risk that replacement terms will be different from the initially agreed terms).

13.2.1 Operating activities

Counterparty risk arising from trade and other receivables

The maturity of past-due trade and other receivables is broken down below:

Trade and other receivables	**Past-due non impaired assets at closing date**				**Impaired assets** *(a)*	**Non-impaired and not past-due assets**	
In millions of euros	**0-6 months**	**6-12 months**	**Over one year**	**Total**	**Total**	**Total**	**Total**
At December 31, 2012	220.2	29.0	47.2	296.4	363.7	3,379.1	**4,039.2**
At December 31, 2011	338.6	19.5	37.7	395.8	404.3	3,551.1	**4,351.2**

(a) This figure corresponds to the nominal value of trade and other receivables that are partially or fully depreciated.

The ageing of receivables that are past due but not impaired may vary significantly depending on the type of customer with which the Group companies do business (private companies, individuals or public authorities). The Group decides whether to recognize impairment on a case-by-case basis according to the characteristics of the various types of customers. The Group does not consider that it is exposed to any material credit concentration risk in respect of receivables, taking into account the diversified nature of its portfolio.

Counterparty risk linked to other assets

In 'Other assets' the proportion of depreciated assets is not material in relation to the total amount of the item. Moreover, the Group does not consider that it is exposed to any counterparty risk on those assets.

13.2.2 Financial activities

The Group's maximum exposure to counterparty risk in its financial activities may be measured in terms of the carrying amount of financial assets excluding available-for-sale securities and the fair value of derivatives on the assets side of the statement of financial position (i.e. €7,308.0 million at December 31, 2012, and €7,713.2 million at December 31, 2011).

13.2.2.1 Counterparty risk arising from loans and receivables carried at amortized cost (excluding trade and other receivables)

The maturity of past-due loans and receivables carried at amortized cost (excluding trade and other receivables) is analyzed below:

Loans and receivables carried at amortized cost (excluding trade and other receivables)	**Past-due non impaired assets at closing date**				**Impaired assets** *(a)*	**Non-impaired and not past-due assets**	
In millions of euros	**0-6 months**	**6-12 months**	**Over one year**	**Total**	**Total**	**Total**	**Total**
At December 31, 2012	-	1.3	4.2	5.5	137.0	943.3	**1,085.8**
At December 31, 2011	4.2	-	0.1	4.3	120.3	857.1	**981.7**

(a) This figure corresponds to the nominal value of loans and receivables carried at amortized cost (excluding trade and other receivables) that are partially or fully depreciated.

Loans and receivables carried at amortized cost (excluding trade and other receivables) do not include items relating to impairment (€115.9 million as of December 31, 2012 and €120.3 million as of December 31, 2011) or amortized cost (€2.6 million as of December 31, 2012 and €2.3 million as of December 31, 2011). The change in these items is presented in Note 12.1.2, "Loans and receivables at amortized cost".

13.2.2.2 Counterparty risk arising from investment activities

The Group is exposed to counterparty risk on the investment of its cash surplus (cash and cash equivalents) and through its use of derivative financial instruments. Counterparty risk corresponds to the loss which the Group might incur in the event of counterparties failing to meet their contractual obligations. In the case of derivative instruments, that risk corresponds to positive fair value.

The Group invests the majority of its cash surplus in, and negotiates its financial hedging instruments with, leading counterparties. As part of its counterparty risk management policy, the Group has set up management and control procedures that focus on the counterparty's accreditation according to its credit ratings, its financial exposure, as well as objective market factors (Credit Default Swaps, market capitalization), plus an assessment of risk limits.

	December 31, 2012				**December 31, 2011**			
Counterparty risk arising from investing activities	**Total**	**Investment Grade** *(a)*	**Unrated** *(b)*	**Non Investment Grade** *(b)*	**Total**	**Investment Grade** *(a)*	**Unrated** *(b)*	**Non Investment Grade** *(b)*
% of exposure to counterparties	2,247.3	94%	2%	4%	2,493.5	91%	2%	7%

(a) Counterparties with a minimum Standard & Poor's rating of BBB- or Moody's rating of Baa3.

(b) Most of the two latter types of exposure consisted of consolidated companies with non-controlling interests or Group companies operating in emerging countries where cash cannot be centralized and is therefore invested locally.

Moreover, at December 31, 2012, no counterparty outside the GDF SUEZ Group represented more than 15% of cash and cash equivalents (weighted by the estimated risk of each investment depending on type, currency and maturity).

13.3 Liquidity risk

As part of its operating and financial activities, the Group could be exposed to a risk of insufficient liquidity, preventing it from meeting its contractual commitments.

13.3.1 Available cash

The Group's financing policy is based on the following principles:

- Diversification of financing sources between the banking and capital markets.
- Balanced repayment profile of borrowings.

As of December 31, 2012, the Group's total available cash stood at €2,507.9 million (including €237.1 million in derivative financial instruments). Almost all surplus cash is invested in short-term bank deposits and interest-bearing accounts.

In addition, at December 31, 2012 the Group specifically had €3,372.3 million in confirmed credit facilities, including €1,027.7 million already drawn; unused credit facilities therefore totaled €2,344.6 million, €937.2 million of which will be maturing in 2013.

68% of total credit lines and 70% of undrawn facilities were centralized. None of these centralized lines contains a default clause linked to financial ratios or minimum credit ratings.

Bank loans accounted for 21% of gross financial debt as of December 31, 2012. Funding from capital markets (securitization without derecognition [see Note 12.3.3] accounting for 0.3% and bond borrowings for 60%) represented 60% of the total. The credit facilities at GDF SUEZ represented no more than 1% of resources. As a reminder, at December 31, 2011, bank loans and capital market funding accounted for 24% and 58% of gross debt, respectively.

The Group anticipates that its financing needs for the major planned investments will be covered by its available cash, the sale of mutual fund shares held for trading purposes, its future cash flows resulting from operating activities, and the potential use of available credit facilities.

13.3.2 Undiscounted contractual payments

In order to best reflect the current economic circumstances of operations, cash flows related to derivatives recognized as liabilities or assets shown below correspond to net positions. Moreover, the values shown in the table below are positive for a liability and negative for an asset.

Undiscounted contractual payments on outstanding borrowings by maturity and type of lenders are as follows:

At December 31, 2012

In millions of euros	TOTAL	2013	2014	2015	2016	2017	Beyond 5 years
Debt with GDF SUEZ	144.0	6.0	6.0	106.0	4.5	21.5	-
Bond or bank borrowings	9,539.7	1,271.5	1,247.2	395.2	928.9	682.1	5,014.8
Total	**9,683.7**	**1,277.5**	**1,253.2**	**501.2**	**933.4**	**703.6**	**5,014.8**

Moreover, at December 31, 2012, undiscounted contractual payments on outstanding borrowings broke down as follows by maturity and type:

At December 31, 2012

In millions of euros	TOTAL	2013	2014	2015	2016	2017	Beyond 5 years
Bonds issues	5,974.9	61.4	906.1	56.7	91.5	470.5	4,388.7
Draw downs on credit facilities	1,027.7	118.6	59.0	105.4	663.7	-	81.0
Borrowings under finance leases	442.2	51.5	49.5	48.4	46.3	46.0	200.5
Other bank borrowings	1,056.2	185.2	192.9	152.4	119.6	149.1	257.0
Other borrowings	424.3	102.4	45.7	138.3	12.3	38.0	87.6
Overdrafts and current accounts	758.4	758.4					
Outstanding borrowings	**9,683.7**	**1,277.5**	**1,253.2**	**501.2**	**933.4**	**703.6**	**5,014.8**
Financial assets relating to financing	(4.6)						(4.6)
Financial assets measured at fair value through income	(23.5)	(23.5)	-	-	-	-	-
Cash and cash equivalents	(2,247.3)	(2,247.3)	-	-	-	-	-
Net debt excluding amortized cost and impact of derivative financial instruments	**7,408.3**	**(993.3)**	**1,253.2**	**501.2**	**933.4**	**703.6**	**5,010.2**

At December 31, 2011

In millions of euros	TOTAL	2012	2013	2014	2015	2016	Beyond 5 years
Outstanding borrowings	**9,897.0**	**1,942.6**	**203.3**	**1,301.6**	**459.5**	**671.3**	**5,318.7**
Financial assets measured at fair value through income and Cash and cash equivalents	(2,508.2)	(2,508.2)	-	-	-	-	-
Net debt excluding amortized cost and impact of derivative financial instruments	**7,388.8**	**(565.6)**	**203.3**	**1,301.6**	**459.5**	**671.3**	**5,318.7**

As of December 31, 2012, undiscounted contractual payments on outstanding borrowings broke down as follows by maturity:

At December 31, 2012

In millions of euros	TOTAL	2013	2014	2015	2016	2017	Beyond 5 years
Undiscounted contractual interest payments on outstanding borrowings	**3,384.0**	392.4	367.7	319.0	308.9	297.8	1,698.4

At December 31, 2011

In millions of euros	TOTAL	2012	2013	2014	2015	2016	Beyond 5 years
Undiscounted contractual interest payments on outstanding borrowings	**3,458.4**	389.2	363.6	360.2	343.4	290.2	1,711.8

At December 31, 2012 undiscounted contractual payments on outstanding derivatives (excluding commodity instruments) recognized in liabilities and assets broke down as follows by maturity (net amounts):

At December 31, 2012

In millions of euros	TOTAL	2013	2014	2015	2016	2017	Beyond 5 years
Derivatives (excluding commodities)	**(165.9)**	(22.0)	(45.9)	(21.5)	(17.4)	(16.0)	(43.1)

At December 31, 2011

In millions of euros	TOTAL	2012	2013	2014	2015	2016	Beyond 5 years
Derivatives (excluding commodities)	**(12.8)**	71.3	(9.4)	(45.3)	(5.1)	(3.8)	(20.5)

The maturity of the confirmed undrawn credit facilities is as follows:

In millions of euros	TOTAL	2013	2014	2015	2016	2017	Beyond 5 years
At December 31, 2012	**2,344.6**	937.2	200.0	142.3	1,036.3	-	28.8

	TOTAL	2012	2013	2014	2015	2016	Beyond 5 years
At December 31, 2011	**2,482.0**	500.5	372.7	211.8	73.6	1,284.1	39.3

Confirmed but unused lines of credit include a €1.5 billion multi-currency club deal (maturing in 2016) renegotiated in March 2011.

As of December 31, 2012, excluding the €350 million line between GDF SUEZ and SUEZ ENVIRONNEMENT COMPANY, no counterparty represented more than 14% of confirmed unused credit facilities.

13.4 Equity risk

As of December 31, 2012, available-for-sale securities held by the Group amounted to €395.9 million (see Note 12.1.1).

A 10% decrease in the value of the listed securities would have a negative pre-tax impact of around €19.4 million on Group shareholders' equity.

The Group's portfolio of listed and unlisted equity investments is managed in accordance with a specific investment policy. Reports on the equity portfolio are submitted to Executive Management on a regular basis.

NOTE 14 Shareholders' equity

14.1 Share capital

	Number of shares			Value (in millions of euros)		
	Total	Treasury shares	Outstanding shares	Share capital	Additional paid-in capital	Treasury shares
At December 31, 2010	**489,699,060**	**2,164,492**	**487,534,568**	**1,958.8**	**4,002.9**	**30.2**
Allocation to legal reserves					(8.2)	
Purchase and disposal of treasury shares		9,500,229	(9,500,229)			39.7
Dividends paid in shares	19,008,731		19,008,731	76.0	171.7	
Capital decrease by cancellation of shares	(8,370,000)	(8,370,000)		(33.5)	(65.3)	(33.5)
Worldwide Employee share plan (Sharing)	9,896,038		9,896,038	39.6	46.1	
At December 31, 2011	**510,233,829**	**3,294,721**	**506,939,108**	**2,040.9**	**4,147.2**	**36.4**
Purchase and disposal of treasury shares		(2,151,332)	2,151,332			(26.4)
At December 31, 2012	**510,233,829**	**1,143,389**	**509,090,440**	**2,040.9**	**4,147.2**	**10.0**

At the date of listing, on July 22, 2008, the share capital of SUEZ ENVIRONNEMENT COMPANY was €1,958.8 million, comprising 489,699,060 shares (nominal value of €4 and issue premium of €8.6 per share).

