

(flu vaccination campaign). In addition, with a view to avoiding and evaluating occupational risks, a study was begun on the routine constraints of workstations in the pipe systems and industrial maintenance activities. The study is being carried out in collaboration with the French association for improving working conditions (ANACT) and the organization to help disabled people find employment (AGEFIPH).

## Energy services

### Balancing economic and environmental considerations

The energy sector is evolving in order to adapt to the growing scarcity of energy resources, rising energy prices and the increasing regulatory emphasis on environmental concerns and climate change. The challenge for Veolia Energy (Dalkia) is therefore to respond to the expectations of public authorities and companies with energy solutions that combine economic and environmental advantages. Improving energy efficiency and developing renewable energy<sup>G</sup> hold the most promise.

### Incorporating carbon trading into company strategy

Veolia Energy (Dalkia) is shifting from selling energy to selling energy efficiency. It is responding to its clients' expectations by offering them more-integrated services, ranging from energy management to comprehensive building management. This shift involves yet another change: incorporating the trading of carbon emissions and energy savings certificates into our business model.

## Transportation

### The changing activity of "mobility provider"

Veolia Transport organizes and provides flexible mobility solutions for individuals as well as municipalities. Public authorities want to see the entire process, from public transit by bus to "light" modes, such as bicycle rentals, managed in an integrated manner. For Veolia Transport this means developing a new range of competencies. Transportation on demand, for example, is growing rapidly: services such as taxis, bicycles, etc. are organized via call centers that coordinate passenger mobility options for an urban area or even an entire region.

### Takeover of SNCM

The Butler Capital Partners investment fund, the French government, SNCM's employees and Veolia Transport concluded the takeover of the ferry operator in 2006, with Veolia Transport acquiring a 28% interest. Prior to the

takeover by Butler Capital Partners and Veolia Transport, a consultation of SNCM's employees, initiated by Veolia Transport, took place on May 3, 2006. A vote was held on an industrial and work force plan, the "Recovery Plan for the New SNCM." More than 73% of the employees voted, and 77% of them were in favor of the plan. The privatization process was completed on May 31, and Veolia assumed operational management of the ferry company on June 1, 2006. The business model for this contract is similar to that of Veolia Environnement's, to provide a public service (serve Corsica) in competition with other lines.

### THE CHALLENGE OF DOING BUSINESS IN POLITICALLY AND SOCIALLY DIVERSE CONTEXTS: THE EXAMPLE OF JERUSALEM'S LIGHT RAIL SYSTEM

*Following an international public call to tender, a contract to build and commission a light rail system for Jerusalem was awarded in 2001 to a consortium in which Veolia Transport has a 5% interest. Veolia Transport's main role will come later, when it begins operating the system in early 2009.*

*Between 2001 and the end of 2005, Veolia Environnement had absolutely no information regarding a protest by the Palestinian National Authority (PNA). In fact, the PNA did not inform Veolia Transport of its negative view of the project until January 6, 2006, when it expressed its opposition in writing.*

*Since then, Veolia Transport has initiated the standard process to ensure that infrastructure construction and the operating contract are not marred by any discriminatory practices and has embarked on an evaluation process that includes:*

- obtaining opinions from independent legal experts in order to maximize its understanding of the situation under relevant national and international law;*
- discussions with governmental, non-governmental and private organizations in order to collect, compare and compile the assessments of a large number of stakeholders and receive the advice needed to make a responsible and fair evaluation of the situation;*
- seeking dialog with the PNA and local organizations representing the Palestinian community.*

*Veolia Environnement's Ethics Committee has been consulted and is taking part in monitoring the process. One of the Committee members went to Jerusalem during the year, as did our General Counsel and Sustainable Development Director.*

# Ongoing evaluation of our practices

Veolia Environnement asked BMJ Ratings to update its rating on all aspects of sustainable development (environment, human resources, clients, suppliers, civil society and corporate governance). For the first time, we asked to be rated on Global Value®, which measures the contribution of non-financial criteria to our company's overall performance.

## Non-financial ratings

BMJ Ratings maintained its A++ rating of Veolia Environnement and remarked on the progress it had made in five of the social and environmental responsibilities out of the six analyzed. It found the most significant improvements in the company's performance in environmental management, management of its commercial function and corporate governance. Its evaluation of the principles of responsible management revealed a considerable improvement in performance when it came to leadership, transparent management methods and independent auditing. The technical synergies between the divisions continue to increase in cross-divisional areas. On the other hand, R&D must go beyond its technical excellence to focus on other goals, notably societal. Decentralization of the company's human resources functions enables Veolia Environnement to respond well

to local issues. Its efforts are supported by employee training, skills management and workplace safety. Improvement is needed in supervisory staff diversity and adapting social reporting to operational issues. The commercial function depends on the development of partnership-based contractual relations. The promotion of new qualitative business models should continue.

The responsible procurement program is beneficial to all four divisions, which are now all covered. The consideration of non-financial criteria for selecting partners is a clear sign of commitment. The focus should now be on mapping the risks associated with procurement and on checking suppliers' practices. The company's commitment in the area of relations with civil society is reflected in a growing emphasis on openness and dialog. Its work on bringing people into the work force is strengthening its position as an agent in reducing poverty. There is room for improvement in defining who are its stakeholders<sup>G</sup>

and in steering its support for non-profit organizations.

In conclusion, Veolia Environnement is characterized by greater transparency in its governance bodies and the quality of its financial and non-financial communications. The company's attention should remain on the management of non-financial operating risks.

## Global Value® rating

BMJ Ratings believes that Veolia Environnement's work in all areas of sustainable development is likely to strengthen its economic performance. Its analysis of the contributions of non-financial criteria to consistency and efficiency in the company's activities resulted in an overall performance score of 1.15 on a scale of 0.70 to 1.40. The assessment of all 11 partial indicators considered in the evaluation was positive, placing Veolia Environnement among the companies deriving substantial economic benefits from their environmental, social, societal and corporate governance commitments.

Veolia Environnement's rating was established on March 14, 2007. The scores assigned do not take into account any commitments made subsequent to that date.

**Pascal Bello,**  
Chairman and Chief Executive Officer  
of BMJ Ratings



### Management principles

1. Leadership values: 80/100	
2. Organization of responsibilities: 75/100	
3. Transparency of information: 73/100	
4. Commitment to stakeholders: 79/100	
5. Independent auditing: 74/100	
6. Innovation : 71/100	
7. Long-term vision: 72/100	

### Fields

1. Environment : 77/100	
2. Human resources: 76/100	
3. Commercial function: 76/100	
4. Procurement and subcontracting: 79/100	
5. Civil society: 71/100	
6. Corporate governance: 80/100	

# Recognizing our progress

We have taken into account the analyses made by observers of corporate social responsibility. As a result, in this report we look at new and complex subjects and deal with others in greater depth:

- assessment of all the risks confronting us and presentation of our policies;
- more in-depth coverage of our approach to climate change, a subject of particular importance to us insofar as our environmental services are both affected by it and help combat its effects;
- presentation of our public positions;
- preparation of a road map with our commitments, the objectives we pursue and our progress in achieving those objectives;
- strengthening of our approach to diversity.

## Veolia Environnement’s selection by sustainable development indexes

Stock market indexes that take ethical, environmental and social criteria into account provide a measure of a company’s performance on non-financial criteria.



Listed in the FTSE4Good index since 2004, Veolia has been noted for the quality of its policies, management systems and environmental and social reporting, in addition to its good practices in corporate governance and involvement of stakeholders. Room for improvement has been identified in the measurement of our impacts and in promoting gender equality.



After being off the DJSI index for one year, 2005, Veolia was reinstated in 2006 as a leader in its sector, “utilities.” This repositioning was due to our explanation of the uniqueness of our business model compared with our industry peers. (See table opposite.)



Veolia has been in the ASPI Eurozone index since March 2005. Its performance in the field of human resources has been highlighted. Possibilities for improvement have been identified in conserving scarce resources and in the presentation of our policy on combating corruption and on the management systems established to guarantee fundamental human rights.



Veolia has been listed in the Ethibel Pioneer Index and the Ethibel Excellence Index since 2002.

## Quality of communication on social and environmental responsibility

Veolia was placed among the leading companies in several categories for the quality of its social and environmental reporting.

The Global Reporters 2006 survey, an international rating of companies produced by Sustainability, the United Nations Environment Program (UNEP) and Standard & Poor’s, rated Veolia second in France and 31st in the world, remarking on the quality of its strategic analysis. The room for improvement in dealing with lobbying questions and stakeholder consultation was taken into account in the preparation of this report.

The French center for information on companies, CFIE, ranked Veolia second for the quality of its response to the requirements of France’s new economic regulations law.

Lastly, Veolia ranked eighth in the Accountability rating by AccountAbility, the British organization promoting social responsibility, and the consultancy CSR Network.

### Our position compared with industry peers

	Veolia Environnement	Average of the seven companies to which Veolia Environnement is regularly compared*
Revenue	€28.6 billion	Approximately 1/13th
Revenue share of the water activity	35%	Approximately 62%
Number of countries with a Veolia presence	67	Approximately 1/16th
Employees	298,498	Approximately 1/28th

This table shows the size, complexity and diversity of Veolia Environnement’s operations.

\*Seven companies included in the DJSI or FTSE4Good indexes in 2006 in the Water Utilities category. Source: Utopies.





## Our performance

The credibility of our commitment to sustainable development depends on our capacity to measure our economic, social and environmental performance. This helps provide the means to honor that commitment by setting a framework for improvement backed up by clear objectives and targets. With the hindsight of a few years' experience, we can discern what has been achieved and what still remains to be done. The pages that follow assess the progress achieved by Veolia Environnement.

## ➤ ECONOMIC AND SOCIETAL PERFORMANCE

# Measuring our economic footprint

**Long-term value creation is the key to our growth strategy at Veolia Environnement, which led to strong revenue growth and improved profitability in 2006. This performance reflects the company's ability to create value over the long term by generating savings and synergies, as well as its capacity to renew its contracts and expand its operations, chiefly in Europe, Asia and North America.**

Veolia Environnement's capacity to generate savings and synergies led to net savings of €104 million under the Veolia Efficiency Plan (put in place in 2005). All told, this cost-cutting plan has achieved €406 million in recurring savings, as well as introducing rationalization programs across the organization. For example, Veolia Environnement made a series of targeted acquisitions designed to generate growth and cost synergies. These included Cleanaway in the waste management sector in the United Kingdom, and several transportation companies in the United States.

Veolia Environnement continued to grow in 2006, with overall consolidated revenue rising 11.9% to €28,620 million and all sectors registering double-digit growth. Veolia Environnement won new contracts in the municipal sector, notably in the Czech Republic, Slovakia, the Middle East and Asia for water; in the United Kingdom and

Asia for waste management; in Italy and France for energy services; and in the United States for transportation.

Profitability improved in 2006 with a 16.7% rise in recurring operating income to €2.1 billion at current exchange rates, due to the combined effect of increased business, the continued efforts to drive efficiency, and the increased maturity of contracts won in recent years. Cash flow from operations also rose by 8.9% to €3.8 billion (for cash flow before tax and interest on continuing activities).

Free cash flow before major new projects thus came to €901 million for 2006, versus €555 million for 2005. Net income per share rose 21.4% thanks to the combined impact of good operating results and tight control of borrowing costs.

This profitable growth looks to the long term, backed up by future-oriented programs in the areas of training and research and development. In 2006, for example, Veolia Environnement decided to further bolster its training policy by creating regional campuses in France. In research, the company reinforced its research programs aimed at optimizing and managing resources.

**Sustainable development can directly affect the credibility of the company's commercial efforts, either positively or negatively**

When considering whether or not to bring in an outside company to manage their services, municipal and industrial clients alike explicitly or implicitly expect those services to be better managed than they could do themselves. They look for improved economic efficiency, greater environmental expertise, and for sensitive management of the changes involved for their personnel. Moreover, both for public services and in the industrial sector, the arrival of a service provider that will be a long-term partner presupposes acceptance by the user community of the provider's role and of the way it performs that role.

Consequently, judgments by the outside world (rating agencies and ethical index managers, NGOs, the press and opinion leaders, and public opinion) are liable to have a direct and growing impact on our commercial credibility. The impact will be negative if our client sees a critical assessment of our performance at variance with our own claims to excellence. It will be positive if it confirms that our expertise, sense of responsibility and know-how differentiates us from our competitors.

As a result, the sustainable development rationale is an integral part of the process of convincing our clients. It is helping us gain insight into their demands and make them central to our operations.

**A long-term value creation lever for our businesses**

Sustainable development has a very concrete impact on the day-to-day life of our company, as local populations aspire to a better quality environment and expect greater responsiveness on our behalf to the needs of their communities. These aspirations, as expressed by local elected representatives, occupy an increasingly important place in urban administration.

Sustainable development also finds expression through the standards and proactive policies being enacted by the international community (e.g., the Kyoto Protocol and the Millennium Development Goals), the European Union (through its directives and the European carbon trading system), and at national and local levels.

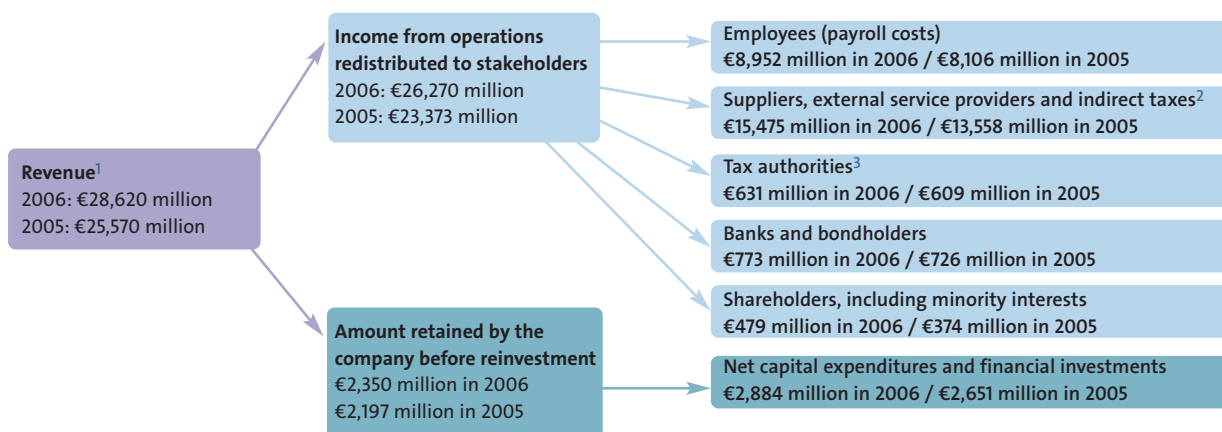
This situation puts constraints on Veolia Environnement but is also creating an increasing array of opportunities. For instance, it is rapidly expanding the scope of our services. In the water sector, for example, pressure on resources due to urban growth, rising industrial and agricultural pollution, and climate change, are all pushing Veolia Environnement to extend its sphere of operation from the small to the large water cycle. This implies developing services to protect resources and recharge groundwater, as well as new applications such as

wastewater reuse in industry and tapping alternative resources such as seawater desalination. In some cases, too, these factors have a profound impact on the profitability of existing activities. Take, for example, the development of alternative energy sources<sup>G</sup> and carbon capture: in waste management and energy services these are giving rise to new sources of revenue (energy recovery and carbon permits). We are now using these to offer our clients economically sound solutions that nevertheless comply with the toughest environmental standards.

We currently face a major, and very practical, challenge in adjusting our contractual structures and the basis of remuneration in each of our activities. The aim here is to gradually convince our clients to agree to pay us, on a fully informed basis, for the service they really require from us. Unlike in the past, we are no longer expected merely to supply a specified volume or basic service: increasingly clients expect us to supply expertise capable of directly affecting the conservation of scarce resources such as water and energy, and mitigating negative impacts on the environment and the climate.

**Income distribution among stakeholders<sup>G</sup> in 2006**

The chart below shows how income from our activities is distributed among our various stakeholders



<sup>1</sup> Revenue from ordinary activities.

<sup>2</sup> This data does not derive from our financial reporting system and has therefore not been verified by our auditors.

<sup>3</sup> Including indirect taxes estimated at €300 million. NB: The financial statements at December 31, 2005 have been restated for:

- application of the IFRIC12 interpretation about the accounting treatment of concessions;
- the amount of the revenue from ordinary activities of Veolia Transport in Denmark, booked in 2006 in compliance with the IFRS5 standard<sup>G</sup> and presented in the income statement under the "net income from discontinued operations" line for purposes of comparison between the two fiscal years.