Changes in the number of shares during fiscal year 2011 were due to:

- a dividend payment in shares: this option, ratified by SUEZ ENVIRONNEMENT COMPANY's Shareholders' Meeting of May 19, 2011, was taken up by 78.4% of shareholders and led to the creation of 19,008,731 shares;
- the Board of Directors' decision of December 8, 2011 to cancel 8,370,000 treasury shares;
- an employee share issue as part of the SHARING global employee shareholding plan: in total, 9,896,038 shares were issued, bringing the capital increase of December 8, 2011 to €85.7 million.

14.2 Treasury shares

A tacitly renewable €40 million liquidity contract is managed by Rothschild et Cie Banque. The aim of this contract is to reduce the volatility of the SUEZ ENVIRONNEMENT COMPANY's share price. This contract complies with the professional ethics charter drawn up by the *Association française des Marchés Financiers* (French Financial Markets Association) and approved by the AMF.

There were 1,143,389 treasury shares (of which 1,007,000 are held under the liquidity contract and 136,389 are held for the bonus share allocation plan) as of December 31, 2012 with a value of €10 million, compared to 3,294,721 shares as of December 31, 2011 with a value of €36.4 million and 2,164,492 shares as of December 31, 2010 with a value of €30.2 million.

In order to partially hedge the stock option program approved by the Board of Directors on December 17, 2009, in May 2010 SUEZ ENVIRONNEMENT COMPANY acquired call options that replicate the conditions set on the stock options granted to employees ("mirror calls"). These represented a total of 1,833,348 shares. There was no equivalent transaction in 2011 or 2012.

14.3 Other information on premiums and consolidated reserves

Consolidated premiums and reserves, including income for the year (€4,180 million as of December 31, 2012), incorporate the SUEZ ENVIRONNEMENT COMPANY legal reserve. In accordance with French law, SUEZ ENVIRONNEMENT COMPANY's legal reserve represents 10% of the share capital. This reserve may be distributed to shareholders only in the event of the liquidation of the company.

14.4 Dividend distribution

As it did for fiscal years 2010 and 2011, the board will propose a dividend, in this case €0.65 per share for a total of €330.9 million in cash based on the number of outstanding shares as of December 31, 2012, to the SUEZ ENVIRONNEMENT COMPANY's Shareholders' Meeting convened to approve the financial statements for the fiscal year ended December 31, 2012.

Subject to approval by the Shareholders' Meeting, this dividend will be paid out during the first half of 2013. This dividend is not recognized under liabilities in the financial statements at December 31, 2012 as these financial statements are presented before dividend allocation.

14.5 Total gains and losses recognized in equity (Group share)

In millions of euros	Dec. 31, 2012	Change	Dec. 31, 2011	Change	Dec. 31, 2010
Available-for-sale securities	7.9	57.0	(49.1)	(56.8)	7.7
Net investment hedges	(73.4)	(11.4)	(62.0)	(39.2)	(22.8)
Cash-flow hedges (excluding commodities)	(42.1)	0.9	(43.0)	(2.7)	(40.3)
Commodity cash-flow hedges	2.3	(1.0)	3.3	2.0	1.3
Deferred tax on available-for-sale securities and hedges	39.5	(0.5)	40.0	15.4	24.6
Share of associates on reclassifiable items, net of tax	(51.3)	(9.6)	(41.7)	(27.8)	(13.9)
Translation adjustments	150.0	13.2	136.8	115.7	21.1
TOTAL reclassifiable items	**32.9**	**48.6**	**(15.7)**	**6.6**	**(22.3)**
Actuarial gains and losses	(284.4)	(110.5)	(173.9)	(79.3)	(94.6)
Deferred tax on actuarial gains and losses	88.6	30.0	58.6	27.4	31.2
TOTAL non reclassifiable items	**(195.8)**	**(80.5)**	**(115.3)**	**(51.9)**	**(63.4)**
TOTAL	**(162.9)**	**(31.9)**	**(131.0)**	**(45.3)**	**(85.7)**

All the items in the table above are reclassifiable to profit or loss in future periods, with the exception of actuarial gains and losses and related deferred taxes, which are reported in consolidated reserves Group share.

14.6 Undated deeply subordinated notes

In 2010, SUEZ ENVIRONNEMENT COMPANY issued undated deeply subordinated notes (known as hybrids) in the amount of €750 million (before issuance costs). These notes are subordinated to any senior creditor and bear an initial fixed coupon of 4.82% for the first five years.

In accordance with IAS 32 and taking into account its characteristics (no obligation to repay, no obligation to pay a coupon[4] unless a dividend is paid out to shareholders), this instrument is recognized in equity.

14.7 Equity management

SUEZ ENVIRONNEMENT COMPANY strives to optimize its financial structure on a continuous basis by achieving an optimal balance between net debt and equity as shown in the consolidated statement of financial position. The main aim of the Group in terms of managing its financial structure is to maximize value for shareholders, reduce the cost of capital, and maintain a strong rating while ensuring the desired financial flexibility in order to seize external growth opportunities which will create value. The Group manages its financial structure and makes adjustments in light of changes in economic conditions.

The management aims, policies and procedures have remained identical for several fiscal years.

4 If there is no dividend distribution, the annual coupon remains due and will be paid on the next dividend payout. As the Shareholders' Meeting has not yet approved income allocation for 2012 no interest has been deducted from equity.

NOTE 15 Provisions

As of December 31, 2012:

In millions of euros	Dec. 31, 2011	Allowances	Reversals (utilizations)	Reversals (surplus provisions)	Scope effects	Impact of unwinding discount adjustments (a)	Translation adjustments	Other	Dec. 31, 2012
Post-employment benefit obligations and other long-term benefits	570.7	33.6	(48.2)	-	(0.1)	16.4	(3.3)	103.7	672.9
Sector-related risks	101.8	7.5	(21.3)	-	-	-	-	29.8	117.7
Warranties	28.8	2.8	(5.7)	-	1.5	-	(0.1)	0.2	27.5
Tax risks, other disputes and claims	211.3	26.4	(30.0)	(0.2)	0.6	-	-	0.8	208.8
Site restoration	567.0	31.4	(59.7)	(3.4)	5.7	17.4	3.4	0.1	561.8
Restructuring costs	21.5	48.3	(11.0)	(0.2)	(4.7)	-	-	(2.5)	51.5
Other contingencies	333.5	148.5 *(b)*	(200.9) *(b)*	(8.8)	(3.9)	9.7	(4.4)	81.2 *(b)*	355.0 *(c)*
TOTAL PROVISIONS	**1,834.6**	**298.7**	**(376.8)**	**(12.7)**	**(1.0)**	**43.5**	**(4.5)**	**213.5**	**1,995.2**

(a) *The discounting impact on post-employment and other long-term benefits relates to the interest expense on pension obligations, net of the expected return on plan assets.*

(b) *These amounts mostly relate to the provision for loss at termination of the construction contract for the Melbourne seawater desalination plant. The net reversal of the provision has been reclassified using the 'others' column to 'Other current liabilities' in accordance with the presentation used by the Group for losses at termination of construction contracts (See Note 17).*

(c) *Provisions for 'other risks' include a provision for the fair value of onerous contracts following the acquisition of WSN by Sita Australia. The provision amounted to €137.5 million in 2012 against €145.7 million in 2011.*

The increase in total provisions for liabilities and expenses in December 31, 2012 compared to December 31, 2011 is mainly due to the following:

- Actuarial losses recognized for €108.7 million (See Note 16.2.1) in 2012 relate to post-employment benefits and other long-term benefits (posted in the "Other" column of the table above);
- Discount unwinding amounts to €43.5 million over the period and mostly relates to provisions for site restoration and post-employment benefits;

The allowances, reversals and the impact of unwinding discount adjustments presented above and linked to discounting impacts are presented as follows in the income statement for 2012:

In millions of euros	Net Allowances / (Reversals)
Income from operating activities	(80.6)
Other financial income and expenses	43.5
Income tax expense	(10.2)
TOTAL	**(47.3)**

The analysis by types of provisions and the principles used to calculate them are explained below.

15.1 Post-employment benefits and other long-term benefits

See Note 16.

15.2 Sector-related risks

This item primarily includes provisions for risks relating to court proceedings involving the Argentinean contracts and to warranties given in connection with divestments that are likely to be called upon.

15.3 Tax risks, other disputes and claims

This item includes provisions for ongoing disputes involving employees or social security agencies (social security contribution relief, etc.), disputes arising in the ordinary course of business (customer claims, accounts payable disputes), tax adjustments and tax disputes.

15.4 Site restoration

The June 1998 European Directive on waste management introduced a number of obligations regarding the closure and long-term monitoring of landfills. These obligations lay down the rules and conditions incumbent upon the operator (or owner of the site where the operator fails to comply with its obligations) in terms of the design and scale of storage and collection and treatment of liquid (leachates) and gas (biogas) effluents. It also requires provisions for these facilities to be inspected over a 30-year period after closure.

These two types of provisions (rehabilitation and long-term monitoring) are calculated on a case-by-case basis depending on the site concerned. In accordance with the accrual basis of accounting, the provisions are recorded over the period that the site is in operation, pro rata to the depletion of landfill capacity (void-space) (matching of income and expenses). Costs to be incurred at the time of a site's closure or during the long-term monitoring period (30 years after a site is shut down within the European Union) are discounted to present value. An asset is recorded as a counterparty against the provision. It is depreciated in line with the depletion of the landfill capacity or the need for capping, during the period.

The rehabilitation provision calculations (at the time the facility is shut down) depend on whether the capping used is: semi-permeable, semi-permeable with drainage, or impermeable. That choice has a considerable impact on future levels of leachate effluents and therefore on future costs of treating such effluents. Calculating the provision requires an evaluation of the cost of rehabilitating the area to be covered. The provision recorded in the statement of financial position at year-end must cover the costs of rehabilitating the untreated surface area (difference between the fill rate and the percentage of the site's area that has already been rehabilitated). The amount of the provision is reviewed each year based on work completed or still to be carried out.

The calculation of the provision for long-term monitoring depends on the costs linked to the production of leachate and biogas effluents on the one hand, and on the amount of biogas recycled on the other. Biogas recycling represents a source of revenue and is deducted from long-term monitoring expenses. The main expense items arising from long-term monitoring obligations relate to:

- Construction of infrastructure (biogas recycling facility, installation of leachate treatment facility) and the demolition of installations used while the site was in operation;
- Upkeep and maintenance of the protective capping and of the infrastructure (surface water collection);
- Control and monitoring of surface water, underground water and leachates;
- Replacement and repair of observation wells (piezometer wells);
- Leachate treatment costs;
- Biogas collection and processing costs (taking into account any revenues from biogas recycling).

The provision for long-term monitoring obligations that should be recorded in the statement of financial position at year-end depends on the fill rate of the facility at the end of the period, the estimated aggregate costs per year and per unit (based on standard or specific costs), the estimated closure date of the site and the discount rate applied to each site (depending on its residual life).

15.5 Other contingencies

"Other contingencies" mainly includes provisions for miscellaneous employee-related and environment-related litigations and for various business risks.

NOTE 16 Post-employment benefit obligations and other long-term benefits

16.1 Description of the main pension plans and related benefits

Most Group companies grant their employees post-employment benefits (pension plans, retirement bonuses, medical coverage, benefits in kind, etc.) as well as other long-term benefits, such as jubilee and other long-service awards.

16.1.1 Main pension plans

In France, employees have defined contribution retirement plans, such as the basic social security benefits, and supplementary pension schemes. Some employees also have voluntary retirement plans, some of which are defined benefit plans through which the employer agrees to pay its employees, or a category of its employees, retirement benefits based on a contractually agreed amount. Defined benefit plans have in particular been set up at Lyonnaise des Eaux, SUEZ ENVIRONNEMENT and Sita France. Employees also receive a retirement termination benefit in the form of a lump-sum payment on the date of the employee's effective departure. Such indemnities correspond to defined benefit plans.