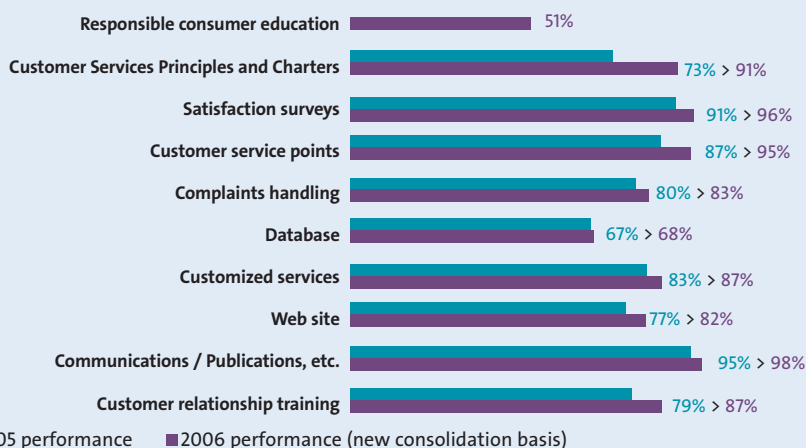
# Improving quality of service

A highlight of 2006 was the preparation of consumer charters in the water and transportation divisions. This process led to a rise in the “customer services principles and charters” indicator from 73% to 91%.

We now plan to draw up customer service standards for all four divisions, matching these standards as closely as possible to consumer concerns. We will be structuring them around a series of harmonized subject areas and procedures so as to be able to

deploy them and measure them continuously. Veolia’s goal in this area is not limited to individual customers—service commitments for local public authorities were drafted in 2006 and our currently being tested.

## Key customer satisfaction indicators



## A tenth indicator

Veolia Environnement’s commitment to education and the promotion of eco-citizenship has prompted the development of a specific indicator to monitor and measure its various initiatives. These include building children’s awareness of the environment, promoting water and energy conservation campaigns, encouraging the use of public transportation, and urging people to throw out less waste and to recycle more.

*See Customer reporting page 38.*

## Veolia Environnement’s commitments in three key areas

The Veolia Water Customer Charters and the Veolia Transport Passenger Charters served as a framework for identifying three priority customer satisfaction commitments. Veolia Water customer relations officers in 14 countries, along with Veolia Transport’s quality control staff and participants at the Veolia Energy (Dalkia) European marketing seminar on heating systems identified the following areas:

	More service	More information	More citizenship
Water	<ul style="list-style-type: none"> <li>• Simplify formalities</li> <li>• Keep appointments punctually</li> <li>• Lengthen opening hours at Customer Reception Points</li> <li>• Provide 24/7 response to technical emergencies</li> </ul>	<ul style="list-style-type: none"> <li>• Give advance notice in case of planned service interruptions</li> <li>• Inform users in case of exceptional incidents</li> <li>• Answer questions on water quality and wastewater treatment</li> <li>• Answer all questions concerning billing</li> <li>• Measure customer satisfaction and make results public</li> </ul>	<ul style="list-style-type: none"> <li>• Provide support to people experiencing hardship, and find solutions to avoid service cutoffs</li> <li>• Help customers monitor their consumption to avoid wastage</li> <li>• Educate consumers in respecting water and the environment</li> </ul>
Energy, Heating systems	<ul style="list-style-type: none"> <li>• Build a quality relationship</li> <li>• Simplify formalities</li> <li>• Develop procedures for dealing with technical emergencies and unforeseen events</li> <li>• Improve service basics</li> </ul>	<ul style="list-style-type: none"> <li>• Provide clear, precise and regular information</li> <li>• Promote constructive and open dialog</li> <li>• Measure customer satisfaction and circulate results</li> </ul>	<ul style="list-style-type: none"> <li>• Educate consumers in environmental issues and energy conservation</li> <li>• Provide support to people experiencing hardship, and find solutions to avoid service cutoffs</li> </ul>
Transportation	<ul style="list-style-type: none"> <li>• Keep to schedule</li> <li>• Ensure passengers have a comfortable and pleasant journey</li> <li>• Maintain safety standards</li> <li>• Keep vehicles and facilities clean</li> </ul>	<ul style="list-style-type: none"> <li>• Make information available</li> <li>• Listen to customers’ needs</li> <li>• Measure satisfaction in order to improve it</li> </ul>	<ul style="list-style-type: none"> <li>• Improve access to means of transportation</li> <li>• Respect the environment</li> </ul>



## What our customers are saying

To compare this commitment with consumers' expectations, in 2006 we took a close look at all the various channels by which we learn what our customers are saying. Means include consumer consultations, satisfaction surveys and analyzing complaints.

Veolia Water conducted an international consultation spanning five countries and interviewing 400 people in each. The aim was to assess consumer interest in the company's Charter of Commitments. An average of 87% of respondents said they took the Charter seriously (France 92%, China 77%). This survey yielded a more detailed picture of the standard of services consumers expect. In light of these findings we have set new deadlines for responding to e-mails and letters (24 hours for e-mails and one week for letters), as asked for by customers.

In transportation, international deployment of the Passenger Charter entailed harmonizing our satisfaction surveys. The nine KSI (Key Satisfaction Indicators) adopted in 2005 for France served as a basis for designing a standard Veolia

Transport satisfaction survey, which will facilitate comparisons between the different networks. This process was carried out in conjunction with Ipsos International, a polling firm, and is based on 30 questionnaires administered in four countries (France, USA, Ireland and Spain). Veolia Energy (Dalkia), meanwhile, continued to introduce satisfaction surveys into its operations in Eastern Europe in 2006. Six countries used the methodological guide issued in 2005.

Rigorous complaints handling is giving us deeper insight into the reasons for dissatisfaction, thus helping us to improve service accordingly. Veolia Water continued its efforts begun in 2005, with its Customer Relations departments in France and China overhauling the different reasons for complaints. Veolia Transport plans to use the lessons learnt from its experience in Boston to develop new procedures. Veolia Environmental Services now uses I-Oscar, an Intranet-based customer complaints management application deployed in six pilot agencies in France, to track all contacts, from the opening of a complaints file to its final closure. The six agencies will use the Intranet to identify areas for improvement in the services they provide.

### 2007-2008 objectives

#### Consumers

Transportation	Prepare around 10 new passenger charters in France, Germany and the USA
Water	Implement service commitments in 14 countries Harmonize complaints handling procedures in Customer Relations Departments in France
Energy services (Dalkia)	Validate the draft charter and deploy it in several Eastern European countries (including Romania and Slovakia)
Waste management	Deploy I-Oscar in France at sites concerned with municipal waste management services



## Best Practice

### How Veolia Transport handles complaints in Boston

Customer complaints are a useful pointer to potential improvements in our services.

However, they are also a sensitive political issue for public authorities. In the United States the authorities often opt to deal with complaints directly, thereby restricting the role of the private operator. In Boston, Veolia Transport's subsidiary MBCR, which operates 13 rail lines, convinced the transit authority to let it manage the entire complaints handling procedure. The aims were to reduce response times, and deal with complaints reliably and individually, thereby improving customer service.

The agreement with the transit authority is based on six key commitments implemented by MBCR since September 2006:

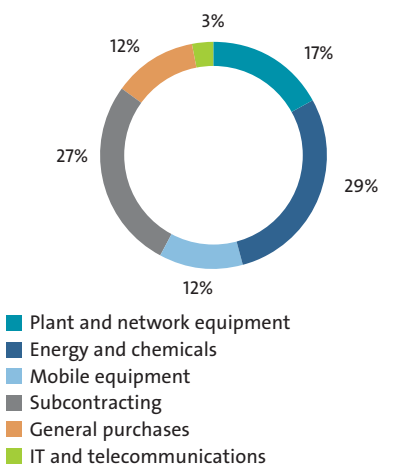
- set up a customer relations department reporting directly to the general management;
- recruit and train a specialist complaints handling team;
- develop a Web service allowing customers to register their complaints directly;
- establish performance indicators for responsiveness, accuracy and quality of responses;
- agree with the transit authority on service levels backed up by measurable objectives;
- deploy a procedure for dealing with recurring complaints.

The lessons from this experience will enable Veolia Transport to claim greater responsibility for customer service from transit authorities with added credibility.

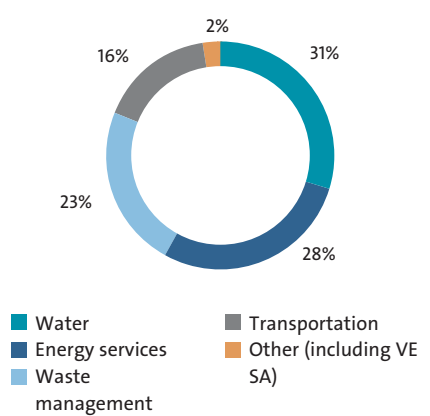
# Encouraging responsible procurement

By incorporating our sustainable development approach into our procurement process we are forging lasting relationships with our suppliers, improving the quality of our procurement, and managing our risks more effectively. The procurement network currently covers 26 countries and is constantly expanding. It now applies to 95% of Veolia Environnement's total purchases amounting to €11.7 billion in 2006. Cross-divisional procurement (involving more than one division) accounts for more than 50% of expenditures.

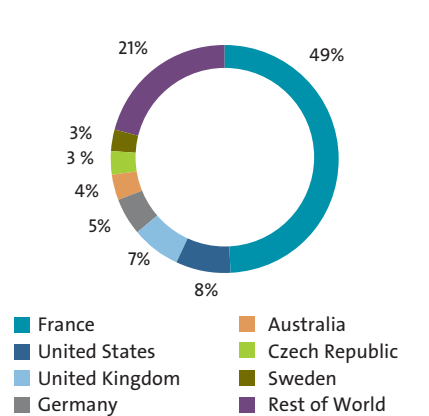
ANALYSIS OF VEOLIA ENVIRONNEMENT PROCUREMENT IN 2006



ANALYSIS OF PROCUREMENT BY DIVISION



ANALYSIS OF PROCUREMENT BY COUNTRY

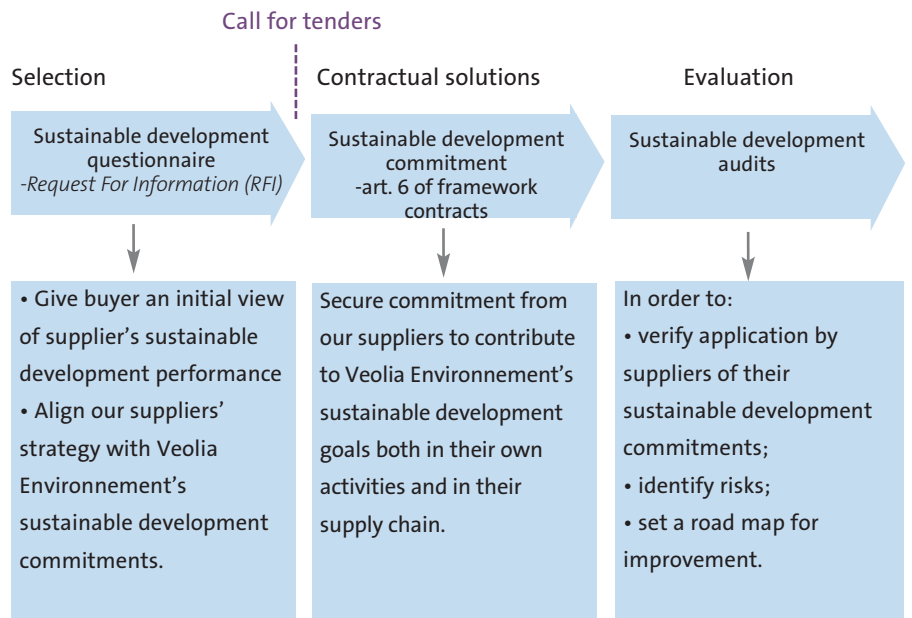


## 1 Sustainable development training for our buyers

Campus Veolia Environnement has provided procurement training for 216 buyers, procurement officers and managers from more than 20 countries since 2004. The Campus devotes a half-day to sustainable development issues during the course of this program. Special emphasis is given to identifying risks inherent in client-supplier relationships. The training module seeks to foster a supplier-centered approach, giving priority to procurement from firms committed to ISO 14001, EMAS and SA8000-type programs. These are the firms that have the capacity to supply us with more environmentally friendly goods and services produced in accordance with processes respecting basic human and labor rights.

## 2 Integrating sustainable development into the procurement process

Appropriate tools for selecting suppliers, formulating contractual relationships with them and evaluating their sustainable development performance are available at each step in the procurement process. This approach was formalized in the Veolia Environnement Procurement Charter in 2004.



### 3 Fostering responsible procurement

A working group consisting of the Sustainable Development Department, the Corporate Procurement Coordination Unit and the R&D Department of Veolia Transport measured the sustainable development performance of our light vehicle fleet in France. In 2006 our 25,500 vehicles covered more than 500 million kilometers and emitted nearly 80,000 metric tons of CO<sub>2</sub>. The main cost items were fuel, rental charges and the tax on company vehicles (now based on each vehicle's CO<sub>2</sub> emissions). Because vehicle-hire decisions entail a three–five year commitment, by opting for low-power vehicles we have been able to reduce our fuel consumption, CO<sub>2</sub> emissions, and our company vehicle tax liability. We expect to achieve savings of €2 million in France between now and 2009, while cutting our CO<sub>2</sub> emissions by around 8,000 metric tons.

The next step will be to extend this light vehicle fleet management approach to the rest of Europe. This will entail opening up our list of approved vehicle suppliers to new manufacturers, together with action to improve driver behavior in terms of safety and consumption.

In addition, Veolia Water's Procurement Department has embarked on a responsible procurement program, starting with its calls for tenders for chemicals, a strategic item of consumption for the firm. Sustainable development is therefore now a major parameter in the company's contracts, on a par with quality and technical specifications, personnel and equipment safety, and the general nature of the business proposition. Henceforward sustainable development criteria based on hard, quantifiable and measurable elements, will feature in all Veolia Water contracts.

### 4 Developing audits of our suppliers' sustainable development performance

For the third consecutive year, in 2006 Veolia Environnement commissioned independent agencies to audit its suppliers' sustainable development performance.



#### Best Practice

##### Auditing a UK supplier and its subcontractors

Veolia Environnement's UK procurement department has conducted a sustainable development audit of an approved supplier of work apparel to all three UK businesses, i.e., Veolia Water, Veolia Energy (Dalkia), and Veolia Environmental Services. Focusing mainly on the supply chain, the audit scrutinized two of the supplier's subcontractors. It found a satisfactory level of sustainable development maturity overall at the supplier. It also found room for improvement in working conditions—health and safety notably—at the audited subcontractors in Poland and China. Following up the audit, a road map was agreed between buyer and supplier to ensure that recommendations are properly applied.



#### Best Practice

##### Improving working conditions at subcontractors in developing countries

Veolia Water AMI's initiative in Morocco and Gabon launched in 2006 seeks to ensure its suppliers comply with international labor rules and legislation. The aim is not to penalize firms, but rather to institute a process of continuous improvement in respect of basic standards such as minimum social insurance, respecting the minimum legal working age, medical care and safety. A self-assessment questionnaire was sent to 81 firms representing more than 80% of our procurement, yielding a comprehensive view of social practices at our subcontractors. Initial findings are positive on the whole, although there is still room for improvement on certain criteria. Audits will be carried out in 2007 to verify the information provided, and briefings will be held aimed at putting this approach on a long-term basis.

# Contributing to decentralized development aid ventures

## 1 Financial sponsorship: the Veolia Environnement Corporate Foundation

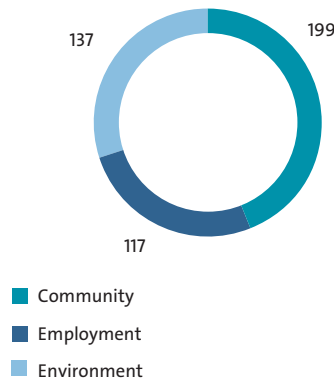
With an annual budget of €5 million, the Veolia Environnement Corporate Foundation was established in 2004 to support activities of interest to the public at large in the fields of work in the community, employment and the environment. Veolia Environnement employees are closely involved in the work of the Foundation and are encouraged to suggest and/or support projects close to their concerns. Each project supported is sponsored by an employee who plays a key role in planning it and overseeing its implementation. At the end of 2006 some 250 employees had already become sponsors and more than 1,000 have stated their interest in becoming involved.

Since its inception, the Foundation has helped create or safeguard 655 jobs; 1,286 households have received micro-loans to help set up a business; nearly 400,000 people have been connected to

water supply and wastewater service; and 48 environmental education programs have been created. The Foundation was awarded the 2006 “ADMICAL Oscar for corporate sponsorship,” for its long-term commitments, the originality of its approach, employee involvement, and the scale of the resources deployed.

The Foundation supported 179 projects in 2006, 92 of them outside France.