Outside France, the main retirement plans and related benefits involve the companies in the US and the UK.

In the US, the defined benefit plans at United Water cover employees in the regulated sector. In addition, all US subsidiaries offer a 401(k)-type defined contribution plan to their employees. In the UK, Sita UK has several defined benefit retirement schemes, most of which are closed to new entrants. Employees hired after the closing date of these plans are covered by a defined contribution plan.

Defined benefit plans may be fully or partially pre-funded by contributions to a pension fund (as is the case in the US and the UK) or to a dedicated fund managed by an insurance company (France). These funds are fed by contributions made by the company and, in certain cases, by the employees.

16.1.2 Multi-employer pension plans

Employees of some Group companies are affiliated to multi-employer pension plans. This is especially the case in the Netherlands, where most of the Group's entities are in business activities that make it mandatory to join an industry-wide scheme. These plans spread risk so that financing is assured through payroll-based contributions, calculated uniformly across all affiliated companies. In the Netherlands, multi-employer plans are defined benefit plans. However, the Group recognizes them as defined contribution plans in accordance with IAS 19.

16.1.3 Other post-employment benefit obligations and long-term benefits

In addition to the supplementary pension schemes mentioned above, most Group companies grant their employees long-service awards – benefits corresponding to bonuses paid to employees while they are active, once they have met certain length of service conditions. Moreover, several Group companies agree to cover a portion of expenses incurred by their employees and/or retirees on the occurrence of specific events (illness, etc.), and in addition to amounts paid under defined contribution plans.

These obligations correspond to defined benefit plans. They are presented in the tables below, in "Other post-employment benefits" and "Other long-term benefits".

16.2 Defined benefit plans

16.2.1 Amounts presented in the statement of financial position and the statement of comprehensive income

In accordance with IAS 19, the information presented in the statement of financial position for post-employment and other long-term benefits corresponds to the difference between the present benefit obligation (gross liability), the fair value of the plan assets and the unrecognized past service cost, when applicable. If this difference is positive, a provision is posted (net liability). If the difference is negative, a net asset is posted provided it satisfies the conditions for recognizing a net asset.

Changes in provisions and assets for pensions and related obligations recognized in the statement of financial position can be broken down as follows:

In millions of euros	Asset	Liability	Total
Balance at December 31, 2010	**18.7**	**(490.7)**	**(472.0)**
Translation gains and losses	0.2	(5.3)	(5.1)
Actuarial gains and losses (a)	(2.8)	(70.7)	(73.5)
Changes in scope of consolidation and other	(15.9)	(20.2)	(36.1)
Expense of the period (b)	3.6	(24.4)	(20.8)
Contributions	2.2	40.6	42.8
Balance at December 31, 2011	**6.0**	**(570.7)**	**(564.7)**
Translation gains and losses	0.2	3.3	3.5
Actuarial gains and losses (a)	(4.1)	(104.6)	(108.7)
Changes in scope of consolidation and other		0.6	0.6
Expense of the period (b)	(1.7)	(49.7)	(51.4)
Contributions	0.9	48.2	49.1
Balance at December 31, 2012	**1.3**	**(672.9)**	**(671.6)**

(a) Actuarial gains and losses on employee benefits
(b) Including actuarial gains and losses on long-term benefits (particularly long-service awards).

Plan assets and reimbursement rights are presented in the statement of financial position under “Other assets”, current and non-current.

Expenses for the year amounted to €51.4 million in 2012 versus €20.8 million in 2011. The components of annual expenses for defined benefit plans are explained in Section 16.2.3.

Accumulated actuarial gains and losses recognized in shareholders’ equity amounted to -€285.4 million at December 31, 2012 versus -€174.1 million at December 31, 2011. They are disclosed below, excluding translation gains and losses which are presented separately in the comprehensive income statement.

In millions of euros	Dec. 31, 2012,	Dec. 31, 2011
Opening balance	**(174.1)**	**(93.0)**
Actuarial gains and (losses) generated during the year	(108.7)	(73.5)
Scope effects	(2.6)	(7.6)
Closing balance	**(285.4)**	**(174.1)**

The closing balance of actuarial gains and losses shown above includes actuarial gains and losses recognized within entities which are accounted for by the equity method (€1.8 million in 2012).

Scope effects recorded for 2011 correspond mainly to actuarial gains and losses being recycled to reserves on the date that Agbar lost control over Bristol Water, in accordance with IAS 1 – *Presentation of financial statements.*

16.2.2 Change in the amount of obligations and plan assets

The table below shows the amount of present benefit obligations and plan assets of the SUEZ ENVIRONNEMENT Group, the changes to these over the periods concerned, as well as a reconciliation with the amounts recognized in the statement of financial position.

In millions of euros		December 31, 2012 Pension benefit obligations (a)	Other post-employment benefits (b)	Other long term benefits (c)	Total	December 31, 2011 Pension benefit obligations (a)	Other post-employment benefits (b)	Other long term benefits (c)	Total
Change in projected benefit obligation									
Projected benefit obligation at January 1, 2012		**(771.7)**	**(205.6)**	**(20.9)**	**(998.2)**	**(855.6)**	**(186.7)**	**(17.8)**	**(1,060.1)**
Service cost		(28.5)	(6.3)	(1.2)	(36.0)	(25.3)	(5.2)	(1.2)	(31.7)
Interest cost		(33.7)	(9.4)	(0.8)	(43.9)	(38.3)	(8.5)	(0.9)	(47.7)
Contributions paid		(1.4)	-	-	(1.4)	(1.8)	-	-	(1.8)
Amendments		(0.1)	0.1	-	(0.0)	12.1	(1.2)	-	10.9
Acquisitions/Disposals of subsidiaries		0.5	-	(0.0)	0.5	141.9	-	(1.4)	140.5
Curtailments/settlements		5.2	0.3	1.6	7.1	14.7	-	0.2	14.9
Special terminations		(0.1)	(0.1)	-	(0.2)	-	(0.1)	-	(0.1)
Actuarial gains and losses		(92.8)	(26.7)	(2.6)	(122.1)	(39.9)	(7.9)	(2.1)	(49.9)
Benefits paid		29.6	6.9	1.6	38.1	33.6	7.1	1.9	42.6
Other		4.1	2.6	(0.3)	6.4	(13.1)	(3.1)	0.4	(15.8)
Projected benefit obligation at December 31 2012	**A**	**(888.9)**	**(238.2)**	**(22.6)**	**(1,149.7)**	**(771.7)**	**(205.6)**	**(20.9)**	**(998.2)**
Change in fair value of plan assets									
Fair value of plan assets at January 1, 2012		**389.7**	**42.0**	**-**	**431.7**	**544.3**	**46.3**	**-**	**590.6**
Expected return on plan assets		24.6	3.0	-	27.6	30.6	2.9	-	33.5
Contributions received		42.6	6.3	1.6	50.5	35.4	7.3	1.9	44.6
Acquisitions/Disposals of subsidiaries		-	-	-	-	(176.6)	-	-	(176.6)
Curtailments/settlements		(3.7)	(0.1)	-	(3.8)	(2.8)	-	-	(2.8)
Actuarial gains and losses		8.3	2.5	-	10.8	(16.9)	(8.7)	-	(25.6)
Benefits paid		(29.6)	(6.9)	(1.6)	(38.1)	(33.6)	(7.1)	(1.9)	(42.6)
Other		(2.1)	(0.8)	-	(2.9)	9.3	1.3	-	10.6
Fair value of plan assets at December 31, 2012	**B**	**429.8**	**46.0**	**-**	**475.8**	**389.7**	**42.0**	**-**	**431.7**
Funded status	**A+B**	**(459.1)**	**(192.2)**	**(22.6)**	**(673.9)**	**(382.0)**	**(163.6)**	**(20.9)**	**(566.5)**
Unrecognized past service cost		8.8	(6.5)	-	2.3	9.7	(7.9)	-	1.8
Limit on defined benefit assets (IAS 19 Sect. 58B)		-	-	-	-		-	-	-
Supplementary provision (IFRIC 14)		-	-	-	-		-	-	-
Net benefit obligation		**(450.3)**	**(198.7)**	**(22.6)**	**(671.6)**	**(372.3)**	**(171.5)**	**(20.9)**	**(564.7)**
TOTAL LIABILITIES		**(451.6)**	**(198.7)**	**(22.6)**	**(672.9)**	**(378.3)**	**(171.5)**	**(20.9)**	**(570.7)**
TOTAL ASSETS		**1.3**	**-**	**-**	**1.3**	**6.0**	**-**	**-**	**6.0**

(a) Pensions and retirement bonuses.
(b) Medical coverage, gratuities and other post-employment benefits.
(c) Long-service awards and other long-term benefits.

In 2012, the change in the net pension obligation was mainly explained by the increase in the net actuarial loss of €111.3 million. This actuarial loss (€108.7 million recognized in other comprehensive income and €2.6 million in the income statement) included a €112.4 million loss directly related to lower discount and inflation rates in 2012. Moreover, the experience adjustment, corresponding to the fair value measurement of plan assets at December 31, 2012, generated an actuarial gain of €10.8 million. The balance mainly reflected actuarial losses relative to experience adjustments on the benefit obligation.

In 2011, the €36.1 million net impact relating to acquisitions/disposals of subsidiaries was mainly due to the loss of control over entities managing the regulated activities of Bristol Water, a subsidiary of Agbar. The net pension obligation for Bristol Water was deconsolidated on September 30, 2011 (€143.2 million in benefit obligation and €176.6 million in plan assets).

The net actuarial loss of €75.5 million in 2011 (€73.4 million of which was recognized in other comprehensive income and €2.1 million in the income statement) included a €57.8 million loss linked to changes in the discount and inflation rates since December 31, 2010. In addition, pension and medical insurance obligations for United Water retirees were adjusted in 2011 to reflect a change in the mortality table. This change, treated as a change in assumptions, increased the obligation by €13.5 million, and was recognized in other comprehensive income.

16.2.3 Components of cost for the period

The net cost recognized in respect of pensions and other defined benefit obligations in 2012 and 2011 breaks down as follows:

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Current service cost	(36.0)	(31.7)
Interest cost	(43.9)	(47.7)
Expected return on plan assets	27.6	33.5
Actuarial gains or losses	(2.6)	(2.1)
Past service cost	0.5	15.3
Gains or losses on pension plan curtailments, terminations and settlements	3.3	12.1
Special terminations	(0.3)	(0.1)
Total	**(51.4)**	**(20.8)**
Of which recognized in current operating income	(35.1)	(6.6)
Of which recognized in financial income/(loss)	(16.3)	(14.2)

In 2011, the past service cost and gains or losses on pension plan curtailments, terminations and settlements reflected specific events such as:

- the change in the index used to determine the inflation rate in the UK
- the setting of a maximum rate for annual salary increases at Sita UK
- the setting of a maximum number of years for the vesting in some retirement plans at United Water

16.2.4 Funding policy and strategy

When defined benefit plans are funded, the related plan assets are invested through pension funds and/or with insurance companies, depending on the investment practices specific to the country concerned. The investment strategies underlying these defined benefit plans are aimed at striking the right balance between an optimum return on investment and an acceptable level of risk.

These strategies have a twofold objective:

- to maintain sufficient income streams and liquidity to cover pensions and other benefit payments; and
- in a controlled-risk environment, to achieve a long-term return on investment matching the discount rate or, as applicable, at least equal to the future returns required.

When plan assets are invested through pension funds, investment decisions and the allocation of plan assets are the responsibility of the fund manager concerned. For French companies, where plan assets are invested through an insurance company, the fund manager manages the investment portfolio in units of account or euros, and guarantees a rate of return on the related assets. Such diversified funds are characterized by active management benchmarked to composite indices, adapted to the long-term horizon of the liabilities and taking into account the government's eurozone obligations and the shares of the largest companies in and outside the eurozone. In the case of euro funds, the insurer's sole obligation is to ensure a fixed minimum return on plan assets.

The funding of these obligations breaks down as follows:

In millions of euros	Present benefit obligation	Fair value of plan assets	Cost of unrecognized past services	Limit on defined benefit assets and supplementary provision	Total net obligation
Underfunded plans	(781.3)	382.2	5.1	-	(394.0)
Overfunded plans	(47.0)	49.5	-	-	2.5
Unfunded plans	(169.9)	-	(3.3)	-	(173.2)
Total December 31, 2011	**(998.2)**	**431.7**	**1.8**	**-**	**(564.7)**
Underfunded plans	(877.1)	446.3	4.3	-	(426.5)
Overfunded plans	(31.9)	29.5	-	-	(2.4)
Unfunded plans	(240.7)	-	(2.0)	-	(242.7)
Total December 31, 2012	**(1,149.7)**	**475.8**	**2.3**	**-**	**(671.6)**

The allocation of plan assets by main asset category breaks down as follows:

	2012	2011
Equities	35%	35%
Bonds	47%	51%
Real Estate	1%	1%
Other (including money market securities)	17%	13%
TOTAL	**100%**	**100%**

16.2.5 Actuarial assumptions

Actuarial assumptions are determined individually per country and company, in association with independent actuaries. The weighted rates are presented below:

	Pensions		Other post-employment benefits		Long-term benefits		Total benefit obligation	
	2012	2011	2012	2011	2012	2011	2012	2011
Discount rate	3.9%	4.4%	4.1%	4.5%	3.5%	3.7%	3.9%	4.4%
Estimated future increase in salaries	3.2%	3.2%	4.0%	3.7%	3.5%	3.1%	3.4%	3.3%
Expected return on plan assets	5.9%	6.2%	7.2%	7.7%	-	-	6.1%	6.3%
Average remaining working lives of participating employees	12 years	12 years	13 years	14 years	19 years	19 years	12 years	13 years

Discount and salary increase rates are shown including inflation.

16.2.5.1 Discount rates

The discount rate used is determined by reference to the yield, at the measurement date, of AA corporate bonds with a maturity corresponding to the anticipated term of the obligation.

As of December 31, 2012, the rates were determined for each currency area (euro, U.S. dollar and pound sterling) from data on AA bond yields (according to Bloomberg and iBoxx) extrapolated to long-term maturities based on the performance of government bonds. As of December 31, 2011, only the methods of determining the rate of the euro area were different (made exclusively from Bloomberg indices).

16.2.5.2 Expected return on plan assets

To calculate the expected return on plan assets, the asset portfolio is broken down into homogeneous sub-groups, by broad asset categories and geographical areas, based on the composition of the benchmark index and on the amounts in each of the funds as of December 31 of the preceding year. An expected yield for the year, published by a third party, is applied to each sub-group, and the global absolute performance is then established and applied to the value of the portfolio at the beginning of the year. The expected rates of return on assets have been calculated according to prevailing market conditions and are based on a risk premium, defined in accordance with the risk-free rate of return of government bonds, by major asset class and geographic region.

16.2.5.3 Other assumptions

The assumptions used for healthcare cost trend rates (including inflation) are 4.7% for 2013, 4.6% for 2014 and 4.4% for 2015. These assumptions are used for the valuation of other post-employment benefits.

A single percentage point change in the assumed increase in healthcare costs would have the following impact:

In millions of euros	Increase by point	Decrease by point
Impact on expenses	2.8	(2.1)
Impact on other post-employment benefits	33.0	(26.1)

16.2.5.4 Experience adjustments

Experience adjustments represent the impact of the difference between actuarial assumptions previously used, and the actual outcome. Their share in actuarial gains and losses is presented below:

		December 31, 2012		December 31, 2011		December 31, 2010	
In millions of euros		Pensions	Other benefit obligations	Pensions	Other benefit obligations	Pensions	Other benefit obligations
Present benefit obligation	a	(888.9)	(260.8)	(771.7)	(226.5)	(855.6)	(204.5)
Fair value of plan assets	b	429.8	46.0	389.7	42.0	544.3	46.3
Funded Status	a+b	(459.1)	(214.8)	(382.0)	(184.5)	(311.3)	(158.2)
Experience adjustments to projected benefit obligations	c	6.1	2.5	6.4	8.2	10.1	0.1
Experience adjustments to fair value of plan assets	c	(8.3)	(2.5)	(16.9)	(8.7)	14.3	7.3
as a % of projected benefit obligation	*c/a*	0%	0%	1%	0%	-3%	-4%

		December 31, 2009		December 31, 2008	
In millions of euros		Pensions	Other benefit obligations	Retraites	Autres engagements
Present benefit obligation	a	(779.9)	(181.4)	(730.9)	(185.2)
Fair value of plan assets	b	495.4	34.9	470.5	31.0
Funded Status	a+b	(284.5)	(146.5)	(260.4)	(154.2)
Experience adjustments to projected benefit obligations	c	(14.4)	(3.1)	(0.5)	(1.4)
Experience adjustments to fair value of plan assets	c	19.5	2.4	(104.9)	(11.5)
as a % of projected benefit obligation	*c/a*	-1%	0%	14%	7%

For the experience adjustments presented above, gains are shown as positive values and losses as negative values. The sign convention is the same as in Note 16.2.2.

16.2.6 Geographical breakdown of obligations

In 2012, the geographical breakdown of the main obligations and the related actuarial assumptions (including inflation) were as follows:

	Euro Zone		United Kingdom		United States		Rest of the world	
In millions of euros	Pensions	Other benefit obligations	Pensions	Other benefit obligations	Pensions	Other benefit obligations	Pensions	Other benefit obligations
Funded status (a)	(288.5)	(103.8)	(9.2)	-	(119.7)	(67.9)	(41.7)	(43.1)
Discount rate	2.8%	2.8%	4.1%	-	4.4%	4.5%	4.0%	4.5%
Estimated future increase in salaries	3.3%	4.5%	3.0%	-	3.1%	3.0%	3.3%	5.8%
Expected return on plan assets	3.9%	N/A	4.6%	-	8.5%	7.8%	4.5%	3.7%
Average remaining working lives of participating employees	15 years	15 years	10 years	-	12 years	16 years	13 years	9 years

(a) Funded status corresponds to the difference between the present benefit obligation and the fair value of the plan assets.

Concerning “Rest of the world” category, the funded status relating to pension mainly concerns Sweden, while the funded status relating to the other benefit obligations stems largely from Morocco.

16.2.7 Payments due in 2013

The Group expects to contribute approximately €67.3 million to its defined benefit plans in 2013.

16.3 Defined contribution plans

In 2012, the Group SUEZ ENVIRONNEMENT recorded a €69.4 million expense in respect of contributions to Group defined contribution plans. These contributions are recorded under "Personnel costs" in the income statement.

NOTE 17 Construction contracts

The "Amounts due from customers under construction contracts" and "Amounts due to customers under construction contracts" items are presented in the statement of financial position under "Other assets" and "Other liabilities" respectively.

In millions of euros	31 déc. 2012	31 déc. 2011
Amounts due from customers under construction contracts	127.3	101.1
Amounts due to customers under construction contracts	349.4	460.5
NET POSITION	**(222.1)**	**(359.4)**

According to the presentation method adopted by the Group, provisions for loss at termination of construction contracts have been transferred to the bottom of the statement of financial position under "Amounts due to customers under construction contracts." In 2012, the decrease in this liability is mainly explained by the reversal of a provision regarding the Melbourne desalination plant construction contract (see Note 15 "Provisions").

Contracts in progress at the closing date:

In millions of euros	31 déc. 2012	31 déc. 2011
Cumulated cost incurred and margins recognized	4,490.2	5,181.0
Advances received	27.4	50.7
Retentions	43.0	37.8

The significant change in costs incurred and margins recognized on construction contracts is due mainly to changes in the business portfolio of the Group Degrémont, which completed several major contracts in 2012.

For the design and construction contracts of Degrémont and OIS, the Group guarantees, by contract, its customers on the delivery of plants ready for operation. In this context, the Group is required to give guarantees which are contingent liabilities, for which the Group believes that the probability of cash out is low.

NOTE 18 Finance leases

The net amount of Property, plant and equipment assets owned under finance leases are broken down into various asset categories, depending on their type.

The main finance leases entered into by the Group concern the incineration plants of Novergie and Torre Agbar as a result of Agbar taking over in 2010, the rights and obligations of the finance lease previously linking Azurelau to Caixa, the owner and financial leaseholder of the building.

The reconciliation between the undiscounted value and the present value of minimum lease payments is as follows :

	Future minimum lease payments at Dec. 31, 2012		Future minimum lease payments at Dec. 31, 2011	
In millions of euros	Undiscounted value	Present value	Undiscounted value	Present value
During year 1	66.4	63.9	77.6	73.9
During years 2 to 5 inclusive	244.0	214.1	276.4	233.3
Beyond year 5	228.3	164.3	299.3	199.4
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**538.7**	**442.3**	**653.3**	**506.6**

The following table provides a reconciliation of maturities of liabilities under finance leases as reported in the statement of financial position (see Note 12.2.1) with undiscounted future minimum lease payments by maturity:

In millions of euros	Total	During year 1	During years 2 to 5 inclusive	Beyond year 5
Liabilities under financial lease	442.2	51.5	190.2	200.5
Impact of discounting future repayments of principal and interest	96.5	14.9	53.8	27.8
UNDISCOUNTED FUTURE MINIMUM LEASE PAYMENTS	**538.7**	**66.4**	**244.0**	**228.3**

NOTE 19 Operating leases

Operating lease income and expenses recognized for fiscal years 2012 and 2011 break down as follows:

In millions of euros	December 31, 2012	December 31, 2011
Minimum lease payments	(325.6)	(298.6)
Contingent lease payments	(18.6)	(27.4)
Sub-letting income	-	-
Sub-letting expense	(4.1)	(9.1)
Other operating lease expenses	(14.3)	(6.6)
TOTAL	**(362.6)**	**(341.7)**

Future minimum lease payments due under non-cancelable operating leases can be analyzed as follows :

In millions of euros	December 31, 2012	December 31, 2011
During year 1	191.1	178.8
During years 2 to 5 inclusive	388.3	384.9
Beyond year 5	320.3	299.3
TOTAL	**899.7**	**863.0**

This increase relates to new operating lease contracts entered by Agbar, SITA UK and Lyonnaise des Eaux.

NOTE 20 Service concession arrangements

SIC 29 – *Service Concession Arrangements-Disclosures* was published in May 2001 and deals with the information regarding concession contracts which should be disclosed in the Notes to the Financial Statements.

IFRIC 12 – *Service Concession Arrangements*, published in November 2006 deals with the recognition of concession contracts which meet certain criteria according to which it is estimated that the concession-grantor controls the facilities (see Note 1.6.6).

As specified in SIC 29, a service concession agreement generally involves a transfer by the concession-grantor to the concession-holder for the entire duration of the concession :

(a) of the right to offer services enabling the public to access major economic and social services, and

(b) of the right, in certain cases, to use tangible and intangible assets and/or specified financial assets; in exchange for the commitment made by the concession-holder,

(c) to offer services in accordance with certain terms and conditions during the length of the concession; and

(d) if the need arises, to return the rights received at the beginning of the concession and/or acquired during the concession.

The common characteristic of all the service concession agreements is the fact that the concession holder is both granted a right and becomes bound by an obligation to offer public services.

The Group manages a large number of concession contracts as defined by SIC 29 in drinking water distribution, wastewater treatment, and waste management.

These concession contracts include terms and conditions on rights and obligations with regard to the infrastructure and to the obligations relating to public service, in particular the obligation to allow users to access the public service, an obligation, which, in certain contracts, may be subject to a timeframe. The terms of the concessions vary between 12 and 50 years, depending mainly on the level of investments to be made by the concession operator.

In exchange for these obligations, the Group is entitled to bill either the local authority granting the concession (mainly incineration activities and BOT water treatment contracts) or the users for the services provided. That right gives rise either to an intangible asset, or to a receivable, or a tangible asset, depending on the accounting model applicable (see Note 1.6.6).