### BREAKDOWN OF THE 453 PROJECTS SUPPORTED BY THE FOUNDATION SINCE ITS INCEPTION



## 2 Donating skills and expertise

### Veolia Waterforce, our humanitarian and international development aid department

Veolia Waterforce was involved in six emergency humanitarian operations involving French and other volunteers in 2006, namely: Indonesia (earthquake in Java), Kenya (flooding in several countries in the Horn of Africa), Lebanon (armed conflict), Uganda (returning populations displaced by the conflict that began in 1986), Philippines (typhoon Reming), and Serbia (after flooding there).

### SPOTLIGHT: CONTRIBUTING TO THE “A BOAT FOR LEBANON” OPERATION

*Veolia Waterforce answered calls from its partners to assist civilians stranded by the war in Lebanon in summer 2006. The French Foreign Ministry organized an international relief operation titled “A boat for Lebanon” to ship French teams and equipment to the scene of the conflict. Veolia Waterforce was thus able to deploy more than 6 tons of specialized water equipment and conduct an onsite assessment of the situation, working with two French NGOs, “Première Urgence” and “Solidarités.” The water storage and distribution equipment installed served to supply 18,300 people in 32 villages in southern Lebanon.*



## Best Practice

### Protecting birds by helping people: the Osmosis project in Cambodia

Since 1999 Osmosis, a non-profit organization now supported by the Veolia Environnement Foundation, has been working to preserve the endangered river-lake of Tonlé Sap and its birds and develop the local economy. It has trained 25 villagers to become forest wardens, while others now guide tourists visiting the bird sanctuary. The plantation, comprising 48 floating vegetable gardens, supplies additional food and income. With the support of outside partners it is planned to step up the frequency of medical visits, train healthcare workers in the villages, provide additional water filtering equipment, and enroll an additional 100 or so children in school.

## Veolia Waterdev

In addition to its involvement in the organization of emergency relief for victims of natural disasters and armed conflicts, Veolia also contributes to development projects, providing support to French local authorities seeking to bolster their decentralized international aid capabilities.

### • Rehabilitating wells in Cameroon

Waterdev is assisting the French town of Dieppe in an aid venture with the community of Douala 2 in Cameroon. It conducted a survey of the rehabilitation of eight wells, including their safety fences, upgrading of electrical systems to comply with standards, protection of equipment, installation of chlorination units, etc. It also provided support in setting up committees to oversee the long-term functioning of the renovated production and distribution systems.

### • Mission to improve water quality in Hô Chi Minh City, Vietnam

At the request of the Association Internationale des Maires Francophones (international association of French-speaking mayors) and the city's People's Committee, Waterdev sent two volunteers to work with the national water company to solve the problem of cloudy, colored water encountered in the city's water supply system.

### • Evaluation and institutional support mission in Takéo, Cambodia

As part of the MIREP project being implemented by the Groupe de Recherche et d'Échanges Technologiques (research and technological exchange group), Waterdev has carried out two support missions to evaluate the capacity and functioning of technical systems put in place, and to study the organization of partnerships with local authorities and operators with a view to more effective involvement of local players on the ground.



## Best Practice

### Alliance for development

The French Foreign Ministry initiated a public-private partnership in 2006, with as its founder members the French Ministry of the Economy, Finance and Industry (MINEFI), the French Development Agency (AFD), the international Pasteur Institute network, Sanofi-Aventis and Veolia Environnement. The aim is to bring together French public and private organizations and top-level experts in their respective fields in order to implement aid programs in environmental improvement and health in developing countries. The three pilot countries are Madagascar, Niger and Vietnam.

## 3 Partnerships: supporting local development

Veolia Environnement continued to work closely with the main agencies of the United Nations in 2006, as it has since the Sustainable Development Summit in 2002, with special emphasis on access to essential services.

Two new partnerships were added in 2006 to the existing five with the United Nations Institute for Training and Research (UNITAR), UN-Habitat, the World Food Program (WFP), UNICEF and Unesco. The new partnerships have been formed with:

- the United Nations Environment Program (UNEP) to work on issues of responsible consumption of water resources and on integrated waste management;
- and the United Nations Food and Agriculture Organization (FAO), participating in the creation of a French Alliance against Hunger.

Veolia is the only private-sector company to have been co-opted by CITYNET, an Asia-Pacific network of local authorities. Now it has joined the new foundation established by the UN Global Compact to strengthen its activities.

The estimated budget for 2006 was €1.2 million, including €950,000 for direct costs, to which are added the activities of a network of 35 experts engaged in transferring their know-how.

Within the framework of its partnership with UNITAR, the company worked with the city of Tallinn (Estonia), which is about to join the CIFAL (International Training Centers for Local Authorities/Actors). This body organizes working sessions with local decision makers on optimizing the administration of city services. The CIFAL network organized 12 expert workshops in 2006, attended by 360 people from 30 cities with populations ranging from 100,000 to several million. This platform for practical training and exchanging expert knowledge addresses the needs of four priority regions—Asia, South America, Central Europe and Africa. This approach has received official backing from the WBI, the World Bank's training institute with which Veolia employees cooperate.

The solutions devised by Veolia teams in response to the challenges of urban growth earned it elevation to expert status with the UN-HABITAT agency in 2006. In addition, the partnership between Veolia Environmental Services and the Governorate of Alexandria for waste collection and treatment was awarded the Habitat Scroll of Honor in Naples in October 2006. This distinction, which rewards our development efforts in urban areas, was for "exemplary public-private collaboration." The citation also hailed the determination of Veolia Environmental Services to build solid partnerships aimed at improving living conditions for local communities.

## ➤ SOCIAL PERFORMANCE

# Gathering social data to steer our performance

**Up-to-date information on the work force is crucial to implementing a consistent human resources management process across all company divisions. Veolia Environnement relies on a worldwide network of nearly 500 correspondents in its divisions to collect, process and consolidate 150 human resources indicators.**

Ten improvement indicators have been used to give form to the emphatic policy guidelines issued by Veolia Environnement's senior management, shaping the efforts of each division to:

- reduce employee turnover;
- reduce absenteeism;
- treat safety in the workplace as a priority;
- reduce recourse to temporary labor (fixed-term contracts and temporary staff);
- develop vocational training and skills, in particular via alternating work-study programs.

In 2004 the company set ambitious targets for 2006, which were taken up by each division.

Two years later, Veolia Environnement's measured results have fallen short of the targets announced. This is accounted for by a number of factors:

- the improvement indicators were based on the company's French

operations. They are common to all of its entities, but are not always pertinent in some of the countries in which it operates (e.g., the possibility of alternating work and study, or the French-style fixed-term employment contract);

- the targets were framed with a view to creating a dynamic of continuous improvement in all divisions;
- the growth in the scope of consolidation between 2004 and 2006, reflecting acquisitions or the takeover of service operating contracts representing roughly 77,600 people. This change in Veolia Environnement's scope makes it hard both to interpret performance and to improve it: the new entities joining the company need time to adapt and have therefore affected its aggregate figures.

With a view to refining these improvement indicators for the guidance of human resources policy over the coming years, internal studies and surveys are now in progress, aimed at:

- tracking indicators for the past three years in order to observe trends over time;
- comparing data for Veolia Environnement and its entities with available information drawn from published statistics for the corresponding industrial sectors (in France initially);
- observing results by division and by country;

- gathering data and highlighting features specific to each activity or conditions peculiar to certain countries;
- defining areas for improvement over the coming years, adapting targets to each division and country where appropriate.

Initial findings from these surveys carried out at divisional and corporate levels yield some interesting conclusions, illustrating the great variety of situations within a company such as Veolia Environnement, with locations in 67 countries. We found, for example, that:

- staff turnover depends to a large extent on the flexibility and state of the local job market (turnover is 20% higher in Norway, for example, than in the United States). In France, Veolia Environnement is close to its target and the company distinctly outperforms other firms in its market;
- as a general rule there is an apparent correlation between the level of social protection in each country and the observed rate of absenteeism, with substantial divergences between Europe and North America;
- while the target for reducing accident frequency has been achieved overall, weaknesses remain in a handful of countries or companies, and audits and action plans have already been put in hand, notably in South America;
- the improving trend in accident severity rates is positive, but there are

still perceptible performance inequalities between countries and divisions (aggravating factors include physical hardship and work on the public highway or outside sites);

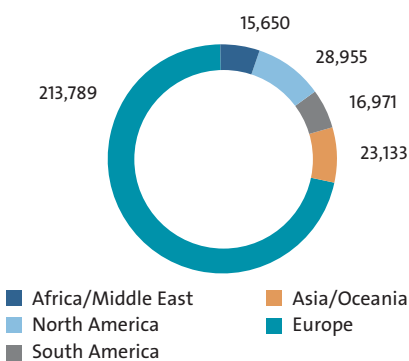
- employment on fixed-term contracts is common in projects of limited duration and in certain countries for environmental services activities (for example in China, Japan and Egypt, where labor is hired for the duration of a project even though company policy seeks to retain its personnel);
- the use of temporary staff varies widely from one division and country to another, and is sensitive to the state of the country's economy. Logically, this practice is more widely used as an adjustment variable in companies with a small work force;
- recourse to overtime also depends on the business and the country concerned (with a significant impact on seasonal activities or in countries that do not utilize fixed-term contracts);

- recognition and the practice of alternating work-study mechanisms are far from universal, but they are becoming more widespread thanks to the efforts of European countries, France and Germany notably.

These studies will continue in 2007 with a view to refining our diagnosis and method of evaluating and managing social performance over time. The method needs to be based on a common set of improvement indicators and objectives. These must in turn be adapted to the specific conditions of each business and to local practices, legislation, regulations, social protection, etc. in each country.

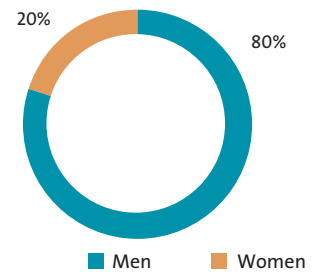
## Analysis of work force at December 31, 2006

### BREAKDOWN OF WORK FORCE BY REGION



The work force at December 31, 2006 totaled 298,498, an increase of 10.1% relative to 2005. Two-thirds of the work force is employed outside France. As a region, Europe was the biggest contributor (12.7%) to growth in the company's work force. The Asia/Oceania region work force grew by more than 33% between 2005 and 2006.

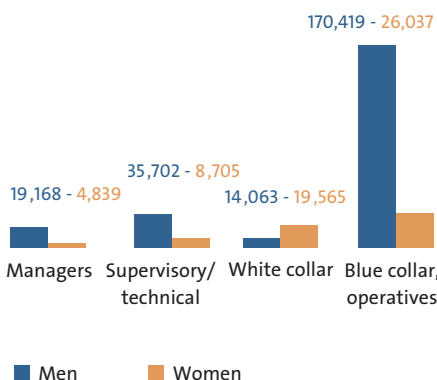
### BREAKDOWN OF WORK FORCE BY GENDER



To refine our understanding of Veolia's work force our social reporting for 2006 includes an analysis of the work force by professional grade.

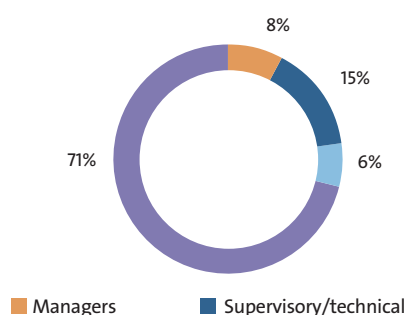
#### NEW INDICATOR IN 2006

### BREAKDOWN OF WORK FORCE BY PROFESSIONAL GRADE



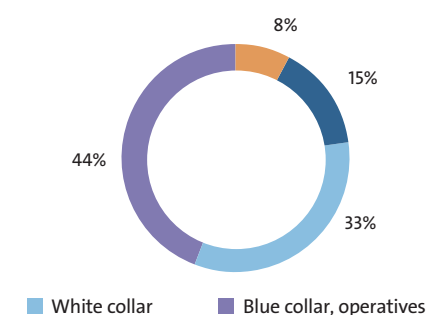
#### NEW INDICATOR IN 2006

### BREAKDOWN OF MALE WORK FORCE BY PROFESSIONAL GRADE



#### NEW INDICATOR IN 2006

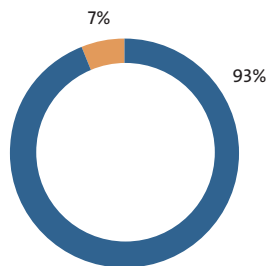
### BREAKDOWN OF FEMALE WORK FORCE BY PROFESSIONAL GRADE



## Managing human resources

### Permanent jobs and recourse to temporary labor

#### BREAKDOWN OF WORK FORCE (FULL-TIME EQUIVALENT) BY TYPE OF CONTRACT



The company provides permanent jobs (on unlimited-term contracts) to 93% of its employees (unchanged from 2005)

- Employees on fixed-term contracts
- Employees on unlimited-term contracts

#### IMPROVEMENT INDICATOR

#### RECOURSE TO TEMPORARY EMPLOYEES



Recourse to temporary employees depends mainly on variations in the workload and replacement of unforeseen absences.

### Detailed breakdown of employment at Veolia Environnement

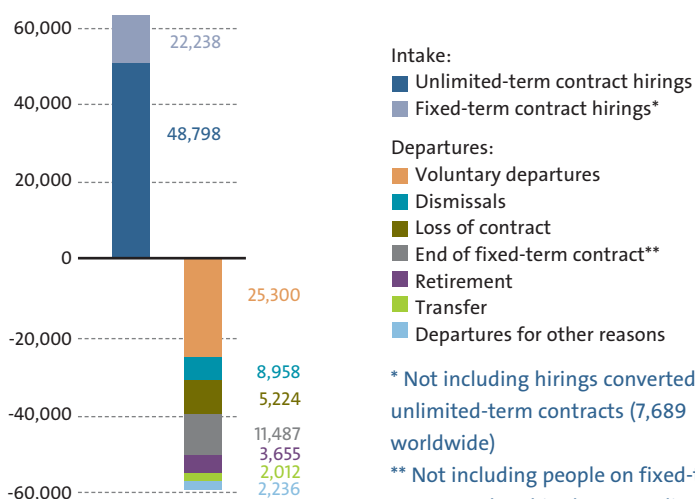
#### NET JOB CREATION\*



\*Net job creation is obtained by comparing work force changes from one year to the next, excluding changes in the consolidation scope.

With net global job creation of 7% in 2006, Veolia is contributing to growth in employment in the countries where it operates. It hired 71,036 people around the world in 2006, 68.7% of them on unlimited-term contracts.

#### SUMMARY OF HIRINGS AND DEPARTURES WORLDWIDE IN 2006



#### Intake:

- Unlimited-term contract hirings
- Fixed-term contract hirings\*

#### Departures:

- Voluntary departures
- Dismissals
- Loss of contract
- End of fixed-term contract\*\*
- Retirement
- Transfer
- Departures for other reasons

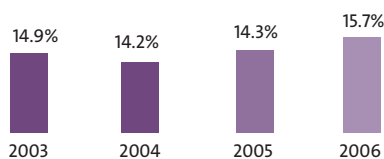
\* Not including hirings converted into unlimited-term contracts (7,689 worldwide)

\*\* Not including people on fixed-term contracts then hired on an unlimited-term contract

### Employment indicators tracked closely since 2003

#### IMPROVEMENT INDICATOR

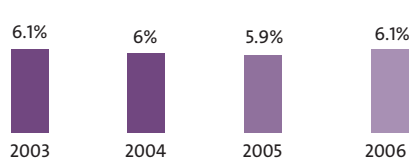
#### TURNOVER OF PERSONNEL ON UNLIMITED-TERM CONTRACTS



Voluntary departures significantly impact the turnover rate. They are mainly accounted for by upturns in economic activity and departures by people retiring.

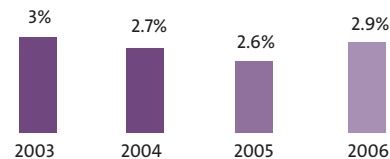
#### IMPROVEMENT INDICATOR

#### RESIGNATIONS



#### IMPROVEMENT INDICATOR

#### DISMISSALS

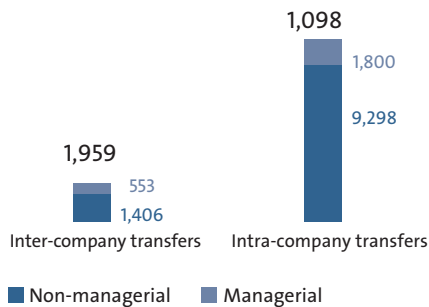


The rate for dismissals is relatively stable but may be affected in specific instances by the reorganization of an entity.