The tangible asset model is used when the concession-grantor does not control the infrastructure, like for example, water distribution concession contracts in the United States which do not provide for the return to the concession grantor at the end of the contract of the infrastructure, which remains the property of the SUEZ ENVIRONNEMENT Group.

A general obligation also exists to return the concession infrastructure in good working condition at the end of the contract. Where appropriate (see Note 1.6.6), this obligation results in the recognition of a capital renewal and replacement liability. The replacement liability amounted to €288.7 million at December 31, 2012 versus €330.9 million at December 31, 2011 and is classified as « Other current liabilities ».

Services are generally billed at a fixed price which is index-linked for the duration of the contract. However, contracts contain clauses providing for periodic price adjustments (usually at the end of a five-year period) if there is a change in the economic conditions which were initially expected when the contracts were signed.

NOTE 21 Share-based payments

Expenses recognized in respect of share-based payments are as follows:

	Note	(Expense) for the period 2012	2011
Stock-option plans	*21.1.*	(7.3)	(11.3)
Performance share plans	*21.2.*	(5.1)	(0.7)
Worldwide financial incentive scheme	*21.3.*	(10.3)	(14.4)
Employees share issues *(a) (b)*	*21.4.*	(0.9)	(2.4)
TOTAL		**(23.6)**	**(28.8)**

(a) In 2011, the cost mainly corresponded to a SUEZ ENVIRONNEMENT COMPANY employee share issue.

(b) The impact of share appreciation rights is shown excluding hedging by warrants.

21.1 Stock option plans

21.1.1 Arrangements and grants

No stock options were allocated in 2012. Arrangements relating to plans prior to 2012 are described in previous SUEZ, GDF SUEZ and SUEZ ENVIRONNEMENT COMPANY Reference Documents.

21.1.2 Description of current plans

SUEZ ENVIRONNEMENT COMPANY stock option plans

Plan	Date of the authorizing Shareholders' Meeting	Starting point for exercise of the options	Adjusted Exercise price	Outstanding number of shares at 12/31/2011	Exercised*	Granted	Cancelled or Expired	Outstanding number of shares at 12/31/2012	Expiration date	Residual life
17/12/2009	26/05/2009	17/12/2013	15.49	3,415,890	-	-	42,106	3,373,784	16/12/2017	5.0
16/12/2010	26/05/2009	16/12/2014	14.20	2,920,500	-	-	20,200	2,900,300	15/12/2018	6.0
TOTAL				**6,336,390**	**-**	**-**	**62,306**	**6,274,084**		

* under specific circumstances such as retirement or death, options may be vested in advance.

The average share price for SUEZ ENVIRONNEMENT COMPANY in 2012 was €9.4.

GDF SUEZ stock option plans

Plan		Date of the authorizing Shareholders' Meeting	Starting point for exercise of the options	Adjusted exercise price	Outstanding number of shares at 12/31/2011	Exercised**	Granted	Cancelled or Expired	Outstanding number of shares at 12/31/2012	Expiration date	Residual life
17/11/2004		27/04/2004	17/11/2008	16.84	1,813,549	945,840	-	867,709	-	16/11/2012	-
09/12/2005	*	27/04/2004	09/12/2009	22.79	1,708,085	-	-	14,418	1,693,667	09/12/2013	0.9
17/01/2007	*	27/04/2004	16/01/2011	36.62	1,630,419	-	-	16,401	1,614,018	16/01/2015	2.0
14/11/2007	*	04/05/2007	13/11/2011	41.78	1,285,108	-	-	14,302	1,270,806	13/11/2015	2.9
12/11/2008	*	16/07/2008	12/11/2012	32.74	1,050,050	-	-	23,380	1,026,670	11/11/2016	3.9
10/11/2009		04/05/2009	10/11/2013	29.44	393,578	-	-	4,424	389,154	09/11/2017	4.9
TOTAL					**7,880,789**	**945,840**	**-**	**940,634**	**5,994,315**		

* exercisable plans

** under specific circumstances such as retirement or death, the anticipated exercice of options authorized

The average share price for GDF SUEZ in 2012 was €18.34.

21.1.3 Impact on the income statement

SUEZ ENVIRONNEMENT COMPANY Plans

Based on assumed employee turnover of 5%, the cost recorded during the period in relation to SUEZ ENVIRONNEMENT COMPANY stock option plans was €4.8 million.

In millions of euros		Weighted average fair value	(Expense) for the period 2012	2011
SUEZ ENVIRONNEMENT COMPANY plan	17/12/2009	3.3 €	(2.7)	(2.7)
SUEZ ENVIRONNEMENT COMPANY plan	16/12/2010	2.9 €	(2.1)	(2.1)
TOTAL			**(4.8)**	**(4.8)**

SUEZ and GDF SUEZ plans

Based on assumed employee turnover of 5%, the cost recorded during the period in relation to the SUEZ and later GDF SUEZ stock option plans was €2.5 million.

In millions of euros		Weighted average fair value	(Expense) for the period 2012	2011
SUEZ plan	17/01/2007	12.3 €	-	(0.2)
SUEZ plan	14/11/2007	15.0 €	-	(3.6)
GDF SUEZ plan	12/11/2008	9.3 €	(1.9)	(2.1)
GDF SUEZ plan	10/11/2009	6.0 €	(0.6)	(0.6)
TOTAL			**(2.5)**	**(6.5)**

21.1.4 Share Appreciation Rights (SARs)

In 2007, 2008 and 2009, U.S. employees were granted Share Appreciation Rights, an alternative arrangement to the SUEZ and later GDF SUEZ stock option plans. These rights had no material impact on the Group's financial statements.

21.2 Performance share plans

21.2.1 Arrangements and grants

SUEZ ENVIRONNEMENT COMPANY performance share plan of March 15, 2012

The Board of Directors, in its meeting of March 15, 2012 and in accordance with the authorization of the Shareholder's Meeting of May 20, 2010, granted 828,710 performance shares to 1,995 beneficiaries. The vesting period for these shares is from 2 to 4 years depending upon the country and the beneficiaries. The shares are also subject to a 2-year lock-in period in France and Belgium and to a 3-year lock-in period in Spain and Italy. Upon Management's proposal, no shares were granted to the Executive Committee.

These shares are conditional upon the following performance conditions:

For 889 beneficiaries, two out of three of the following conditions are planned according to their profile:

- a market performance condition, contingent upon SUEZ ENVIRONNEMENT COMPANY's stock market performance compared to the average performance of the CAC 40 and Eurostoxx Utilities indices for the period March 14, 2012 to March 13, 2015;
- a non-market condition based on cumulative net income from continuing operations from January 1, 2012 to December 31, 2014;
- a non-market condition based on the Group's EBITDA from January 1, 2012 to December 31, 2013.

For the other beneficiaries, all allocated shares are subject to a non-market performance condition, specifically the Group's EBITDA between January 1, 2012 and December 31, 2013.

The fair value of bonus share plans is estimated based on the share price on the grant date (i.e. €11.97), taking into account the absence of dividend payments over the vesting period, the turnover rate for the relevant staff in each plan and the likelihood of the Group achieving its internal performance conditions. The estimation of the fair value of the plans also takes into account the non-transferability period associated with these instruments. The cost is expensed over the vesting period of the rights and offset against equity. For shares subject to market performance conditions, market performance is measured using Monte Carlo simulations.

The following assumptions were applied:

- volatility of 24.5%;
- a 2-year risk-free rate of 0.74%, a 3-year risk-free rate of 1.14% and a 4-year risk-free rate of 1.56%;
- a normalized annual dividend of €0.65.

A Monte Carlo model was used to assess the market conditions applied to some of the allocated shares. The following assumptions were applied in addition to those cited above:

- correlation between SUEZ ENVIRONNEMENT COMPANY share price and the CAC 40 index: 62%;
- correlation between SUEZ ENVIRONNEMENT COMPANY share price and the Eurostoxx Utilities index: 54%;
- correlation between the CAC 40 and Eurostoxx Utilities indices: 69%;
- volatility of the Eurostoxx Utilities index: 21%;
- volatility of the CAC 40: 23%;
- index dividend rate: 3.5%.

The resulting fair value of the shares granted leads to a total expense of €6.9 million, recorded over the plan's duration.

Arrangements relating to plans prior to 2012 are described in previous SUEZ, GDF SUEZ and SUEZ ENVIRONNEMENT COMPANY Reference Documents.

GDF SUEZ performance share plan of December 5, 2012

On December 5, 2012 the Board of Directors approved the grant of a total of 2,400 performance shares to Group employees. This plan is divided into two tranches:

- performance shares with a vesting period ending March 14, 2016, followed by a two-year holding period for vested shares;
- performance shares with a vesting period ending March 14, 2017, with no holding period requirement.

  Each tranche is composed of instruments subject to different conditions;

- instrument subject to a single condition: performance shares subject to a single condition concerning the Total Shareholder Return ("TSR") on GDF SUEZ shares compared to that of companies in the Eurostoxx Utilities Eurozone index, as measured for the period from November 2012 to February 2016;
- instrument subject to a dual condition: performance shares subject to the TSR condition described above, and a condition regarding changes in Group's net recurring income for fiscal years 2014 and 2015.

The following assumptions were used to measure the fair value per share of this new plan.

Grant date	Vesting date	End of lock-in period	Share price on grant date	Expected dividend rate	Financing cost for the employee	Cost of the restriction on availibility (lock-in) (€/share)	Market performance condition	Fair value per share
05/12/2012	14/03/2016	14/03/2018	17.2 €	1.5 €	8.4%	-1.0 €	oui	**7.2 €**
05/12/2012	14/03/2016	14/03/2018	17.2 €	1.5 €	8.4%	-1.3 €	oui	**9.2 €**
05/12/2012	14/03/2017	14/03/2017	17.2 €	1.5 €	8.4%	-	oui	**6.7 €**
05/12/2012	14/03/2017	14/03/2017	17.2 €	1.5 €	8.4%	-	oui	**9.0 €**
Weighted average fair value								**8.1 €**

The fair value of the shares granted resulted in a total cost which is insignificant for the year 2012 as it is when expensed over the life of the plan.

21.2.2 Review of internal performance conditions

In addition to the service condition, some plans are subject to internal performance conditions. If the performance targets have not been met in full, the number of shares granted to employees is reduced in accordance with the plan rules. Any such change in the number of shares leads to a reduction in the total expense of the plan, in accordance with IFRS 2. Performance conditions are reviewed at each year-end. In 2011, a profit of €4.7 million was recognized for the 2008 and 2009 GDF SUEZ performance share plans to cancel the expenses recognized in previous years. Volume reductions in 2012 due to the non-achievement of performance conditions are insignificant.

21.2.3 Impact on the income statement

SUEZ ENVIRONNEMENT COMPANY plans

During the period, an expense of €4.8 million was recognized for the SUEZ ENVIRONNEMENT COMPANY performance share plans.

	Number of shares granted	Weighted average fair value	(Expense) for the period 2012	2011
December 2009	173,852	12.3 €	(0.3)	(0.8)
December 2010	829,080	11.6 €	(2.7)	(2.7)
March 2012	828,710	8.8 €	(1.8)	-
TOTAL			**(4.8)**	**(3.5)**

SUEZ and GDF SUEZ plans

During the period a charge of €0.3 million was recognized on performance share plans set up by SUEZ and subsequently GDF SUEZ.

	Number of shares granted	Weighted average fair value	(Expense) for the period 2012	2011
June 2008	24,740	37.8 €	0.4	(0.1)
November 2008	357,034	28.5 €	(0.3)	4.0
November 2009	146,656	24.8 €	(0.4)	(1.0)
January 2010	9,660	18.6 €	-	(0.1)
December 2011	1,200	15.9 €	-	-
December 2012	2,400	7.2 €	-	-
TOTAL			**(0.3)**	**2.8**

For 2011, the €4.0 million income and €1.0 million expense recognized on the November 2008 and November 2009 plans include the reversal of a €4.7 million expense disclosed in Note 21.2.2.