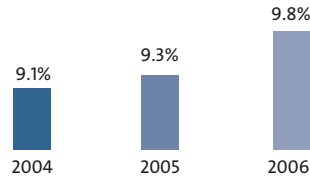


## Skills management and development

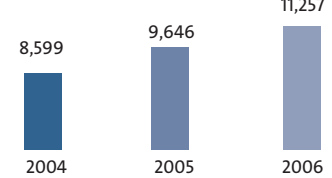
NUMBER OF JOB TRANSFERS IN 2006



MANAGERIAL GRADE TRANSFER RATE (%)

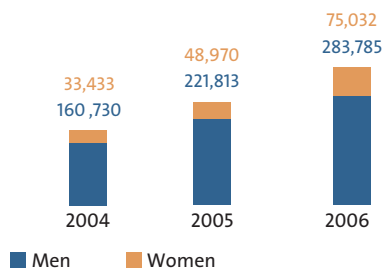


NUMBER OF PROMOTIONS\*



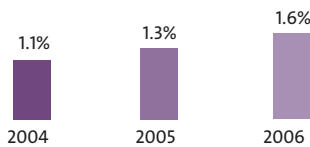
\*Job changes leading to a higher grade in the year

NUMBER OF EMPLOYEES RECEIVING TRAINING



IMPROVEMENT INDICATOR

PERCENTAGE OF EMPLOYEES IN WORK-STUDY PROGRAMS



The company continues to promote work-study training programs while realizing that much depends on the educational system and legislation in each country.

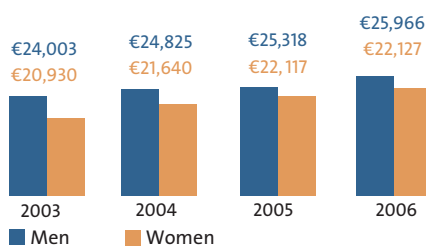
## Compensation, employee benefits and social protection

RATIO OF VEOLIA ENVIRONNEMENT AVERAGE COMPENSATION TO LEGAL MINIMUM WAGE



This ratio yields a more accurate evaluation of compensation levels relative to guaranteed or prevailing minimum wages in each country and, consequently, relative to the minimum earnings of employees in those countries. The ratio was close to 2.3 in 2005 and 2.2 in 2006 in the 18 countries studied where a legal minimum wage applies and where two-thirds of company employees work (the weighted minimum annual pay of €26,566 is equal to 2.2 times the average legal minimum wage, i.e., €12,008, in these countries).

AVERAGE ANNUAL GROSS COMPENSATION BY GENDER SINCE 2003



The gap in compensation between men and women in 2006 was €3,839 (14.8%). It stems primarily from differences in age and seniority, and from the type of jobs performed. NB: according to Eurostat, the European Commission statistics body, the gap between all professional categories combined is 24%.

### Employee stock purchase plans

Veolia Environnement organized a further share capital increase reserved for employees in 2006, pursuing its policy of promoting employee share ownership. The operation concerned 20 countries, and 28,547 employees out of 162,415 eligible (17.6%) subscribed to the increase.

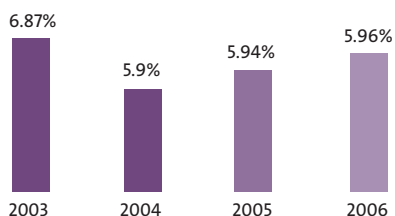
At present 47,363 employees own shares in Veolia, holding 1.41% of the company's share capital between them.

## Length and organization of work time

Work-time organization indicators tracked closely since 2003

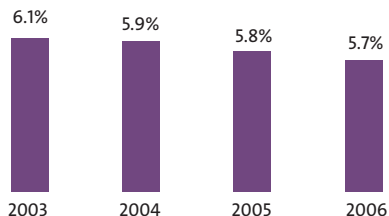
### IMPROVEMENT INDICATOR

PERCENTAGE OF FULL-TIME EQUIVALENT FIXED-TERM CONTRACTS



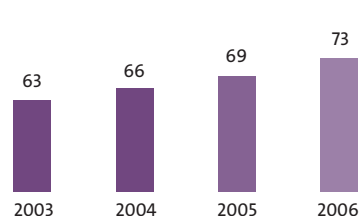
### IMPROVEMENT INDICATOR

ABSENTEEISM RATE



### IMPROVEMENT INDICATOR

AVERAGE ANNUAL NUMBER OF OVERTIME HOURS WORKED

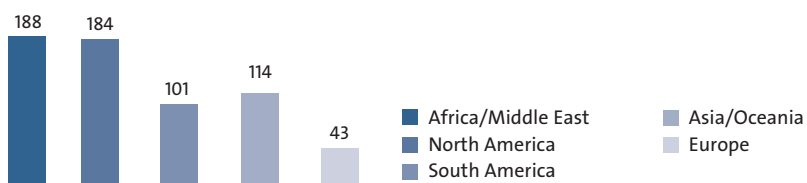


In light of the results of the 2006 social reporting exercise, Veolia Environnement decided to investigate local conditions with respect to the administration and organization of work time. A number of studies and surveys were carried out across the company worldwide. Its geographical diversity calls for detailed study of local conditions for field workers.

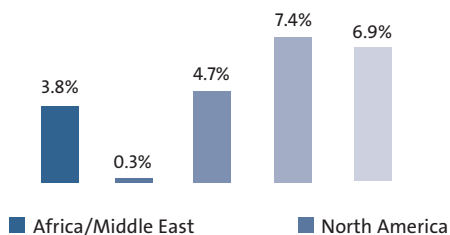
### Work time organization varies from one geographic region to another

A closer look at work time organization by geographic region reveals the variety of ways in which work time is used as an adjustment variable across the company and around the world. Setting improvement indicators is thus a very complex task calling for a high degree of refinement.

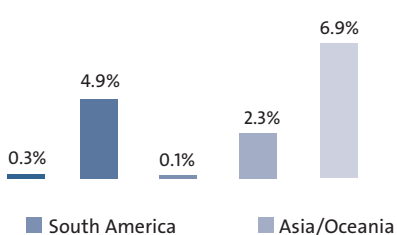
AVERAGE NUMBER OF OVERTIME HOURS WORKED PER EMPLOYEE IN 2006 AND BY GEOGRAPHIC REGION



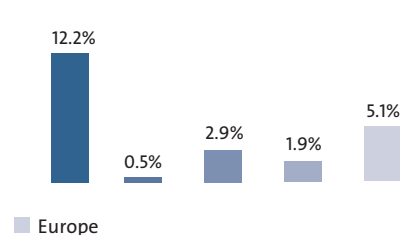
PERCENTAGE OF FIXED-TERM CONTRACTS BY REGION IN 2006



PERCENTAGE OF PART-TIME EMPLOYEES BY REGION IN 2006

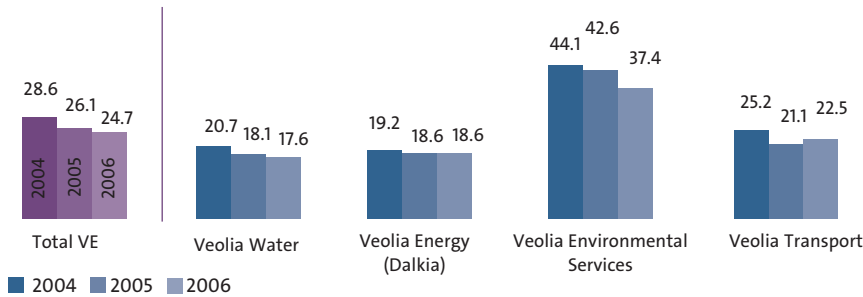


PERCENTAGE OF TEMPORARY EMPLOYEES BY REGION IN 2006



## Safeguarding our employees' health and safety

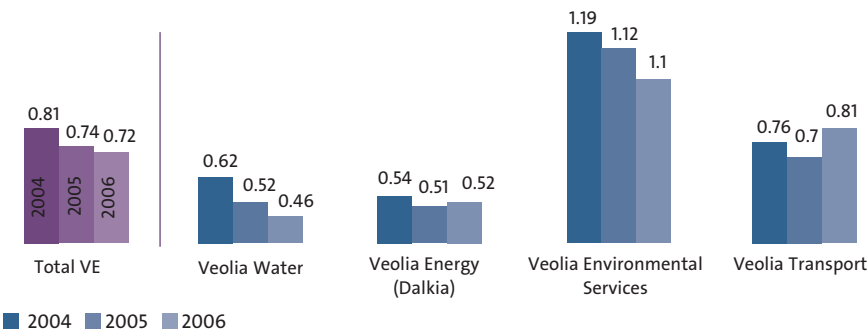
### FREQUENCY RATE OF ACCIDENTS AT WORK



Frequency rate measures the number of accidents at work per million hours worked.

In 2004 Veolia Environnement set ambitious targets for 2006, especially concerning health and safety, namely an accident frequency rate of 25 and an accident severity rate of 0.67. Although these targets were only partially met, they have nevertheless set in motion a process of improvement in terms of accident frequency and severity across the company.

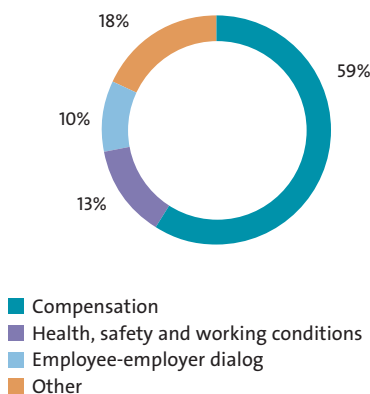
### SEVERITY RATE OF ACCIDENTS AT WORK



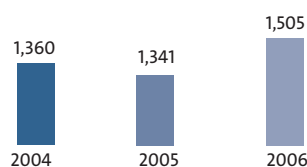
Severity rate measures the number of days lost per thousand hours worked.

## Promoting employee-employer dialog

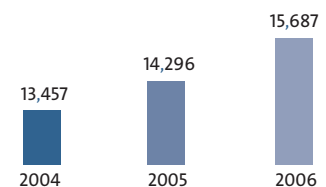
### ANALYSIS OF COLLECTIVE AGREEMENTS BY SUBJECT IN 2006



### NUMBER OF COLLECTIVE AGREEMENTS SIGNED IN 2006



### NUMBER OF EMPLOYEE REPRESENTATIVES



With 15,687 employee representatives and 1,505 collective agreements signed in 2006, Veolia Environnement organizes employee-employer dialog at every level throughout the company. Having set up the French Works Council in 2003, an agreement was signed in October 2005 leading to the establishment of a European Works Council bringing together employee representatives from 21 European countries and covering 77% of the company's total work force.

# Practicing employee-employer dialog and human resources development

## ① Establishing employee-employer dialog from the moment of transfer and integration of personnel

Veolia Environnement's highly individual business and contractual model has given rise to a corpus of specific expertise within the company. In particular "human resources development" is now an established area of Veolia expertise and gives it a key differentiating advantage over its competitors. For public authority and industrial contracts alike, recourse to Veolia Environnement's services entails a substantial human resources component whenever the environmental services to be managed already exist and are labor intensive.

The challenge then is to take over and incorporate existing personnel, to frame a new business plan based on Veolia's corporate values, and to convince these employees to buy into it. Most such cases entail transforming a public-sector structure into a private-sector one. This applies not only to the organization's legal structure; it also concerns training, capitalizing on existing know-how, transferring skills, as well as compensation and employee benefits.

Each integration process is a one-off project, the process of change management being governed by clear rules laid down by Veolia, namely to:

- initiate a confidence-building process around a shared vision of a credible, inspiring future;
- respect the autonomy and responsibility of all local teams;
- incorporate the management team and mobilize all members of personnel in formulating and implementing a business plan, and nurturing a sense of team spirit;
- supply newly incorporated employees with everything they require in training, networking and skills sharing;
- forge a common culture reconciling economic efficiency with concern for employee welfare;
- demonstrate visible results in the short term and generate a long-term dynamic;
- emphasize safety and working conditions;
- respect existing commitments to employees, adding benefits linked to membership of Veolia where appropriate.

## ② Fostering employee-employer dialog throughout the company

In the municipal services sector, employee-employer dialog is grounded in the business units. This is where employees and employers, the "social partners," are best placed to fashion appropriate responses in the areas of work organization and conditions, skills development, and individualized compensation. But at the same time Veolia Environnement needs to be able to apply its human resources policy in all of the countries in which it operates.

The traditional, company-centered, negotiating forum has been expanded in recent years. First came the creation of a national level framework for employee-employer dialog with setting up of the French Works Council in 2003. This was followed in 2005 with the creation of a European Works Council bringing together personnel representatives from 21 countries. The EWC met for the first time in September 2006, laying the groundwork for a transnational approach to social diversity within the company, and initiating an employee-employer consultation procedure enriched by experience from all over Europe.



# Training our employees and developing their skills

## Campus Veolia Environnement: the centerpiece of our training system

The Campus plays a pivotal role in developing our common skillsets, assembling the training departments for all Veolia divisions in one place. It now plays a leading role in bringing together people of different backgrounds and cultures, and in organizing events. As a showcase for Veolia technologies, it also stands at the heart of our global training network.

## Initial and continuous training programs to develop marketable skills

Veolia Campus builds its training courses around the company's continuous training needs, covering the entire spectrum of environmental services management skills. A total of 17,300 people attended courses at the Campus in 2006.

The Campus programs meet the company's initial training needs. Designed to enable young people to find their place in the company, this initial training prepares them for a variety of vocational qualifications through alternating work and study, from basic vocational qualifications to university graduate level. The Apprenticeship Training Center, for instance, offers classes preparing for diplomas in 15 different subjects, and 94% of the apprentices pass their exams. Further along, the Campus prepares students for degrees at Bachelor, Master and doctoral levels.

## An international network of centers and trusted partners

Veolia runs 14 training centers around the world, four of which cater to the needs of all four divisions. In addition the Campus has established more than 30 academic partnerships with institutions of higher education and research laboratories in France and elsewhere in the world.

## An overriding ambition: training and professional skills development

Against a background of continuous change in its businesses, the company has tasked Veolia Campus with orchestrating its training policy aimed at developing its employees' skills. The principles underpinning this policy are:

- developing the professional skills of Veolia employees in their respective businesses and contexts, and explaining their expertise to clients;
- organizing the transmission of know-how;
- supporting the company's policy of job mobility and careers development;

- bolstering our corporate culture around the environmental services business, leveraging all possible synergies in order to generate greater value-added for our clients and greater solidarity.

## Deploying the agreement on vocational skills development and training

A main focus of attention in Veolia Environnement's French companies in 2006 was the deployment of the agreement on vocational skills development and training, signed with the trade unions on October 4, 2004.

Veolia Water concentrated on a central agreement emphasizing professional development in the course of a person's career and improving qualifications among disadvantaged employees. Veolia Energy (Dalkia), meanwhile, sought to put in place a mentoring system in the wake of the agreement signed with employee representatives. At Veolia Environmental Services, some 20 or so decentralized agreements were signed covering a range of topics including the construction of career tracks, annual interviews, mentoring, learning basic skills, and the development of safety-related competencies.

Veolia Transport has set up task forces to analyze the age structure of the work force and staff turnover.

## CONTINUING THE "VEOLIA COMPÉTENCES" PROGRAM

*Veolia Environnement launched a recruiting drive in France in 2005 offering new recruits an opportunity to advance their vocational skills. "Veolia Compétences" seeks to provide training for future company employees regardless of their age and initial educational background. Outside applicants on apprenticeship or professional development contracts attend alternating work-study programs. On receiving their diploma they are offered unlimited-term contracts. This campaign is open to internal applicants also. They are offered contracts designed to develop their skills or professional development programs to allow them to qualify for the company's job mobility policy. Working closely with national partners, including the ANPE job agency, AFPA (the vocational training agency), the Ministry of Education and its lifelong learning network (GRETA), Veolia Compétences recruited 4,879 people in 2006 and plans to recruit 8,000 in 2007. The approach is designed to further the company's equal opportunity and diversity policies.*

# Protecting the health and safety of our employees

## 1 Safeguarding our employees' physical wellbeing

Veolia Environnement employees frequently work on the public highway or on other outside sites in potentially hazardous conditions. Some of the tasks they perform, moreover, are physically taxing and are liable to cause health problems. All Veolia divisions have put in place preventive policies to cope with these risks, and accident frequency and severity indicators are an integral part of operational management procedures in each company.

In addition to improving safety systems and individual equipment, the company has formulated a series of priority measures, including:

- identifying and evaluating risks in order to prevent them, consistent with our approach since 2002. For example, Veolia Energy (Dalkia) is working on measures to deal with *Legionella* risk and eliminate asbestos from installations;
- informing and training our employees in order to prevent accidents in the workplace. One example was an

international awareness-building day held at Veolia Environmental Services. A quarter of our training programs concern health and safety;

- reinforcing the safety officers' network and promoting employee-employer dialog on health and safety in the 2,634 bodies that deal with these issues;
- providing support to industrial accident victims, both when absent on sick leave and when they resume work;
- deploying a health and occupational safety management system, on a case-by-case basis, based on the international OHSAS 18001 standard;
- ensuring employees' safety and security when traveling on business in high-risk countries. A "security crisis" unit has been established for this purpose.