21.3 Worldwide incentive scheme

21.3.1 Arrangements and grant

GDF SUEZ bonus share plan of October 30, 2012

On October 30, 2012 the Board of Directors of GDF SUEZ approved a worldwide financial incentive scheme for Group employees for 2012. The plan provides for the bonus allocation of 15 GDF SUEZ shares to each employee of the SUEZ ENVIRONNEMENT Group, subject to the following conditions:

- a vesting period of three years (France, Italy, Spain) or four years (all other countries);
- a continuous service condition (except in cases of retirement, death or disability) within the Group on June 30, 2015 (France, Italy, Spain) or June 30, 2016 (all other countries);
- a mandatory holding period of two years from the vesting date (June 23, 2015) for employees in France, Italy and Spain.

Arrangements relating to plans prior to 2012 are described in previous SUEZ, GDF SUEZ and SUEZ ENVIRONNEMENT COMPANY Reference Documents.

21.3.2 Fair value of allocated shares

The fair value of the shares allocated has been calculated using the method described in Note 1 to the consolidated financial statements as of December 31, 2012, Section 1.6.14. The following assumptions were used to measure the fair value per share of the new plans granted in 2012.

Grant date	Vesting date	End of lock-in period	Share price on grant date	Expected dividend rate	Financing cost for the employee	Cost of the restriction on availibility (lock-in) (€/share)	Market performance condition	Fair value per share
30/10/2012	01/11/2015	01/11/2017	17.7 €	1.5 €	8.4%	-1.5 €	non	**11.7 €**
30/10/2012	01/11/2016	01/11/2016	17.7 €	1.5 €	8.4%	-	non	**11.8 €**
Weighted average fair value								**11.7 €**

21.3.3 Review of internal performance conditions

In addition to the service condition, some plans are subject to internal performance conditions. If the performance targets have not been met in full, the number of shares granted to employees is reduced in accordance with the plan rules. Any such change in the number of shares leads to a reduction in the total expense of the plan, in accordance with IFRS 2. Performance conditions are reviewed at each year-end. There was no reduction in volume due to failure to achieve performance conditions in 2012.

21.3.4 Impact on the income statement

SUEZ ENVIRONNEMENT COMPANY plans

During the period, an expense of €2.0 million was recognized for the SUEZ ENVIRONNEMENT COMPANY worldwide incentive scheme.

	Number of shares granted	Weighted average fair value	(Expense) for the period 2012	2011
June 2009	2,040,810	9.6 €	(2.0)	(4.6)
TOTAL			**(2.0)**	**(4.6)**

SUEZ and GDF SUEZ plans

During the period, an expense of €8.3 million was recognized for the SUEZ and GDF SUEZ worldwide incentive scheme.

	Number of shares granted	Weighted average fair value	(Expense) for the period 2012	2011
July 2007	838,684	37.8 €	-	(1.9)
June 2008	928,725	39.0 €	(1.1)	(2.5)
July 2009	544,216	19.7 €	(1.1)	(2.5)
June 2011	749,655	19.9 €	(5.5)	(2.9)
October 2012	1,140,525	11.7 €	(0.6)	-
TOTAL			**(8.3)**	**(9.8)**

21.4 Employee share issues

			(Expense) for the period	
			2012	2011
Plan SUEZ ENVIRONNEMENT Sharing 2011	Share issue and matching shares in France	December 2011	-	(1.6)
Plan SUEZ ENVIRONNEMENT Sharing 2011	Share Incentive Plan	December 2011	-	(0.1)
Plan SUEZ ENVIRONNEMENT Sharing 2011	Share Appreciation Rights	December 2011	(0.2)	-
Plan SUEZ ENVIRONNEMENT Sharing 2011	Matching shares - International	December 2011	(0.1)	-
Plan GDF SUEZ Link 2010	Share issue and matching shares in France	August 2010	-	-
Plan SUEZ Spring 2007	Matching shares - International	August 2007	(0.2)	(0.3)
Plan GDF SUEZ Link 2010	Matching shares - International	August 2010	(0.2)	(0.2)
Plan GDF SUEZ Link 2010	Share Appreciation Rights	August 2010	-	(0.1)
Plan SUEZ Spring 2007	Share Appreciation Rights	August 2007	(0.2)	(0.1)
TOTAL			**(0.9)**	**(2.4)**

There was no employee share issue in 2012. The only impacts on 2012 income linked to employee share issues came from SARs and the amortization of international matching contributions for the Spring 2007, LINK 2010 and Sharing 2011 plans. A €0.9 million expense was recognized on the year (€1 million including hedging by warrants).

In 2011, the accounting impact of employee share issues was €2.4 million, including €1.7 million for the Sharing 2011 plan.

As of December 31, 2012, the fair values of the liabilities relating to the LINK 2010 and Sharing 2011 plans were €0.2 million each. The Spring 2007 plan matured on August 23, 2012.

21.4.1 Sharing 2011

In 2011, SUEZ ENVIRONNEMENT launched its first global employee shareholding plan, called Sharing. Two formulas were offered:

- a “Classic” formula, which includes a discount and employer contribution and in which the subscriber is exposed to movements in the share price. In France, employees benefited from matching shares as part of the company savings plan. Outside France, the matching shares took the form of a bonus share allocation. In the United Kingdom, a Share Incentive plan (SIP) was implemented as an alternative. It allowed employees to subscribe at the lowest share price between the share price measured on October 3, 2011 and the one measured on December 7, 2011 while benefiting from matching shares as well;
- a “Multiple” formula, which allows employees to benefit from a leverage effect to supplement their personal contribution as well as a discounted subscription price. A swap agreement with the bank that structures the plan allows employees to benefit from a guarantee on their personal contribution and a guaranteed minimum return. In the United States and Sweden, the Multiple plan was adapted to local laws and Share Appreciation Rights were granted as an alternative.

The number of matching shares offered under the Classic plan was calculated as follows:

- for the first 15 shares subscribed, the employer contribution was one free matching share for each share subscribed;
- from the 16th share subscribed, the employer contribution was one free matching share for each two shares subscribed;
- the employer contribution is capped at a maximum of 30 matching shares for 45 shares subscribed.

This plan is mainly amortized over a five-year period and generated a book expense of €0.3 million for the Group in 2012.

21.4.2 Spring and Link plans

SUEZ ENVIRONNEMENT employees benefited from the Spring 2007 plan set up by SUEZ and the Link 2010 plan set up by GDF SUEZ. These two plans allowed employees to subscribe to SUEZ and GDF SUEZ shares in the form of a Classic arrangement with a discount and matching shares and a Multiple arrangement with a discount and leverage effect.

The two plans are amortized over a five-year period and generated a book expense of €0.6 million for the Group in 2012.

The arrangements relating to these plans are described in more detail in previous SUEZ, GDF SUEZ and SUEZ ENVIRONNEMENT COMPANY Reference Documents.

NOTE 22 Related-party transactions

The purpose of this note is to present material transactions between the Group and its related parties as defined by IAS 24.

Compensation for key executives is disclosed under Note 23 – "Executive compensation". The main subsidiaries (fully consolidated companies) are listed under Note 26 – "List of the main consolidated companies at December 31, 2012". Only material transactions are described below.

22.1 Transactions with GDF SUEZ and related entities

In millions of euros	December 31, 2012	December 31, 2011
Transactions with GDF SUEZ:		
Purchases/sales of goods and services	(15.2)	(10.6)
Non financial payables	22.7	13.9
Non financial receivables	1.9	2.2
Receivables carried at amortized cost *(a)*	24.7	27.1
Guarantees and commitments given	-	10.2
Transactions with companies linked to GDF SUEZ:		
Purchases/sales of goods and services	(10.8)	(7.3)
Financial income	10.7	13.8
Financial expenses	(12.4)	(15.3)
Non financial receivables	37.2	31.1
Non financial payables	1.7	2.3
Borrowings excluding financial instruments	144.0	148.2
Commodity derivatives (Liabilities)	0.5	-
Outstanding accrued interest	-	-
Net cash	14.0	8.8
Guarantees and commitments given	21.6	19.5
Guarantees and commitments received	-	0.1

(a) Refer to Note 2.2.1 of the Section 20 of the 2009 Reference Document – Synthetic Argentinean contract.

The guarantees given in 2011 by the Group for €10.2 million correspond to counter-guarantees granted to GDF SUEZ as part of guarantees given by the latter to banks' lending to Hungariavitz. These guarantees were released in June 2012 following the repayment of the loans concerned and prior to the sale by SUEZ ENVIRONNEMENT of its share in Budapest Water Works, the Budapest water company, held via Hungariavitz (see Note 2, Major Transactions).

22.2 Transactions with joint ventures and associates

22.2.1 Joint ventures

In 2012, the main transactions involving joint ventures chiefly corresponded to technical services performed within Degrémont, particularly concerning the Mexican BOT contracts (for €9 million, Group share).

At December 31, 2012, the Group also held a €265 million loan to SFWD (including €22 million repaid in 2012). SFWD is a company proportionately consolidated at 50%. The "non-Group" share of €133 million was recognized under assets on the Group's consolidated statement of financial position.

The Group also has a €286 million current account in the joint venture responsible for the construction of the seawater desalination plant near Melbourne. This joint venture is proportionately consolidated at 35%. The non-Group share of €186 million was recognized under assets in the Group's consolidated statement of financial position.

22.2.2 Associates

There were no significant transactions or commitments involving associates in 2012 or 2011.

NOTE 23 Executive compensation

The Group's key executives were the eight members of the Management Committee at December 31, 2012 (see Section 14.1.3. of this Reference Document).

Their compensation breaks down as follows :

In millions of euros	Dec. 31, 2012	Dec. 31, 2011
Short-term benefits	4.7	5.4
Post-employment benefit *	1.3	0.9
Share-based payments	1.1	1.6
TOTAL	**7.1**	**7.9**

** post-employment benefits relate to the SUEZ ENVIRONNEMENT Group plans only.*

NOTE 24 Legal and arbitration proceedings

The litigation and arbitration proceedings presented below are recognized under liabilities or presented for information purposes. Beyond the litigation presented below for information purposes, the Group has not identified any other material liabilities, and the likelihood of an expenditure within the context of its commitments is considered low.

24.1 Competition and industry concentration

Inspections conducted by the European Commission

In April 2010, the European Commission conducted inspections at the premises of various French companies operating in the water and wastewater industry relating to their possible participation in practices contravening Articles 101 and 102 of the Treaty on the Functioning of the European Union. Inspections were thus conducted at SUEZ ENVIRONNEMENT and Lyonnaise des Eaux.

On January 13, 2012, the European Commission sent notice to SUEZ ENVIRONNEMENT of its decision to launch a formal inquiry to determine whether the companies Saur, SUEZ ENVIRONNEMENT, Veolia Environnement and the Fédération Professionnelle des Entreprises de l'Eau (French professional federation of water companies) engaged in anti-competitive practices affecting contracts for the delegated management of water and wastewater services in France.

The launch of this inquiry in no way prejudges the outcome of the investigation.

This inquiry was still pending at the beginning of 2013.

24.2 Litigation and arbitration

In the normal course of its business, the Group is involved in a certain number of litigation and arbitration with third parties or with the tax administrations of certain countries. Provisions are recorded for such litigation and arbitration when (i) a legal, contractual or constructive obligation exists at the closing date with respect to a third party; (ii) it is probable that an outflow of resources without economic benefits will be necessary to settle the obligation; and (iii) the amount of the said outflow of resources can be estimated in a sufficiently reliable manner. Provisions recorded in respect of the above amounted to €208.8 million as of December 31, 2012 (excluding litigation in Argentina).

There is no other governmental, judicial, or arbitration proceedings of which the Group is aware of that is suspended or with which it is threatened, likely to have or that has already had, in the past 12 months, a material impact on the Group's financial position or profitability.

Société des Eaux du Nord

Negotiations have been underway since 2008 between the Urban Community of Lille Metropole (LMCU) and Société des Eaux du Nord (SEN), a subsidiary of Lyonnaise des Eaux, as part of the five-year review of the drinking-water distribution management contract. These negotiations relate mainly to amendments signed in 1996 and 1998 that are now being challenged by the local authority.

LMCU and SEN disagree over the challenging of these amendments. In order to resolve this longstanding technical issue, LMCU and SEN decided at the end of 2009 to submit the dispute to an independent arbitration commission, as provided in the contract. This commission was chaired by Mr. Michel Camdessus, former managing director of the International Monetary Fund, who rendered his conclusions on March 30, 2010.

Despite the conclusions of the Commission report, at the Community Council meetings of June 25, 2010 LMCU voted in favor of proposed unilateral amendments to the contract, specifically to include a €115 million payment command against SEN that was issued on July 29, 2010.

Two appeals, calling for the annulment of the June 25 deliberations and the unilateral amendments made pursuant thereto, were filed with the Lille Administrative Court on September 6, 2010 by SEN and Lyonnaise des Eaux (in the latter's capacity as SEN shareholder).

These appeals were heard for examination by the Trial Court on January 29, 2013. The decision is expected to be delivered within two months.

Litigations in Argentina

In Argentina, tariffs applicable to public-service contracts were frozen by the Public Emergency and Exchange Regime Reform Law (Emergency Act) in January 2002, preventing the application of contractual price indexation that would apply in the event of a depreciation of the Argentine peso against the US dollar.

In 2003, Suez – now GDF SUEZ – and its co-shareholders in the water concessions for Buenos Aires and Santa Fe filed arbitration proceedings against the Argentinean government, in its capacity as grantor, to enforce the concession agreements' contractual clauses with the International Center for the Settlement of Investment Disputes (ICSID), in accordance with the bilateral Franco-Argentinean investment protection treaties.

These ICSID arbitration proceedings aim at obtaining indemnities to compensate for the loss of value of the investments made since the start of the concession due to the measures adopted by the Argentinean government following the adoption of the abovementioned Emergency Act. The ICSID acknowledged its jurisdiction to rule on the two cases in 2006, and hearings for both disputes were held in 2007. At the same time as the ICSID proceedings, the concession-holders Aguas Argentinas and Aguas Provinciales de Santa Fe were forced to file proceedings to cancel their concession agreement with local governments.

However, since the financial situation of the concession-holding companies had deteriorated since the Emergency Act, Aguas Provinciales de Santa Fe announced that it was filing for judicial liquidation at its shareholders' meeting on January 13, 2006.

At the same time, Aguas Argentinas applied to file a Concurso Preventivo (similar to a French bankruptcy procedure). As part of these bankruptcy proceedings, a settlement proposal involving the novation of admissible Aguas Argentinas liabilities was approved by creditors and ratified by the bankruptcy court on April 11, 2008. The liabilities are in the process of being settled. The proposal provides for an initial payment of 20% (about USD 40 million) upon ratification and a second payment of 20% in the event of compensation by the Argentinean government. As controlling shareholders, SUEZ and Agbar decided to financially support Aguas Argentinas in making this first payment, upon ratification, and paid USD 6.1 million and USD 3.8 million respectively.

For the record, SUEZ and SUEZ ENVIRONNEMENT – prior to both the SUEZ-Gaz de France merger and the listing of SUEZ ENVIRONNEMENT COMPANY on the stock exchange – agreed to the economic transfer to SUEZ ENVIRONNEMENT of the rights and obligations associated with the interests held by SUEZ in Aguas Argentinas and Aguas Provinciales de Santa Fe.

The Group considers that the provisions recorded in the financial statements relating to this litigation are appropriate.

In two decisions dated July 30, 2010, the ICSID recognized the Argentine government's liability in canceling the Buenos Aires and Santa Fe water and wastewater treatment concession contracts. In addition, in June 2011 the ICSID appointed an expert to provide a definitive assessment of the compensation payable for the commercial harm.

A preliminary report from the expert was presented to the ICSID at the end of 2012.

United Water (New York State, United States)

In March 2008, certain residents on the banks of the Hackensack River in Rockland County (New York State) filed a claim for a total amount of USD 66 million (subsequently raised to USD 130 million) with the New York Supreme Court against United Water (New York) following flooding in the aftermath of heavy rains.

These residents are claiming faulty maintenance of the reservoir and of the DeForest Lake dam adjoining DeForest Lake, which allegedly did not operate properly in the aftermath of the heavy rains in question and did not enable the gradual overflow of water into the Hackensack River on which it is built, thus causing flooding in the homes of the said residents. As the rainwater drainage network operated by United Water flows into the river upstream from the dam, the residents, although living in a flood zone, are claiming compensatory damages and interest from United Water in the amount of USD 65 million, as well as punitive damages and interest in the same amount for alleged negligence in the maintenance of the DeForest Lake reservoir and dam.

United Water maintains that it is not responsible for the floods or the maintenance of the dam and reservoir, and that the claims are unlikely to succeed, and filed a motion to dismiss in July 2009 on the basis that it had no obligation to operate the dam for flood prevention purposes. Its motion was dismissed on August 27, 2009 and the dismissal confirmed on June 1, 2010. United Water has appealed this latest ruling.

The claim for punitive damages was dismissed on December 21, 2009 and then confirmed on February 11, 2010 following an appeal filed by the residents. It was then definitively dismissed on May 31, 2011.

The claim for compensatory damages and interest was dismissed on October 12, 2012 by the Supreme Court of Rockland County. The residents filed an appeal against this last decision, which was rejected on January 30, 2013. The residents may ultimately appeal against the decision of October 12, 2012 until February 21, 2013.

This claim has been reported to the insurance companies.

United Water (Indiana, United States)

On April 10, 1998, United Water Services Inc. and the Gary Sanitary District entered into a 10-year contract for the operation and maintenance of a wastewater treatment plant. This contract was renewed for a further five years in May 2008.

On October 20, 2008, at the request of the Department of Justice (DOJ) of the State of Indiana, the facilities managed by United Water underwent an inspection with a view to seeking evidence of possible environmental damage.

Following these investigations, the DOJ challenged the procedures used to take samples of effluents prior to discharge. The DOJ's claim was completely rejected by United Water.

Moreover, the DOJ found no environmental damage and no intention on the part of United Water to circumvent the applicable regulations.

United Water and the DOJ held a number of meetings with a view to finding a solution acceptable to both parties and concluding the proceedings. In the fall of 2010, the DOJ informed United Water that it was not prepared to reach an agreement.

On December 8, 2010, United Water Services Inc. and two of its employees were charged by a federal grand jury with failure to comply with the Clean Water Act.

By a decision rendered on November 9, 2012 by a federal jury, United Water Services Inc, as well as the two employees charged were pronounded not guilty of the charges held against them by the DOJ.

The decision is not subject to appeal.

Sita Australia

In November 2008, residents of Brookland Greens Estate, located in the suburbs of the city of Casey, State of Victoria, Australia, filed a class action before the State Supreme Court of Victoria against the city of Casey.

Biogas (a mixture of methane and carbon dioxide) produced by the Stevensons Road landfill – which belongs to the city – had allegedly migrated through the soil and was threatening residences built in the vicinity. The plaintiffs claimed a loss of value in their homes, and requested that the competent jurisdiction determine the amount of damages.

In April 2009, the city of Casey called on SITA Australia to guarantee the services it provided between 2003 and 2007 in relation to the closure and capping of the landfill.

SITA Australia was also sued directly by the plaintiffs on November 15, 2009, along with other parties.

After various mediation attemps between 2009 and 2011, a settlement agreement dated May 23, 2011 between the residents and the City of Casey ended the class action and the City was subrogated to the rights of the residents.

The dispute was supposed to have been heard by the State Supreme Court of Victoria during the first half of 2012. A new mediation organized in February 2012 resulted in significant concessions from the plaintiffs, thus allowing for a settlement agreement among all parties that ended the dispute .The compensation payable by Sita Australia was paid in full by the insurance company.

Degrémont (Melbourne)

In July 2009, SUEZ ENVIRONNEMENT, in conjunction with its subsidiary Degrémont under a special purpose entity called Aquasure, was awarded the project for a seawater desalination plant by the State of Victoria. This 30-year contract covers the financing, designing, building and operation of the plant. The plant consists of three production lines with a total capacity of 450,000 m^3 of drinking water per day to meet approximately one-third of Greater Melbourne's water needs.

Aquasure, a vehicle specially created for the project and owned by multiple funds and investors (including SUEZ ENVIRONNEMENT, which holds a 21% interest), is signatory to the agreements with the State of Victoria. Aquasure then allocated the contract for the design and build stages of the plant to a joint venture consisting of Thiess (65% – Leighton Group, the leading Australian civil-engineering group) and Degrémont (35%). The operating stage was allocated to a joint venture between Degrémont (60%) and Thiess (40%).

The contractual timeline provided for the progressive commissioning of desalinated water as of December 19, 2011 and the final delivery of the plant on June 30, 2012.

Construction work began in September 2009. However, site progress was constantly and significantly impacted by (i) major weather events and (ii) particularly acute union action (persistent social unrest and low productivity).

The impact of the above events on the contractual timeline pushed back the projected dates for commissioning and final delivery by several months.

On December 15, 2011, a moratorium ("standstill") was agreed upon to freeze all claims until March 31, 2012 (prorogable) between Aquasure and the Thiess-Degrémont construction joint venture.

An additional expense was booked in the financial statements, as detailed in Note 2 to the consolidated financial statements as at December 31, 2012.

On April 24, 2012, the aforementioned parties signed a new moratorium to ensure financing for Aquasure between July 1, 2012 and the earlier of the final delivery of the plant or February 28, 2013 on the one hand, and to allow the submission and pursuit of claims against the State of Victoria on the other hand.

As the final delivery of the plant was made on December 17, 2012, the parties decided to prorogate the effects of the standstill until February 28, 2013.

SUEZ ENVIRONNEMENT and its partner, the Leighton group, believe, however, that the majority of additional costs incurred to date are linked to elements, many of which can be attributed to force majeure and cannot be fully attributed to them. A first compensation claim has been lodged on January 30, 2013, by Aquasure with the Victoria's State regarding the impacts of extraordinary climatic problems during the project completion.

24.3 Tax litigations

Sociedad General de Aguas de Barcelona

Agbar was subject to a number of tax audits, mainly relating to corporate tax.

With respect to corporate tax, Agbar received a reassessment notice from the Spanish tax authorities for the 1995-1998 fiscal years that outlined a reassessment of tax payable in the amount of €28 million in addition to penalties of €12 million. Agbar also received a reassessment notice relating to the 1999-2001 fiscal years that outlined a reassessment of tax payable in the amount of €41 million in addition to penalties of €25 million. In May 2009, Agbar was also notified of a reassessment in the amount of €60.5 million for the 2002-2004 fiscal years, without additional penalties.

In court, the company challenged these notices, which were, for each period in question, justified with similar arguments by the tax authorities. Agbar considers the tax authorities' arguments groundless.

In May 2007, the Administrative Court rendered its ruling on the 1995-1998 fiscal years, reducing the amount of the claim to €21 million and canceling the penalties. However, Agbar appealed against the judgment on the remaining part of the reassessment. In this action, the Court of Appeals has now handed down its ruling with respect to 1998, followed by 1995, 1996 and 1997. These four decisions were appealed to the Supreme Court by Agbar with respect to 1998 and by the Spanish government with respect to 1995, 1996 and 1997. However, as the Supreme Court dismissed the appeal by the Spanish government with respect to 1996 and 1997, Agbar is entitled to request the repayment of approximately €4 million in taxes wrongly levied as well as the corresponding late penalties. The amount in dispute between Agbar and the tax authorities is therefore reduced to €17 million.

Moreover, in May 2008 the Administrative Court cancelled the penalties relating to the 1999-2001 fiscal years, but upheld almost all of the reassessments. Agbar appealed this ruling in July 2008. In July 2011, the Court of Appeals held in favor of Agbar in the amount of €20 million, thereby reducing the initial claim from €41 million to €21 million. Agbar subsequently filed an appeal with the Supreme Court to recover the remaining €21 million. The Spanish government also appealed the ruling in favor of Agbar.