## 2 Protecting our employees' health

Veolia Environnement initiated a worldwide preventive campaign embracing all Veolia divisions in 2006, to promote health in the workplace. The international "Hygiene for my Health" awareness campaign to encourage hand washing is urging employees to take

responsibility for their own health and explaining the risks of the spread of infectious diseases.

A variety of informational materials on the need for hand washing have been circulated in countries where Veolia operates, along with promotional events involving employees themselves. It is planned to evaluate the campaign and its results in 2007. Meanwhile, as a sign of recognition by health professionals, the campaign won the 2006 "Trophée Forme & Santé" (fitness and health award) for best health-education communication.

It is an integral part of our business to maintain continuity of service in all circumstances, and foresee and anticipate new health risks in order to protect the health and safety of employees and the populations we serve. This capacity to anticipate and respond to health risks relies on an extensive array of crisis management systems, deployed at every level throughout our organization. Veolia has been making use of these systems since May 2005 to prepare for an avian flu outbreak, should one occur (*see page 46*).

### SPOTLIGHT: FIGHTING HIV/AIDS

*A variety of practical programs are designed to protect the health of our employees. Veolia is a member of the Global Business Coalition on HIV/AIDS (GBC) and is engaged in a major prevention and treatment campaign in Gabon, in a partnership with Institut Pasteur. The HIV/AIDS campaign, aimed at employees and their families—10,000 people in all—was launched in 2004 by Société d'Eau et d'Électricité du Gabon (SEEG), a subsidiary of Veolia Water, and was subject to an outside audit in 2006.*

*The program comprises training for 120 peer educators, information, education and communication campaigns, easier access to screening, and healthcare coverage for employees and their dependents. The audit noted in particular the quality of management's involvement, of the training provided by the educators and of their action in general. Initial results include a major jump in the number of people coming forward spontaneously for screening. The review also identified areas for improvement in 2007.*

*The campaign has been extended to the communities in which Veolia employees live. The Veolia Environnement Foundation has provided support to the Gabonese non-profit organization "Sida Zéro" for the construction of a dispensary in the eastern suburbs of Libreville to provide medical and psychosocial care for the sick.*

# Promoting diversity

## Equal opportunity

Veolia's social responsibilities include a drive to assist unskilled young people, the long-term unemployed and people experiencing hardship to find work. We also pay close attention to the needs of the over-50s. For example, the Veolia Compétences program has helped find work for people from disadvantaged backgrounds. Indeed, according to the satisfaction survey conducted on people hired, of 50% of respondents among those recruited from outside the company, 22% had never worked and 28% had been unemployed. Other initiatives have focused on finding work for the disabled and helping them to stay in work. In France, for example, Veolia Water signed a *Handicap et vie professionnelle* (handicap and work) agreement with employee representatives in 2006. Also, Rénosol, a subsidiary of Veolia Environmental Services, has formed a partnership with AGEFIPH, a French non-profit organization that helps disabled people to find employment; this is expected to lead to the signature of a companywide agreement in 2007. In Australia, the United Water subsidiary formed a partnership with Phoenix Society, an NGO, to employ mentally and physically handicapped people to refurbish and test water meter valve assemblies.

Promoting gender equality is a priority at Veolia Environnement. However, allowance needs to be made for the physical hardship many of our activities entail, notably for truck

drivers, waste collectors, wastewater system workers, and the like. This explains why Veolia Environnement employs a smaller proportion of women in these activities (19% worldwide, 20% in France). On the other hand women account for more than half of employees in cross-divisional and administrative functions.

## Combating discrimination

Veolia Environnement's work force displays a very high degree of cultural, economic and social diversity. The company adapts to local conditions in each of the 67 countries in which it operates and fosters local hiring. It transfers the management of companies to local executives at the earliest opportunity. As a result, there are just 622 expatriate managers (two-thirds of them French) out of a total 11,510 international executives in the company.

Veolia Environnement will be conducting a survey and review in 2007 of the principles it wishes to uphold in terms of diversity wherever

it operates. This exercise, to be carried out by the Social Observatory and the Sustainable Development Department, is expected to bring together a wide range of stakeholders<sup>G</sup> (senior executives, the HR department, operating staff, employee representatives, the Ethics Committee, experts, clients, users, and so forth) with a view to promoting awareness of this issue and to forging a common language and diagnosis. The goal is to ensure that each local Veolia entity reflects the make-up of the society within which it operates.

The company plans to deploy a full-scale diversity management system in the coming years. Looking beyond the consultative phase, this will involve target-setting and formulating an action plan drawing on the full array of HR policy tools (including recruitment, training, careers management, team management, etc.). It will also comprise a sustained communication plan aimed at diffusing the various objectives as widely as possible, annual appraisal, and a series of social reporting indicators to evaluate actual practices.



## Best Practice

### Literacy campaign at Veolia Environnement in Morocco

Veolia launched a literacy campaign in Morocco in 2002, and since 2003 some 276 employees have attended classes in reading, writing and arithmetic over an extended period. The project's main focus is on hygiene, safety, quality and working conditions and it seeks to provide employees with the skills they need to qualify for training with the Institut Français du Nord. This program, at a cost of €150,000, was merged in 2005 with the "Companywide Literacy" project within Campus Veolia Environnement Morocco. It won the award for corporate cultural diversity by the France-North Africa Convention.

# Respecting human rights

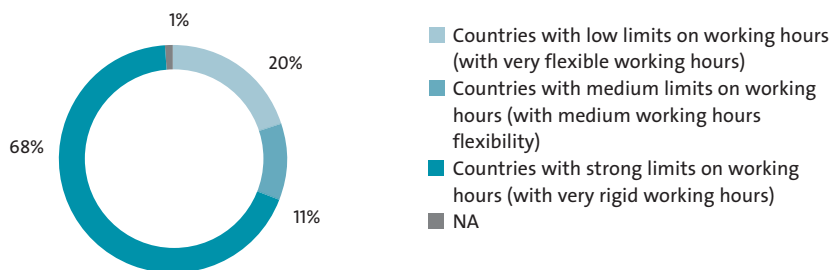
Veolia Environnement is determined to discharge its responsibilities regarding its employees' basic labor rights in all its subsidiaries. These two pages present the diversity of situations in which we operate for each of the labor rights-related issues, and illustrate by means of indicators how we are responding to them in each particular context.

## Organization of employment and working hours

### Challenges and action plan:

Veolia Environnement's working hours are everywhere compliant with national legal limits. Recourse to overtime depends on local practices in each country and on specific conditions in each activity.

BREAKDOWN OF 2006 VEOLIA ENVIRONNEMENT WORK FORCE by legal limits on working hours



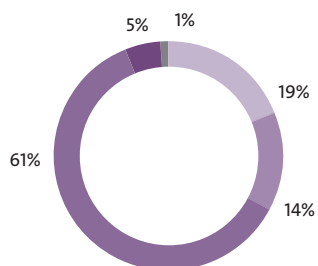
Source: World Bank, 2005 data

Percentage of Veolia Environnement work force covered by World Bank survey: 89.6%.

### Challenges and action plan:

There were a total of 394 redundancies, down 31% relative to 2005.

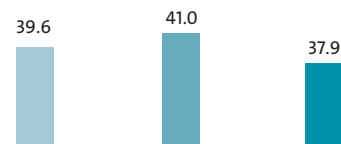
BREAKDOWN OF 2006 VEOLIA ENVIRONNEMENT WORK FORCE by level of protection against dismissals and redundancies



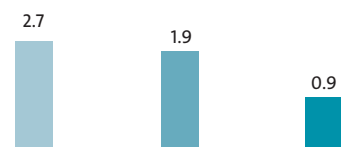
Percentage of Veolia Environnement work force covered by World Bank survey: 89.6%

See page 68 for further detail of social performance in terms of employment.

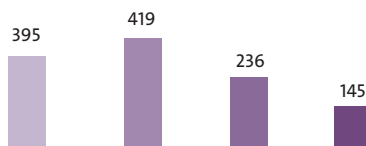
WEEKLY WORKING HOURS



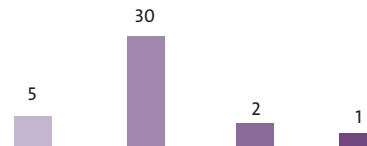
NUMBER OF OVERTIME HOURS WORKED PER EMPLOYEE AND PER WEEK



NUMBER OF DISMISSALS PER 10,000 EMPLOYEES



NUMBER OF REDUNDANCIES PER 10,000 EMPLOYEES



- Countries with very low protection against dismissals and redundancies
- Countries with low protection against dismissals and redundancies
- Countries with medium protection against dismissals and redundancies
- Countries with strong protection against dismissals and redundancies
- NA

Source: World Bank, 2005 data

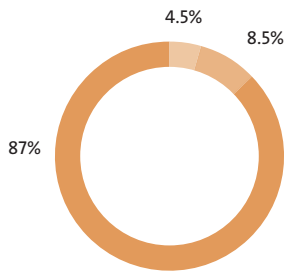


## Skills development

### Challenges and action plan

Apart from safety, training topics vary according to each country's level of education. Where this is low, priority is given to training in basic skills (reading, writing and arithmetic).

#### ANALYSIS OF VEOLIA ENVIRONNEMENT WORK FORCE by level of education



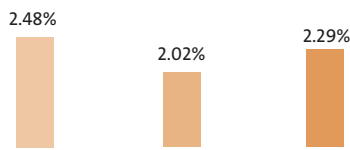
Veolia Environnement work force covered by UNESCO survey: 90.1%.

■ Countries with low level of education ■ Countries with medium level of education ■ Countries with high level of education

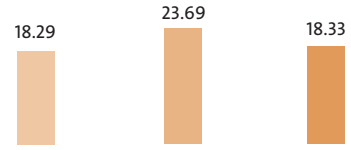
Source: Unesco, 2005 data  
See page 69 for additional data on training and skills development.

Women and men are Veolia Environnement's paramount asset, and the company's sustained growth depends on their scope to find fulfillment throughout their careers. All employees thus enjoy opportunities to develop their skills within the company regardless of their origin and seniority.

#### SHARE OF TRAINING EXPENDITURES AS PERCENTAGE OF PAYROLL COSTS



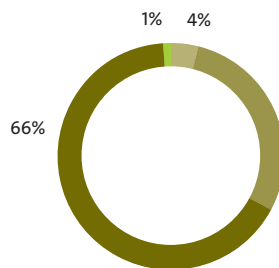
#### NUMBER OF HOURS TRAINING RELATIVE TO WORK FORCE



## Gender equality

Over the past decade the issue of diversity has become a priority for Veolia Environnement, both through cross-divisional actions and at the initiative of each division. At the end of 2006 Veolia Environnement's senior management mandated an internal study to arrive at a common diagnosis of representation and practices.

#### BREAKDOWN OF VEOLIA ENVIRONNEMENT WORK FORCE by level of women's representation compared with the total working population



■ Countries with low women's representation  
■ Countries with medium women's representation  
■ Countries with strong women's representation  
■ NA

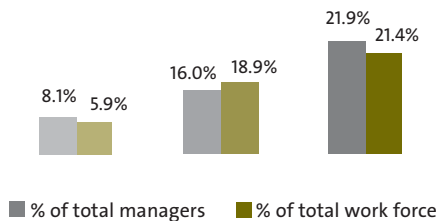
Source: World Bank, 2005 data

Percentage of Veolia Environnement work force covered by World Bank survey: 89.3%

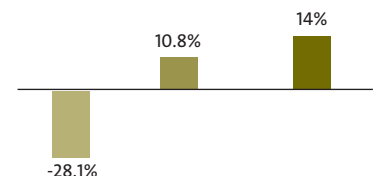
### Challenges and action plan:

Efforts to promote gender equality must make allowance for the physical exertion many of our jobs entail (truck drivers, waste collectors, wastewater system workers, etc.). While Veolia employs fewer women (20% worldwide), the disparity between men and women is steadily narrowing in terms of total work force, with a 12.5% growth rate in the proportion of women versus 9.5% for men. Women now represent more than half of total staff in cross-divisional functions and administrative departments.

#### WOMEN MANAGERS AS PERCENTAGE OF TOTAL MANAGERS AND TOTAL WORK FORCE



#### GAP IN REMUNERATION BETWEEN MEN AND WOMEN



In countries where Veolia Environnement is present and where there is a low level of women's representation in the total working population, the gap in remuneration between men and women is 28.1% in favor of women. This is because women in these countries tend to occupy administrative positions, whereas the great majority of men are blue-collar field workers.

See page 75 for additional data on diversity and combating discrimination.

## ENVIRONMENTAL PERFORMANCE

### Managing our environmental performance

The Environmental Management System (EMS) is the means by which the company implements its policies in the areas of environment and public health. The EMS is applied to all its businesses, and is structured around three levels of responsibilities (company, divisions and business units). It enables the company to measure and mitigate the impact of its activities on the environment.

At the end of 2006, discussions were entered into with a view to creating a

Quality, Safety and Environment (QSE) department. As a part of the Research division, its main role will be to coordinate deployment of the EMS and the implementation of action plans in the 218 Business Units.

The main actions will be to:

- put in place a team of independent internal auditors certified by IFACI (the French audit and internal control institute) to strengthen the company's capacity to comply with requirements that apply to all its

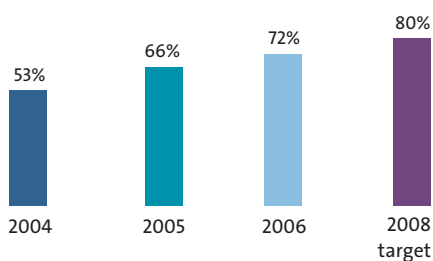
Priority Facilities;

- bring the Environmental Information System (EIS) into widespread use in order to optimize the indicator reporting process and the exploitation of environmental data.

In 2007 the company's aims are to:

- deploy an EMS in 80% of relevant activities by the end of 2008;
- carry out environmental audits in 100% of its priority facilities by the end of 2008.

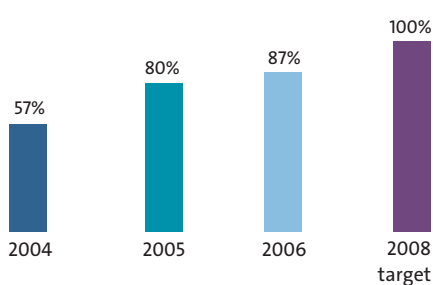
#### PERCENTAGE OF RELEVANT REVENUE COVERED BY AN EMS (INCLUDING ISO 14001 CERTIFIED FACILITIES)



In 2006 deployment of the EMS resulted in a significant increase in ISO 14001 certifications, many of which were for sites that made use of the company's internal procedure, thus confirming the positive effect of this procedure to obtain external certification.

The EMS deployment rate rose by 6 percentage points in 2006 and was in line with our target of 80% for the end of 2008.

#### PERCENTAGE OF PRIORITY FACILITIES AUDITED (CUMULATIVE SINCE JANUARY 1, 2002)



Out of a total of 1,228 priority facilities<sup>G</sup>, the rate of audits carried out reached 87%, consistent with the 2008 target of 100%.

In 2006, 651 sites were audited. An action plan was established for each site during the audit. Analysis of the difference between action plans and the results of the audit serves as the basis for making decisions on risk management.

Follow-up audits then help to implement the action plans and adjust them if necessary.

# Conserving natural resources

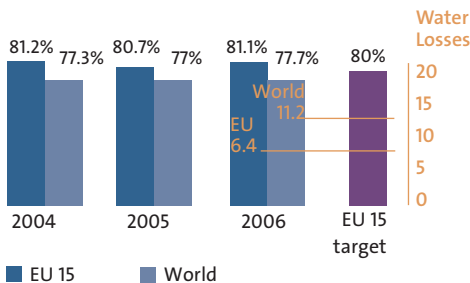
## 1 Conserving water resources

### Action plan and objectives

→ Reduce leakage in drinking water distribution networks and maintain network efficiency<sup>G</sup> above 80% in the EU 15.

→ Curb our own facilities' water consumption

WATER DISTRIBUTION NETWORK EFFICIENCY



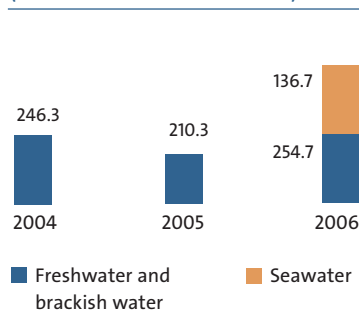
Water Losses (m<sup>3</sup>/km/day)

Water distribution network efficiency remained above 80% in the European Union 15.

To supply water, the network has to be pressurized. Due to the pressure, the quantity of leaks remains the same no matter how much water is consumed by customers. Consequently, the rate of network efficiency is lowered when customers reduce consumption. The efficiency of networks with a high rate of consumption is therefore better than those in a similar condition, but with a lower consumption rate.

As network efficiency<sup>G</sup> is more determined by customer consumption than by operators' efforts to repair leaks, we have supplemented our analysis by calculating the water losses of mains per kilometer per day. This indicator represents the network's volume of water losses per kilometer per day. It enables changes in the state of the network to be analyzed and thus the performance of the network operator.

WATER CONSUMPTION AT VEOLIA ENVIRONNEMENT FACILITIES (in millions of cubic meters)



More than 90% of the company's water consumption is made by the water division.

This rate of consumption tallies with the amount of raw water extracted that does not leave water production plants. It is mainly dependent on the quality of the raw water resource and the technology used.

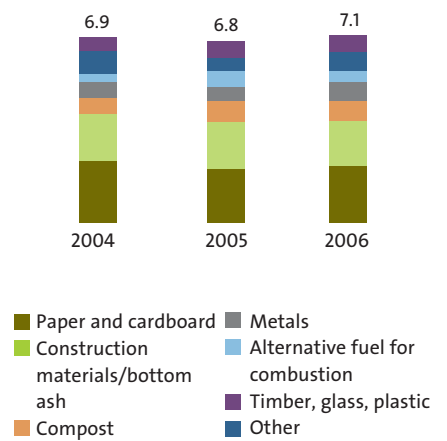
The considerable increase for this figure in 2006 is due to taking into account the Ashkelon seawater desalination plant. Although this technology is responsible for an unfavorable change in the indicator, it enables a saving in freshwater. The Ashkelon plant accounts for only 3.5% of the water division's use of freshwater in the production of drinking water.

## 2 Conserving raw materials

### Action plan and objectives

→ Develop materials recovery and recycling

MATERIALS RECOVERED (in millions of metric tons)



Veolia Environmental Services continued its work to develop recovery processes, and recovered 7.1 million metric tons of materials in 2006.

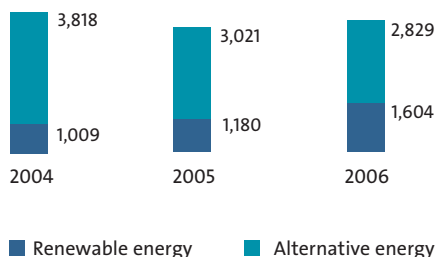
Paper and cardboard accounts for the largest part of recovered materials, at a rate of 2.2 million metric tons. The 1.6 million metric tons of recovered construction materials and bottom ash, which were used in civil engineering projects, replaced the equivalent amount of natural materials from quarries. The 0.5 million metric tons of alternative fuels (Solid Recovered Fuels, food oils, etc.) saved an equivalent amount of standard fuels used for combustion.

### 3 Conserving energy resources

#### Action plan and objectives

→ Develop the production and use of renewable<sup>G</sup> and alternative<sup>G</sup> energy.

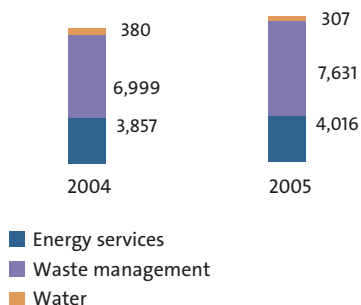
#### CONSUMPTION OF RENEWABLE AND ALTERNATIVE ENERGY (Veolia Energy—in thousands of MWh)



Veolia Energy sustained its efforts to promote the consumption of renewable and alternative energy, which rose by 6%.

The increase was mainly due to more use of renewable energy, especially the growing use of wood to fire heating systems. This increased by 54% compared with 2005.

#### RENEWABLE AND ALTERNATIVE ENERGY PRODUCTION (heat and electricity)



Some of the company’s activities produce renewable<sup>G</sup> and alternative<sup>G</sup> energy, which helps combat climate change.

Most of this production comes from waste incineration with energy recovery, but the collection and conversion of landfill gas also contributes.

Wastewater sludge, resulting from wastewater treatment, also has energy recovery potential due to the biogas resulting from sludge digestion processes.

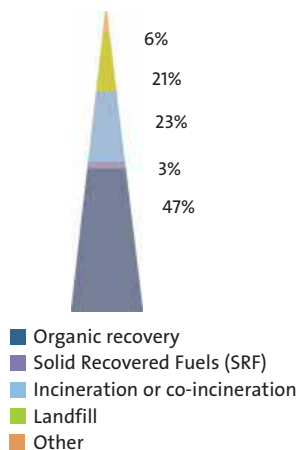
Lastly, the growing use of renewable energy in heating plants is also helping to increase carbon neutral energy production.

### 4 Protecting soil and biodiversity

#### Action plan and objectives

→ Increase the share of organic recovery in the overall tonnage of sludge treatment.

#### FATE OF WASTEWATER SLUDGE



Veolia Water offers many different reliable and cost-effective possibilities for dealing with wastewater sludge.

Organic recovery represents the main solution. It now accounts for 47% of the sludge produced, a 7 percentage point increase over 2005. This is mainly due to an increase in composting<sup>G</sup>.

Organic recovery has a number of recognized advantages (soil fertilization, reduced recourse to chemical products, combat against soil erosion, etc.). However, other treatment methods also offer environmental advantages. They avoid fossil fuel consumption, recover heat and produce biogas<sup>G</sup> that can be converted into energy.

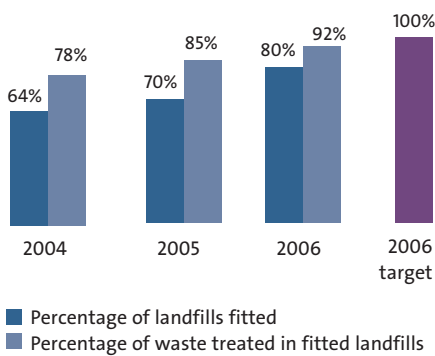
# Mitigating our impacts

## 1 Combating climate change

### Action plan and objectives

- Fit all landfills with biogas recovery and treatment systems by the end of 2006.
- Contribute to the reduction of CO<sub>2</sub> emissions under energy services contracts by improving the efficiency of facilities with a capacity of over 20 MW.

#### LANDFILLS FITTED WITH BIOGAS RECOVERY AND TREATMENT SYSTEMS (operating landfills accepting biodegradable waste, for which Veolia Environmental Services is in charge of capital investment)

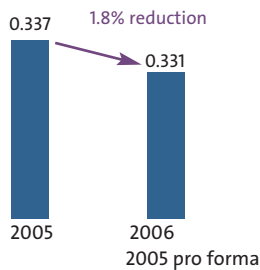


A total of 80% of operating landfills for which the company is in charge of capital investments are fitted with a system to recover and treat the biogas emitted, thereby covering 92% of landfilled waste.

The investment effort must be maintained in order to equip all remaining sites. Half of these sites will be fitted with systems in the coming years; this concerns small sites that produce little biogas (they account for 1.15% of landfilled waste). At the other sites, CDM projects are currently under development and will be put in place either in the short term or in the longer term (short-term projects represent 4.2% of landfilled waste).

In parallel with the implementation of this policy, measures will be taken to improve the efficiency of gas recovery at the sites that are already equipped.

#### METRIC TONS OF CO<sub>2</sub> PER THERMAL MWh PRODUCED AT FACILITIES OF MORE THAN 20 MW (these emissions do not include those relating to electricity generation by cogeneration<sup>G</sup> systems)



Veolia Energy (Dalkia) continued its efforts to reduce the carbon content of the heat produced by facilities with a capacity of more than 20 MW.

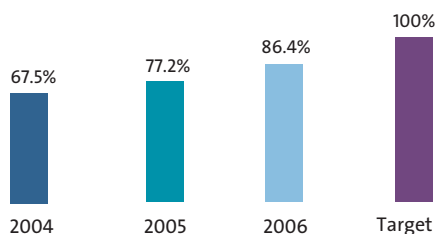
Based on the 2005 scope, the carbon content per MWh produced fell by 1.8%, despite unfavorable weather conditions. This was due to optimizing facility efficiency and managing the energy mix.

## 2 Environmental health

### Action plan and objectives

- Monitor the sanitary quality of drinking water.
- Reduce dioxin emissions by improving treatment of incinerator flue gases.
- Manage the risk of *Legionella* in our systems.

#### PERCENTAGE OF WASTE TREATED IN INCINERATORS WITH DIOXIN EMISSIONS BELOW 0.1 ng/Nm<sup>3</sup> (where Veolia Environmental Services is in charge of capital investment)



Veolia Environmental Services has set itself the target of ensuring that all incinerators for which it is in charge of capital investment will emit a lower level of dioxins than that set by European regulations (0.1 ng/Nm<sup>3</sup>). The percentage of waste treated under these conditions increased and now stands at 86.4%. In 2006 only two incinerators were above the level. They are, however, in compliance with the local regulations on emissions.

### QUALITY OF WATER SUPPLIED

As part of its drive to improve the quality of the water it supplies, Veolia Water carries out quality controls in addition to required regulatory analyses.

- For all parameters measured, 99.1% of results are in compliance with regulations in force in each country.
- Compliance rises to 99.3% for bacteriological parameters.

From 2007 Veolia Water will add an overall indicator that will establish a “quality grade” for the water distributed. This indicator, which is based on the quality grades given by the French Ministry of Health, will take into account the duration and the severity of non-compliant results. Severity will be assessed against a limited number of key health parameters and in line with the levels set by the World Health Organization rather than those set by each country.

### MANAGING THE *LEGIONELLA* RISK IN OUR SYSTEMS

The risk prevention system developed by Veolia Energy (Dalkia) is based on:

- the existence of a prevention plan for each country that is consistent with the company system;
- educating personnel about the *Legionella* risk;
- an audit of each at-risk site and fulfillment of our duty to advise;
- use of technical systems that comply with the prevention plan.

Deployment of the prevention plan was 85% completed in 2006, up 5 percentage points over 2005.

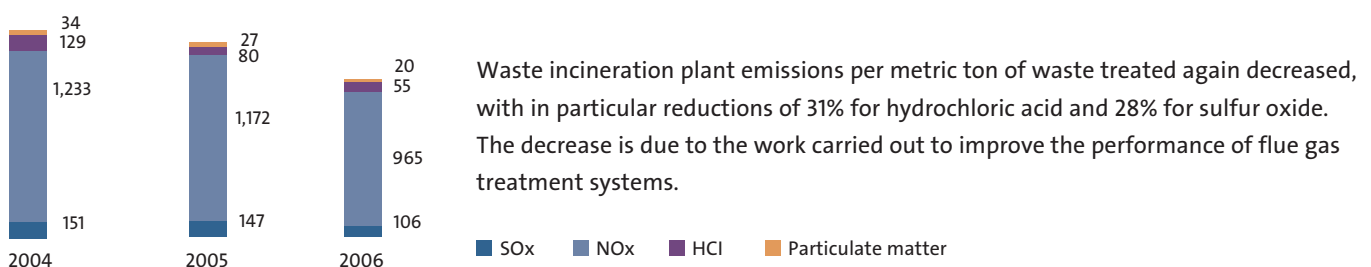
This progress was due to technical modifications carried out on systems and to continued prevention actions.

## 3 Limiting air pollution

### Action plan and objectives

- Reduce emissions of pollutants by improving treatment of incinerator flue gases.
- Promote the use of cleaner fuels and vehicles, thus reducing polluting emissions from passenger transportation vehicles.

### WASTE INCINERATION PLANT EMISSIONS (hazardous and non-hazardous wastes) in g/metric ton of waste incinerated



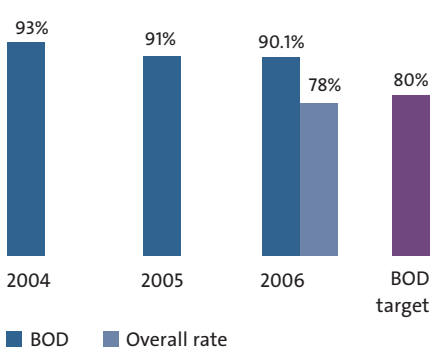
#### 4 Limiting the discharge of pollutants into water

##### Action plan and objectives

→ Collect and treat leachates<sup>G</sup> by equipping all landfills.

→ Improve treatment efficiency by maintaining wastewater treatment plant efficiency above 80%.

##### WASTEWATER TREATMENT PLANT EFFICIENCY (capacity above 50,000 population equivalent)

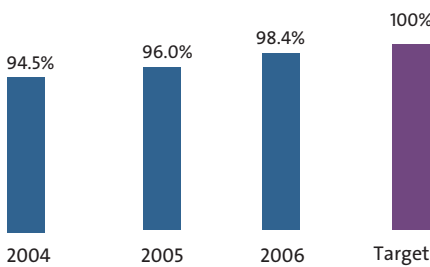


The treatment efficiency rate (BOD) was again well above the target of 80%.

To reflect more accurately the performance of current types of treatment, a composite indicator that takes into account and weights the different forms of pollution was developed, based on the coefficients used by the French Water Agencies.

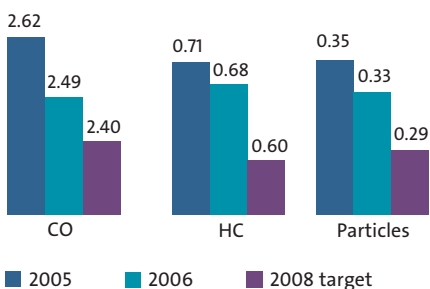
Chemical Oxygen Demand (COD), nitrogen (N), phosphorus (P) and suspended solids (SS) are therefore added to Biological Oxygen Demand (BOD5) to represent an overall treatment efficiency rate. A performance target of 80% for this overall efficiency rate will be set in 2007.

##### PERCENTAGE OF LANDFILLS COLLECTING AND TREATING LEACHATES INTERNALLY OR EXTERNALLY (operating landfills for which Veolia Environmental Services is in charge of capital investment)



The number of landfills fitted with systems to collect and treat leachates<sup>G</sup> continued to increase, reaching 98.4%. Only two sites with highly local specificities remain to be equipped. An action plan will be put in place to do so.

##### UNIT EMISSIONS BY VEOLIA TRANSPORT PASSENGER TRANSPORTATION VEHICLES (in g/km)



Veolia Transport continued its efforts to reduce polluting emissions from its fleet of passenger transportation vehicles. A new scope of reference was defined, corresponding to 80% of its 2005 fleet of buses and coaches (total of 21,715 vehicles).

The targets set for 2008 correspond to reductions of 8% for unit emissions of carbon monoxide (CO), 14% for hydrocarbons (HC) and 15% for particles. The 2006 results are in line with these targets as unit emissions were reduced by 5%, 4% and 6% respectively for the same components.

# Combating climate change

The increase in anthropogenic emissions of greenhouse gases (GHGs)<sup>G</sup> is the reason for the climate change that has been observed for several years. Scientists now agree that human activities are mainly responsible for the increase in GHG emissions. In managing facilities on behalf of its clients, Veolia Environnement's activities emit GHGs but also help combat climate change thanks to its efforts to achieve a net reduction in these gases.

## 1 Veolia Environnement generates direct GHG emissions

Veolia Environnement's direct emissions are due to emissions from vehicles, processes, facilities or equipment managed by the company. The greenhouse gases concerned are mainly the CO<sub>2</sub> emitted by all its combustion facilities, incineration of the fossil fraction in waste, and fuel combustion by mobile sources; and the CH<sub>4</sub> from the biogas<sup>G</sup> emitted by landfills<sup>G</sup>.

**Veolia Energy (Dalkia)** emits 57% of the company's total greenhouse gas emissions by converting primary fossil energy<sup>G</sup> (gas, coal or oil) into thermal energy and electricity.

**Veolia Environmental Services** produces 37.5% of the company's direct GHG emissions through its waste management activities, from collection through recovery.

**Veolia Transport** produces 5% of the company's direct GHG emissions by providing passenger transportation services by bus or coach.

**Veolia Water** contributes only 0.5% to the company's direct GHG emissions.



Sydney monorail (Australia)



## 2 Veolia Environnement generates indirect CO<sub>2</sub> emissions due to electricity consumption

In 2006 Veolia Environnement consumed 7.04 million MWh of electricity, mainly in its water production and wastewater treatment plants and in the electric powered trains it operates.

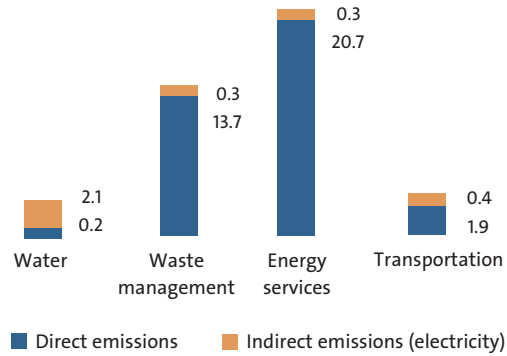
The electricity comes from a variety of primary sources (nuclear, fossil, hydro, and renewable or alternative energy sources), resulting in indirect GHG emissions of 3.03 million metric tons of CO<sub>2</sub>, representing 8% of the company's total GHG emissions.