On October 25, 2012, Agbar was given the ruling of the Supreme Court, validating what had been decided by the Court of Appeals.

The ruling of the Supreme Court is final and enforceable; this will imply a € 21 million payment, plus interest, for a maximum estimated amount of € 29 million, that has been provisioned in full. The ruling should be enforced during the first half of 2013.

Finally, in June 2009, Agbar filed suit with the Administrative Court to challenge the reassessments for 2002-2004. In June 2012 the Court reached a decision partially in Agbar's favor.

Agbar filed an appeal before the Court of Appeals regarding the other elements for which the Administrative Court has not held in favor of Agbar.

NOTE 25 Subsequent events

There is no significant subsequent event.

NOTE 26 List of the main consolidated companies at December 31, 2012 and 2011

The aim of this note is to present the list of entities covering 80% of the following indicators: Revenues, EBITDA, Net Debt and capital employed.

		% interest		% control		Consolidation methods	
Names	**Headquarters address**	**Dec. 2012**	**Dec. 2011**	**Dec. 2012**	**Dec. 2011**	**Dec. 2012**	**Dec. 2011**
SUEZ ENVIRONNEMENT COMPANY	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	100.0	100.0	100.0	100.0	IG	IG
	WATER EUROPE						
LYONNAISE DES EAUX France	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	100.0	100.0	100.0	100.0	IG	IG
EAU ET FORCE	300, rue Paul Vaillant Couturier BP 712 92007 Nanterre - France	100.0	100.0	100.0	100.0	IG	IG
EAUX DU NORD	217, boulevard de la Liberté BP 329 59020 Lille - France	99.2	99.1	99.2	99.1	IG	IG
SOCIETE DES EAUX DE VERSAILLES ET DE SAINT-CLOUD (SEVESC)	5-7 Rue Pierre Lescot 78000 Versailles - France	100.0	100.0	100.0	100.0	IG	IG
HISUSA	Torre Agbar - Av.Diagonal, 211 08018 Barcelona - Espagne	75.7	75.7	75.7	75.7	IG	IG
AGBAR	Torre Agbar - Av.Diagonal, 211 08018 Barcelona - Espagne	75.4	75.4	99.5	99.5	IG	IG
AGUAS ANDINAS	Avenida Presidente Balmaceda 1398, Piso – 4, Santiago - Chili	21.4	21.4	50.1	50.1	IG	IG
UTILITY SERVICES CO, Inc	P.O. Box 1350 - 535 Courtney Hodges Blvd. - Perry, Georgia 31069 - Etats-Unis	100.0	100.0	100.0	100.0	IG	IG
	WASTE EUROPE						
SITA HOLDINGS UK LTD	Grenfell road, Maidenhead, Berkshire SL6 1ES, Royaume-Uni	100.0	100.0	100.0	100.0	IG	IG
SE DEUTSCHLAND GmbH	Industriestrasse 161 D-50999 Köln, Allemagne	100.0	100.0	100.0	100.0	IG	IG
SITA NEDERLAND BV	Mr. E.N. van Kleffensstraat 6, Postbus 7009, NL - 6801 HA Arnhem, Pays-Bas	100.0	100.0	100.0	100.0	IG	IG
SITA FRANCE	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	99.9	99.9	99.9	99.9	IG	IG
SITA BELGIUM	5 Avenue de la Metrologie 1130 Haren - Belgique	100.0	100.0	100.0	100.0	IG	IG
SOCALUX	Lamesch SA - ZI Wolser Nord BP 75 - L-3201 Bettembourg - Luxembourg	100.0	100.0	100.0	100.0	IG	IG
SITA SVERIGE AB.	Kungsgardsleden - 26271 Angelholm - Suède	100.0	100.0	100.0	100.0	IG	IG
SITA FINLAND OY AB	Sahaajankatu 49 - 00880 Helsinki - Finlande	100.0	100.0	100.0	100.0	IG	IG

Names	Headquarters address	% interest Dec. 2012	Dec. 2011	% control Dec. 2012	Dec. 2011	Consolidation methods Dec. 2012	Dec. 2011
	INTERNATIONAL						
SITA WASTE SERVICES	2801 Island Place Tower - 510 King's Road - North Point - Hong-Kong	100.0	100.0	100.0	100.0	IG	IG
SITA AUSTRALIA	PO Box 160, Kemps Creek NSW 2171 - Australie	60.0	60.0	60.0	60.0	IG	IG
SITA CZ	Konevova, 1107/54 - 130 00 Praha 3 - République Tchèque	100.0	100.0	100.0	100.0	IG	IG
UNITED WATER	200 Old Hook Road, Harrington Park New Jersey - Etats-Unis	100.0	100.0	100.0	100.0	IG	IG
MACAO WATER	718 avenida do Conselheiro Borja Macao Via - Macao - Chine	42.5	42.5	Consolidated via SFH	Consolidated via SFH	IP	IP
DEGREMONT	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	100.0	100.0	100.0	100.0	IG	IG
ONDEO INDUSTRIAL SOLUTIONS	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	100.0	100.0	100.0	100.0	IG	IG
LYDEC	48, Boulevard Mohamed Diouri, Casablanca - Maroc	51.0	51.0	51.0	51.0	IG	IG
SINO FRENCH HOLDING (SFH)	New World Tower 29/f 16-18 Queensroad Central - Hong Kong	50.0	50.0	50.0	50.0	IP	IP
PT PAM LYONNAISE JAYA	Central Senayan 1, 7th floor Jl. Asia Afrika n°8 - 10270 Jakarta - Indonésie	51.0	51.0	51.0	51.0	IG	IG
SE POLSKA	Ul. Kopernika, 17, 02359 Warszawa - Pologne	100.0	100.0	100.0	100.0	IG	IG
	OTHER						
SUEZ ENVIRONNEMENT SAS	Tour CB21, 16 Place de l'Iris, 92040 Paris La Défense Cedex - France	100.0	100.0	100.0	100.0	IG	IG

NOTE 27 Fees of the statutory auditors and members of their networks

The accounting firms Ernst & Young and Mazars act as statutory auditors for the SUEZ ENVIRONNEMENT Group. Information on fees paid to the statutory auditors and members of their networks is provided in accordance with Decree 2008-1487.

	Ernst & Young				Mazars			
	Amount		%		Amount		%	
In thousands of euros	2012	2011	2012	2011	2012	2011	2012	2011
Audit								
Statutory Audits, Attest engagements review of individual and consolidated accounts								
SUEZ ENVIRONNEMENT COMPANY SA	680	694	7%	7%	565	630	13%	17%
Fully and proportionately consolidated subsidiaries	6,967	6,967	73%	74%	3,333	2,952	79%	77%
Other audit procedures and incidental assigments in relation to Auditor's engagement to the Statutory Auditor's mission								
SUEZ ENVIRONNEMENT COMPANY SA	126	161	1%	2%	179	-	4%	-
Fully and proportionately consolidated subsidiaries	1,319	1,363	14%	15%	160	90	4%	2%
Sub-total	**9,092**	**9,185**	**95%**	**98%**	**4,237**	**3,672**	**100%**	**96%**
Other Services								
Tax	376	198	4%	2%	6	17	-	-
Others	88	3	1%	-	-	143	-	4%
Sub-total	**464**	**201**	**5%**	**2%**	**6**	**160**	**-**	**4%**
TOTAL (1)	**9,556**	**9,386**	**100%**	**100%**	**4,243**	**3,832**	**100%**	**100%**

(1) The amounts relating to the entities consolidated proportionately, which largely involved tasks assigned to the statutory auditors, totaled €203,000 in 2012 (€143,000 in 2011). These fees were paid in full to Ernst & Young.

MAZARS ERNST & YOUNG et Autres

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.
The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.
This report also includes information relating to the specific verification of information given in the group's management report.
This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Suez Environnement Company

Year ended December 31, 2012

Statutory auditors' report
on the consolidated financial statements

MAZARS
61, rue Henri Regnault
Tour Exaltis
92400 Courbevoie
S.A. au capital de € 8.320.000

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG et Autres
1/2, place des Saisons
92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Suez Environnement Company

Year ended December 31, 2012

Statutory auditors' report
on the consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings, we hereby report to you, for the year ended December 31, 2012, on:

- the audit of the accompanying consolidated financial statements of Suez Environnement Company;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the board of directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at December 31, 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matters set out in note 1.2.1 to the consolidated financial statements, which outlines, for the Suez Environnement Company Group, the impact resulting from the mandatory application of new amendments on the annual financial statements starting January 1, 2012.

II. Justification of our assessments

Accounting estimates

The accounting estimates used for the establishment of the financial statements have been prepared in a context of high volatility of the markets and of financial crisis in the Euro zone whose consequences make difficult to forecast economical mid –term perspectives. In this context, described in note 1.5 to the consolidated financial statements and in accordance with the requirements of article L. 823-9 of the French commercial code (Code de commerce), we carried out our own assessments and we bring to your attention the following matters:

- As disclosed in note 1.5.1 to the consolidated financial statements, Suez Environnement Company group is required to make estimates and assumptions in order to prepare its financial statements. This note also specifies that the future results of the related operations could be different from these estimates according to different assumptions or situations. These significant accounting estimates relate to the fair valuation of assets acquired and liabilities assumed within a business combination, the measurement of the recoverable amount of goodwill, property, plant and equipment and intangible assets, provisions, capital renewal and replacement liabilities, financial instruments, revenues generated but not metered (as in "meters not read"), margin at termination on construction contracts and the assessment of the tax loss carry forwards recognized as deferred tax assets.

- In respect of assets acquired and liabilities assumed within a business combination, we have examined data and assumptions allowing their fair valuation and reviewed the correct adjustment of the goodwill accounted for at the acquisition date. We have also verified that note 9 to the consolidated financial statements provides appropriate information.

- In respect of the recoverable amount of goodwill, property, plant and equipment and intangible assets, we have examined the methods adopted to perform impairment tests, as well as the data and assumptions used. We have reviewed the calculations made by the group and verified that notes 1, 5, 9, 10 and 11 to the consolidated financial statements provide appropriate information.

- As regards provisions, and particularly provisions for site rehabilitation, litigation, retirement and other employee benefits, we have assessed the bases on which these provisions have been established and verified that notes 15, 16 and 24 to the consolidated financial statements provide appropriate information.

- In respect of capital renewal and replacement liabilities, we have assessed the bases on which they have been established and verified that note 20 to the consolidated financial statements provides appropriate information.

- As regards financial instruments, we have examined data and assumptions used for the valuation models allowing the fair valuation of non-listed financial instruments and verified that notes 12 and 13 to the consolidated financial statements provide appropriate information.

- In respect of sales of water metered during the accounting period, the group prepares an estimate of the revenues based on historical data of consumption as well as the estimated selling price. Our work consisted in examining the data and assumptions used to calculate these estimates and verifying that note 1 to the consolidated financial statements provides appropriate information.

- As regards margin at termination on construction contracts, our work consisted in examining the relating processes put in place by the group, assessing the data and assumptions on which are based the kept estimations and verifying that notes 1, 2, 17 and 24 to the consolidated financial statements provide appropriate information.

- As regards the tax loss carry-forwards recognized as deferred tax assets, our work consisted in verifying that the recognition criteria were satisfied and in assessing the assumptions underlying the forecasts of taxable profits and the relating use of tax loss carry-forwards. We have also verified that notes 1 and 7 to the consolidated financial statements provide appropriate information.

In the course of our assessments, we verified the reasonableness of these estimates.

Restatement of comparative information

Note 1.3 to the consolidated financial statements outlines the impact of the correction of error relating to the margin calculation of the maintenance activity of water towers and the restatement of comparative information for the year ended December 31, 2011 conducted in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". We examined the elements relating to this restatement and verified the appropriateness of the disclosures provided.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Paris-La Défense, February 14, 2013

The statutory auditors
French original signed by

MAZARS	ERNST & YOUNG et Autres	
Thierry Blanchetier	Isabelle Massa	Charles-Emmanuel Chosson
		Pascal Macioce