Veolia Water is responsible for 70% of these indirect emissions relating to electricity consumption, while Veolia Transport accounts for 12%, Veolia Energy (Dalkia) 9% and Veolia Environmental Services 9%.

Veolia Environnement's total GHG emissions in 2006 amounted to 39.5 million metric tons of CO<sub>2</sub> equivalent, of which 36.5 million metric tons for direct emissions and 3 million metric tons for indirect emissions relating to electricity consumption.

In 2005 the company's total GHG emissions (direct and indirect) amounted to 36.5 million metric tons of CO<sub>2</sub> equivalent. The rise in the company's emissions in 2006 is mainly due to the increase of its consolidation scope and the resulting inclusion of coal-fired facilities.

TOTAL DIRECT AND INDIRECT (ELECTRICITY) GHG EMISSIONS IN 2006 (millions of metric tons of CO<sub>2</sub> eq.)



## 3 Veolia Environnement's contribution to an overall reduction in GHG emissions

Veolia Environnement makes an overall contribution to reducing GHG emissions, partly by reducing its own direct and indirect emissions and partly by avoiding emissions for its clients (by using alternative energy rather than fossil fuels).

### 1. Contribution of Veolia Water

Veolia Water has a limited number of levers for action at its disposal to reduce its direct GHG emissions, given that its activities do not emit large amounts. However, Veolia Water consumes electricity and heat to treat water and treatment by-products. Its contribution to reducing GHG emissions therefore automatically depends on optimizing its treatment processes and recovering renewable energy<sup>G</sup> such as the biogas produced during sludge digestion. Part of this biogas is reused on site as heat for the treatment process, while the rest can be sold (as heat or electricity) to a third party, thus avoiding CO<sub>2</sub> emissions for the third party.

In 2006 Veolia Water avoided approximately 0.04 million metric tons of CO<sub>2</sub> by selling the energy produced from biogas to third parties, thus representing 0.5% of Veolia Environnement's overall reduction of GHGs.

### 2. Contribution of Veolia Energy (Dalkia)

To contribute actively to the reduction of GHG emissions, Veolia Energy (Dalkia) has developed a new indicator that quantifies the overall reduction of CO<sub>2</sub> emissions for all its activities that concern managing primary energy.

The new indicator expresses in metric tons of CO<sub>2</sub> the primary energy savings made by Veolia Energy (Dalkia) when:

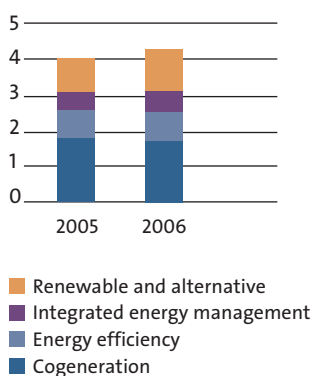
- producing combined heat and electricity (cogeneration);
- providing energy services combining choice of fuel and production efficiency with integrated energy management;
- ensuring best use of production equipment (energy efficiency);
- using renewable and alternative energy to cover part of energy needs;
- using renewable<sup>G</sup> and alternative<sup>G</sup> energy to cover part of energy needs.

Savings in primary energy are made by applying Directive 2004/8/CE on the promotion of cogeneration<sup>G</sup>, professional practices in energy efficiency and integrated energy management, and analysis of energy mixes in regions where renewable<sup>G</sup> and alternative energy<sup>G</sup> is in use.

When applying the new method, the overall reduction of CO<sub>2</sub> emissions by Veolia Energy rises from 3.98 to 4.21 million

metric tons for both 2005 and 2006. The increase is due chiefly to the rise in the consumption of renewable energy (especially biomass<sup>G</sup>) and the development of integrated energy management, despite Veolia Energy's expanded consolidation scope and the increase of the share of coal in its energy mix.

**OVERALL REDUCTION IN CO<sub>2</sub> EMISSIONS (millions of metric tons)**



**In 2006 the savings in primary energy made by Veolia Energy led to a reduction of 4.2 million metric tons of CO<sub>2</sub>, thus representing 47% of Veolia Environnement's overall reduction of GHG emissions.**

**3. Contribution of Veolia Transport**

Veolia Transport reduces GHG<sup>G</sup> emissions by reducing fuel consumption and using biofuels<sup>G</sup>. At the moment, this reduction has not been calculated for the whole of Veolia Transport's activities. However, it is estimated that driver training in rational driving techniques reduces fuel consumption by 5% to 20%. Veolia Transport has developed a new vision of public transportation by estimating the amount of CO<sub>2</sub> avoided by passengers using public transportation daily in the areas it

serves: "journey eco-efficiency" is used to assess how much CO<sub>2</sub> would have been produced if the same journeys had been made by car. In 2006 journey eco-efficiency was calculated purely on the basis of urban systems (cities with over 100,000 inhabitants) and inter-city systems, for which the data and average distances traveled per passenger were stabilized. This scope corresponds to 44% of Veolia Transport passengers and 17% of kilometers traveled (excluding freight) in 2006.

**On the basis of the scope defined in 2006, Veolia Transport avoided 2.1 million metric tons of CO<sub>2</sub> by transporting passengers daily, thus representing 24% of Veolia Environnement's overall reduction of GHG emissions.**

Veolia Transport aims to extend this scope of reference to include urban systems in towns with fewer than 100,000 inhabitants. A model should enable key variables to be assessed, in particular the average distance traveled per passenger.

**4. Contribution of Veolia Environmental Services**

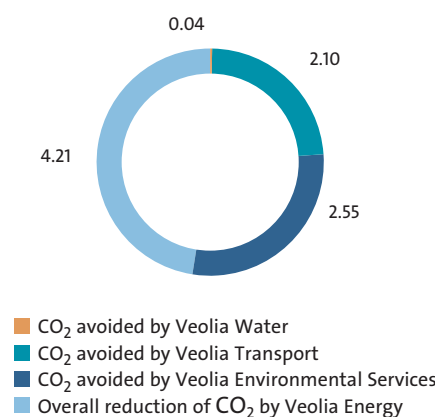
Veolia Environmental Services' activities, which range from waste collection through recovery, enable it to recover materials and energy. Recycling of raw materials and energy recovery avoid the use of fossil fuels, thus avoiding the related GHG emissions. Emissions are also avoided by Veolia Environmental Services' waste recycling activities. These emissions are not currently calculated because no overall emission factor exists that enables them to be quantified at a global level.

In 2006 Veolia Environmental Services sold 2,425 GWh of thermal energy and 3,539 GWh of electricity produced by incinerators fitted with energy recovery systems. The biogas<sup>G</sup> recovered at landfills can also be used as an energy source, enabling emissions from fossil fuel consumption to be avoided. In 2006 Veolia Environmental Services sold 693 GWh of electricity and 73 GWh of thermal energy produced by converting biogas from landfills.

**In 2006 Veolia Environmental Services avoided the emission of 2.55 million metric tons of CO<sub>2</sub> through its conversion of landfill gas and energy recovery from incineration, thus representing 29% of Veolia Environnement's overall reduction of GHG emissions.**

This contribution increased from 2.28 million to 2.55 million metric tons of CO<sub>2</sub> between 2005 and 2006.

**OVERALL REDUCTION OF GHGs PER DIVISION IN 2006 (millions of metric tons of CO<sub>2</sub>)**



#### 4 Impact on climate change

The ratio of “overall GHG reductions to total GHG emissions” can be calculated by adding together the contributions to GHG emissions of each division.

In 2005 Veolia Environnement’s technologies and expertise led to an overall reduction in emissions of 8.3 million metric tons of CO<sub>2</sub>. In 2006 the company’s additional efforts enabled it to achieve a higher level of overall reduction: 8.9 million metric tons of CO<sub>2</sub>.

The overall reduction of the company’s GHG emissions represents approximately 24% of its total GHG emissions. The ratio of “overall GHG reductions to total GHG emissions” remained stable between 2005 and 2006 (23.7% to 23.5%), in spite of the company’s 13% business growth.

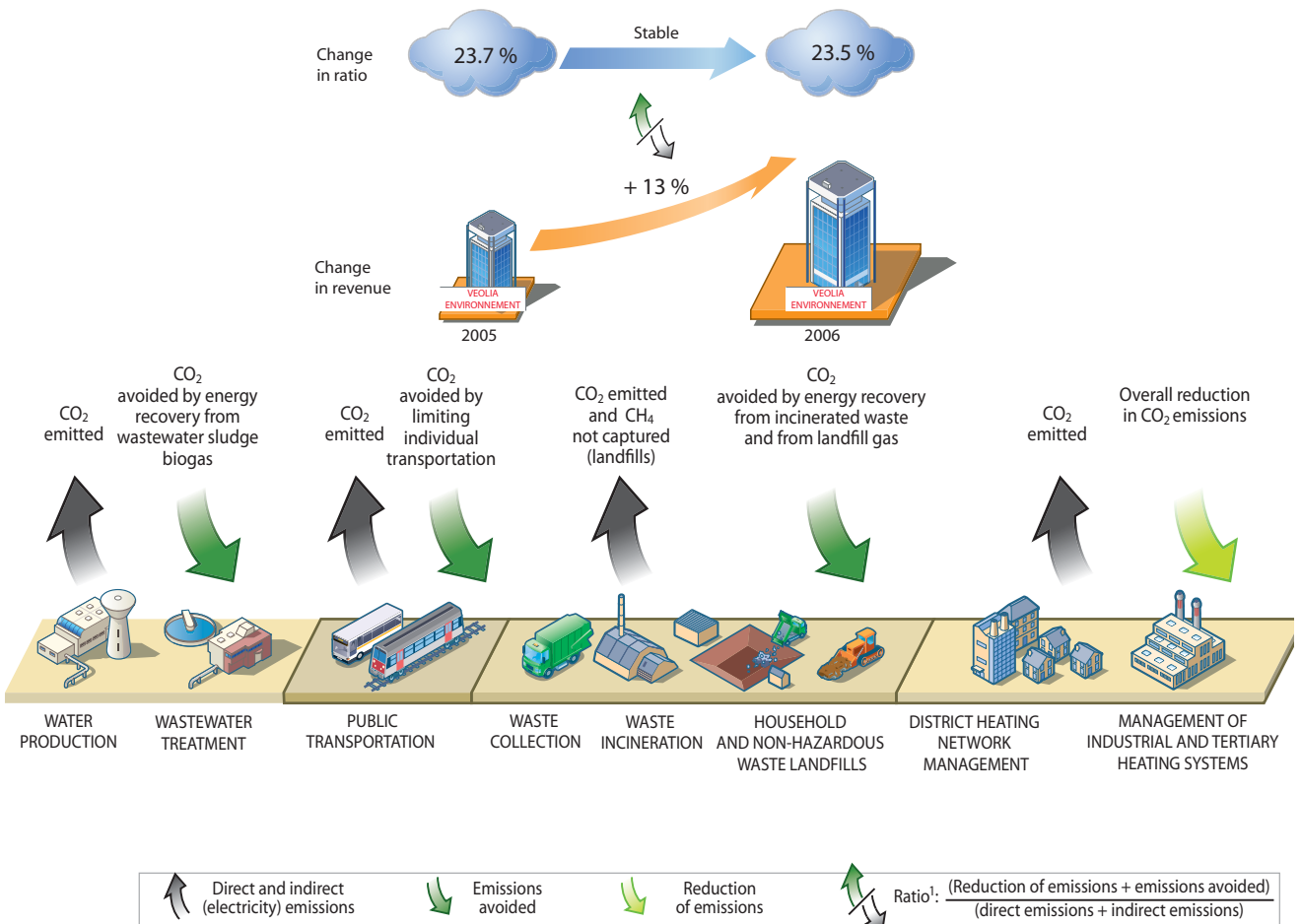
Veolia Environnement intends to continue its efforts to improve the overall reduction of GHGs by using the different levers for action within each division.



#### REMARKS BY ERNST&YOUNG ON THE COMPANY’S CONTRIBUTION TO THE OVERALL REDUCTION OF GREENHOUSE GAS (GHG) EMISSIONS:

- The presentation of the contribution to the overall reduction of GHG emissions is innovative in regard to the reporting practices of the main environmental service companies.
- This contribution applies across all four divisions (water, energy services, waste management, transportation).
- This contribution increases in the same proportion as total emissions.
- The methods and the scope of application must be stabilized and made consistent between the divisions and with the other environmental indicators.
- Management of this contribution could be made a part of the Environmental Management System, based on operating indicators. This is particularly true for the share of renewable and alternative energy sources and the occupancy rate of passenger transportation systems.

#### Our impact on climate change



<sup>1</sup> Indicator under construction. For Veolia Transport, coherence needed between direct and indirect emissions over the corresponding scope to calculate the ratio.

## 5 Our actions to reduce GHG emissions in 2007

**Veolia Water** will continue its efforts by pursuing the following courses of action:

- energy optimization of existing processes;
- systematic recourse to biogas<sup>G</sup> recovery during sludge digestion whenever technically and economically possible;
- increased use of renewable energy sources<sup>G</sup>;
- replacement of vehicle fleet by “cleaner” vehicles;
- development of green certificate electricity procurement.

**Veolia Transport** will pursue its commitment through the following four courses of action:

- promotion or use of biofuels;
- creation and deployment of methods to aid driving;
- development of innovations and of commercial actions to make public transportation more attractive;
- optimization of the transportation systems it manages.

**Veolia Energy** has embarked on actions to:

- increase the use of renewable energy sources<sup>G</sup>, especially biomass<sup>G</sup> (both from forestry and agricultural sources);
- develop the inclusion of energy efficiency in new contracts;
- modify its contract offers to include energy demand control.

**Veolia Environmental Services** will continue its efforts to:

- optimize the fuel consumption of its waste collection vehicles;
- maximize biogas recovery at landfills<sup>G</sup>;
- increase energy recovery<sup>G</sup> from waste;
- increase waste recycling and composting<sup>G</sup> rates.

## 6 Our contribution to the production of renewable and alternative energy

Renewable and alternative energy sources<sup>G</sup>, which cannot be depleted and are environmentally friendly, make an excellent contribution to sustainable energy development. Such energy does not emit GHGs<sup>G</sup> and is expected to play a major role in energy diversification in the years to come. Veolia Environnement has undertaken to develop it.

**Veolia Energy (Dalkia)** embarked on an active program to promote and invest in renewable energy, especially biomass. In 2006 Veolia Energy (Dalkia) was managing 182 systems fired by renewable or alternative energy, representing installed capacity of over 1,500 MW. Of these systems, 94 use wood for fuel (capacity of 430 MW). In 2007 more investments will be made in renewable energy.

**Veolia Environmental Services** produces thermal energy and electricity from waste incineration and from the biogas emitted by its landfills. This energy is either used to meet the division’s own needs or sold to a third party. Veolia Environmental Services is also present in the new bioenergy<sup>G</sup> processes, in particular the use of biomass, and participates directly in the French government’s programs for biogas<sup>G</sup> and biofuel<sup>G</sup> production.

**Veolia Water** also produces renewable energy from the biogas generated by wastewater sludge digestion and through microturbines.

**In 2006 Veolia Environnement produced 11.9 million MWh of renewable and alternative energy for a total energy consumption of 110.7 million MWh. This means that the production of renewable and alternative energy covered 11% of Veolia Environnement’s energy consumption.**

## 7 The Kyoto Protocol<sup>G</sup> sets the scene for Veolia Environnement projects

**Veolia Environmental Services** is participating in the reduction of GHG emissions through Clean Development Mechanism<sup>G</sup> (CDM) projects in Brazil and Egypt. The projects involve installing landfill gas recovery and conversion systems. Total potential emission reductions over the 10-year life of the projects come to 4.4 million metric tons of CO<sub>2</sub> equivalent. In addition, in Australia, as part of the Natural Recovery Systems Project in Dandenong (Victoria state), Veolia Environmental Systems sells credits to BP resulting from the avoidance of approximately 15,000 metric tons of CO<sub>2</sub> per year made by composting waste that would otherwise be landfilled. As concerns climate change, **Veolia Transport** is closely watching the new carbon trading markets in Europe and the United States. It wants to use the new financial mechanisms introduced in the Kyoto Protocol<sup>G</sup> to facilitate the implementation of mass transit projects. The first such project was registered by the CDM Executive Board on December 7, 2006 for a Bus Rapid Transit system in Bogotá (Colombia).

In addition, **Veolia Environnement** played an active role in 2006 in making concrete proposals during the launch in France of domestic projects, which consist in earning emission reduction units for projects developed by national players to reduce emissions.

# Measuring our own impacts

## 1 Identifying the different types of impacts caused by our activities

Veolia Environnement’s degree of responsibility for the environmental impacts of its activities depends directly on the extent to which it is able to control these impacts. We have therefore identified four categories in decreasing order of the extent of our control:

<p><b>1. Impacts of Veolia Environnement’s non-core and administrative sites:</b> The company is fully responsible for the environmental impacts of these sites.</p>	
<p><b>Impacts of industrial facilities operated by Veolia Environnement</b> As a service provider, Veolia Environnement does not usually own the industrial facilities it operates on behalf of its clients. We therefore do not always have control over capital investment, whereas the control of environmental impacts often requires investments to maintain facilities in good working order or upgrade them.</p>	<p><b>2. Facilities where Veolia Environnement is in charge of capital investment</b> We identify the impacts, define objectives and action plans, then implement whatever means are needed to carry out the action plans.</p>
	<p><b>3. Facilities where Veolia Environnement is not in charge of capital investment</b> Action plans and the necessary means to implement them are studied in conjunction with the organizing authority (public authority or industrial client), which has the sole responsibility for the corresponding investment decisions.</p>
<p><b>4. Impacts of consumers</b> Our activities are directly connected with the needs of consumers and the waste generated by them. As a socially responsible company, Veolia Environnement encourages consumers to behave as eco-citizens and help protect the environment.</p>	

## 2 Our own impacts

If we consider our own impacts as those for which we have full responsibility, those impacts correspond to the first two categories. For reasons of consistency, however, the management of industrial facilities for which we are in charge of capital investment (category 2) must not be considered separately from those facilities for which we are not in charge of capital investment (category 3). Therefore, since 2002 all facilities are covered by the Environmental Management System (EMS), which enables us to measure and reduce the environmental impacts of our activities. Although there is one single system, we adapt the objectives and action plans depending on whether or not we are in charge of capital investment, in order to optimize our environmental performance. Given this system, management of our own impacts includes our non-core and administrative sites.

## 3 Management of our own impacts

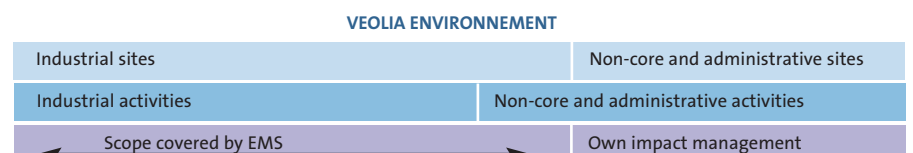
An estimation of the impacts of our non-core and administrative activities gives the following amounts:

- water consumption: 0.922 million cubic meters;
- energy consumption: 0.292 million MWh;
- waste production: 0.019 million metric tons;
- CO<sub>2</sub> emissions: 0.086 million metric tons.

industrial sites, our approach to managing these impacts will initially be qualitative. It will be based on a set of references structured around various areas (water, energy, waste, GHGs, etc.). The sites’ level of management will be established on the basis of the criteria defined and with the help of an evaluation grid. This will enable action plans to be decided on to improve the

management levels. This approach, which will be implemented alongside and as a complement to the EMS<sup>G</sup>, will be put in place in 2007 for our non-core and administrative sites. It will be extended to include non-core and administrative activities at the Priority Facilities<sup>G</sup>, and eventually to all industrial facilities, thus supplementing the EMS.

Given the percentage amount of these impacts (less than 0.5%) compared with those generated by the activities at our



# Conserving water resources

## Sanitation, an important factor in sustainable development

The collection and treatment of wastewater is a priority for Veolia Water. It is a decisive step in guaranteeing public health and protecting water resources. Sanitation is central to the global water issue. A recent report<sup>1</sup> from the United Nations Development Program (UNDP) underlined that the world is having to face up to a water crisis. The tensions caused by water resources have been exacerbated over the past few years. The challenge is now enormous and reflects the problems involved in managing water resources at the local level. These problems are going to get worse, especially as the effects of

climate change become more obvious. As with other natural resources, water has to be managed rationally and sustainably, by taking into account all the factors that influence its quality and availability.

Veolia Water promotes the development of municipal and independent wastewater systems. As a supplier of wastewater solutions, we have the capacity to support local players in managing wastewater through different approaches that take into account global issues. The technologies that we have great experience in using to collect dirty water and treat it before returning it to the natural environment enable us to contribute to the sustainable

development of the regions where we work.

Sanitation has three positive impacts—on the economy, on health and on the environment. It is therefore an important part of our sustainable development policy, as are the solutions we draw up in agreement with public authorities and stakeholders<sup>G</sup>.

## Environmental impact

Treating wastewater helps maintain an environment of quality that is able to support all water-related activities (economic activities such as fish farming and agriculture, leisure activities, etc.) and that respects the natural environment and water resources. Also, wastewater systems condition the quality of drinking water. The better the



Wastewater treatment plant in New Orleans (USA).

quality of the raw water used, the better will be the quality of the drinking water produced. This is why, as a provider of wastewater services, Veolia Water is now becoming increasingly involved in comprehensive water cycle management (water to wastewater and then back to the aquatic environment). Since 2001, the European Union has been implementing its Framework Water Directive, which seeks to return water resources to “good ecological status” by 2015, in particular through taking action to protect and manage the resources. We also have to cope with regular problems of shortages. Management and protection of water resources and the natural environment are therefore gradually becoming an essential component of the work of water and wastewater service providers.

Veolia Water’s expertise enables public authorities to make the best possible use of existing resources, to conserve water by reducing leaks and incite consumers to adopt more responsible behavior. Other solutions are to create new resources by turning to alternatives such as seawater desalination, wastewater reuse for non-domestic applications and groundwater recharge. Wastewater treatment plants can in themselves be an alternative resource, as is already the case in Honolulu (Hawaii, USA), Kwinana (Perth, Australia) and Barcelona (Spain). A combination of these solutions can provide answers to the water crisis and considerably reduce certain regions’ dependence on water. “Sustainable water,” even in places where water is scarce, is one of Veolia Environnement’s goals.

### Economic impact

The economic impact is indirect. For example, in coastal regions, wastewater service and strict monitoring of effluent quality can restore or protect the quality of bathing water. When a deteriorated environment is restored, it regains its beauty and attractiveness, which is indispensable for tourism. Bathing water quality therefore has an important impact on the local economy of coastal regions. Its quality can often be decisive in whether or not tourists come to a region and in that region’s economic development.

### Health impact

Sanitation is basic to health and improved social conditions as it gives access to decent hygiene and helps limit the risk of illness (especially diarrhea). The UNDP’s 2006 Human Development Report underlines that there is now a strong global divide between those people with access to sanitation and those without. Educational campaigns and epidemiological studies carried out by Veolia in Tangier (Morocco), in partnership with the Health Ministry of the province of Tangier-Asilah, demonstrate our company’s engagement in improving public health in the areas where we operate. The measures that will result from these campaigns will also allow the monitoring of the environmental characteristics of receiving environments and the impacts on people’s health.

#### WASTEWATER TREATMENT DURING WET WEATHER

*Technologies for treating wastewater during dry weather are now fully reliable, but their performance can sometimes be brought into question during wet weather. At the moment, most stormwater is received at treatment plants that have been sized to meet the needs of a town’s population—but not to deal with the sudden surges in quantity caused by bad weather. During heavy rain, excess water from overflowing drains and collection systems runs into the natural environment without being treated. However, excess water also arrives at treatment plants but cannot be treated due to the lack of capacity. The challenge is therefore to control the risk of collection system overflow and to provide effective treatment for all of the water collected in order to protect receiving environments and ecosystems. To make the wastewater system efficient during wet weather, thereby improving living conditions and reducing environmental impacts, Veolia Water has developed an offer that assists public authorities in managing extreme weather events. In Arcachon (France), Veolia Water worked with the authority, which was beleaguered by flooding in various parts of the town during wet weather, to reduce the number of areas prone to flooding and to improve knowledge of the system and its functioning during wet weather.*

<sup>1</sup> Human Development Report 2006: “Beyond scarcity: Power, poverty and the global water crisis”

# Protecting biodiversity

The reduction in global biological diversity caused by human activities is occurring at an unprecedented rate. According to the World Conservation Union (IUCN), the current rate of extinction of species is 1,000 to 10,000 times greater than the natural rate.

In the face of this major challenge, Veolia Environnement has committed to protecting biodiversity<sup>G</sup> and developing an approach based on:

- characterizing its activities' impacts;
- putting in place biodiversity management as part of the EMS<sup>G</sup>.

## ① Impact characterization

All of the company's activities are concerned by this challenge: → through the land taken up by our facilities.

To minimize this impact, we go to great lengths to include biodiversity in project design, in particular through our sustainable construction approach. When we take over existing facilities, we work in collaboration with our municipal or industrial clients to improve integration of the facilities into the surrounding environment.

→ through our activities.

We make a positive contribution to biodiversity conservation by reducing the pollution that affects ecosystems. However, ecosystems can themselves include secondary impacts that we must control and reduce.

In 2006 evaluation of the impacts continued for water activities, given their high level of interaction with many land and aquatic ecosystems. The emphasis was on analyzing biological methods used to assess the ecological state of aquatic environments.



Bolivar wastewater treatment plant in Adelaide (Australia)



This work, in line with the requirements of the EU's Framework Water Directive that sets goals for the ecological quality of aquatic environments by 2015, should enable us to decide on the most suitable methods for our activities and, if necessary, help us to develop our own methods. In order to broaden the evaluation of the impacts of our waste management activities, in particular of landfill operations, work on assessing biomonitoring methods for land environments was carried out.

Veolia Environnement works with many different academic and institutional partners to improve its knowledge, setting up innovative research programs on the interactions between its activities and the functioning of ecosystems.

## 2 Biodiversity management at our facilities

To identify as precisely as possible the location of our main facilities in relation to areas of ecological interest, in 2005 we developed a Geographic Information System (GIS). The system maps more than 1,200 facilities and now includes the European network Natura 2000<sup>G</sup> as well as the hotspots pinpointed by Conservation International.

We make use of the GIS to mobilize our employees and pursue our program through gradually carrying out a survey of all our priority facilities<sup>G</sup>.

The questionnaire drawn up for the survey collects both quantitative and qualitative data on the following areas of action:

- impact study and environmental monitoring plan;
- inclusion of biodiversity in the site's EMS;

- conservation, rehabilitation or offsetting projects for natural environments on or near the site;
- participation in scientific studies;
- relations with local stakeholders<sup>G</sup>;
- training/awareness-building for personnel;
- environmental education/ awareness-building for the public.

The best practices identified, such as those at the Bolivar wastewater treatment plant in Adelaide (Australia), are then diffused to the different sites through the GIS.

Analysis of local actions taken also allows us to identify those that can be brought into widespread use throughout an activity. To do so, we prepare and diffuse methodological guidelines. By way of an example, this was done with the "biodiversity conservation" plan put in place in 1996 at the Crépieux Charmy drinking water production site in the Lyons area (France). There were three stages in the preparation of the methodological guidelines:

- evaluation of the site's ecological quality;
- setting up of a consultative process;
- adaptation of the site's management method depending on the results of the evaluation and consultation.

This is enabling the program to be extended in 2007, on a voluntary basis, to all the facilities in France's Centre-Est region. The management principles will then gradually be extended to other regions in France, and eventually to all of Veolia Water's activities. Lastly, the data gathered during the survey will serve as a basis for designing a management indicator that will measure the level of inclusion of biodiversity at our facilities.



## Best Practice

### The Bolivar wastewater treatment plant in Adelaide

The Bolivar site is rich in biodiversity and plays an essential role in the local ecosystem. It is part of a regional program to replant and restore primary vegetation.

Despite pressure from industry, sparse vegetation is still present and includes eucalyptus, chenopods and other grasses. The restoration of different habitats has resulted in numerous changes. For example, the simple act of building fences has reduced the areas of pasture land and given the primary grass and herbaceous plants the chance to grow. These plants are vital for feeding reptiles and birds. Indeed, the area provides a habitat for an entire range of protected fauna. The site's ponds provide food and shelter for several hundred birds, including 10 species of ducks and more than 100 species of migratory birds such as ibis, egrets, terns and herons. In November 2005 a census revealed the presence of seven species of reptiles and two species of frogs. In 2006, 12,000 plants were counted. The restoration work is now continuing and will involve building hothouses that will allow vegetation that had been lost to the area to be brought back.

# Developing sustainable construction

Buildings account for 40% of CO<sub>2</sub> emissions, 40% of natural resource consumption and 40% of global waste production. These impacts are spread over all the stages of a building's life cycle: production of construction materials, use of natural resources, transportation of materials and resources, new construction or renovation, building use, and finally, demolition. Construction is therefore a major element in sustainable development and a growing challenge, as the increase in the world's population is escalating infrastructure needs and, in turn, water and energy consumption and waste production. New issues are also emerging: new health risks, stricter regulations, new conditions for obtaining permits or contracts, and new quality labels.

Veolia Environnement takes action at all stages of the building life cycle. Our sustainable construction approach has several aspects:

- eco-friendly construction, which focuses on making sure the building is in harmony with its environment through the choice of products, systems and construction methods, and through worksites with a low level of environmental impacts;
- eco-friendly management, which involves optimal management of energy, water, waste and maintenance;

- improvements to the level of comfort (hygrothermal and acoustic performance, visual and olfactory aspects) and of health protection through having good quality space, air and water.

## By-product recovery for use in construction materials

Veolia Environnement's divisions favor the use of technologies that recover the by-products of their activities for use in construction materials. Veolia Environmental Services recycles bottom ash for use as a base layer in road construction. Veolia Water, in conjunction with the building industry, recycles ash from the incineration of dewatered wastewater sludge, also for use in road building. As an extension of these actions, it is now recycling the "technosand" that is a by-product of ATHOS®, a hydrothermal oxidation (HTO) process for liquid sludge patented by Veolia Water.

## Projects designed to respect the environment

Veolia Environnement develops innovative technologies that respect the environment and quality of life. In Seilh Aussonelle (France), the Saphyr® oxidation process was selected, which produces sanitized, odorless wastewater sludge. It will be combined with the electronic odor measuring system, OdoWatch.



Construction of a green bus depot in Tempe (Arizona, USA), which will be operated by Veolia Transport

The BIOSEP membrane bioreactor (MBR) produces very high quality effluent and the plant has a limited impact on the landscape because it does not take up much space.

#### Sustainable building management and use of alternative resources

To reduce the environmental impacts of buildings, Veolia Environnement promotes the use of alternative energy and materials and of local resources in the aim of optimizing energy efficiency. Replacing coal with biomass<sup>G</sup> to provide heat enables Veolia Energy (Dalkia) to recycle industrial waste and reduce CO<sub>2</sub> emissions. This is the case in Germany, where the district heating network of Worbis-Leinefelde is fueled 80% from recycled timber. The change from coal to biomass avoided 114,000 metric tons of CO<sub>2</sub> in the first year. Veolia Transport also favors a policy of reducing water consumption at its bus depots. The city of Rennes and the departmental council of Ile-et-Vilaine (France) joined forces to head a policy of protecting the soil and reducing water consumption: this action reduced water consumption by 68% by recycling washing water.

#### Construction site waste

Veolia Environmental Services has developed a variety of services to meet the specific needs of the building and civil engineering sector and meet HQE<sup>®</sup> (high environmental quality) standards. The teams at Veolia Environmental Services assist the client with waste management on worksites. They train site workers to sort waste, install

signing to guide sorting, and guarantee full traceability and appropriate treatment for the waste.

In Norway, Veolia Environmental Services is helping its client NCC, a leader in the building sector, to develop innovative solutions to improve the management of on-site sorting as part of the “RentBygg” concept of “clean construction.”

Site workers trained by Veolia Environmental Services supervise the different sorting stages and transportation of the waste to its storage place. This collaboration is beneficial for all concerned—Veolia Environmental Services, NCC and the subcontractors—because it greatly improves sorting, is better for the environment and reduces the accident rate.

#### SUSTAINABLE CONSTRUCTION RESEARCH PROGRAM

Veolia Environnement’s Research and Development Division has begun work on a cross-division program to reduce energy consumption in the company’s buildings and protect health through guaranteeing their sanitary quality (air, water and the available space). The aim of the program is to establish recommendations for the design, operation and maintenance of systems. This will enable operators to quickly identify any possible improvements and to create innovative air treatment techniques in collaboration with equipment manufacturers.

#### CASE STUDY:

##### LEED CERTIFICATION FOR SANTA CLARITA’S GREEN FACILITY

Veolia Environnement participates in such exemplary programs as HQE<sup>®</sup> (high environmental quality) in France and LEED (Leadership in Energy and Environmental Design) in the United States. The city of Santa Clarita in California recently obtained LEED certification from the US Green Building Council for its bus fleet’s “green” Transit Maintenance Facility. The facility, which opened on April 4, 2006, was built in collaboration with Veolia Transport, which is the operator. The architects have made use of recycled materials and innovative, clean technologies to create a first-class example of a green building. The facility consumes 40% less energy than required by the Californian Energy Efficiency Standards; this is achieved through the choice of orientation, high efficiency insulation thanks to the straw-bale walls, and the use of photovoltaic panels. Lighting has been optimized and made energy efficient by the use of skylights and clerestories, as well as clear, light-diffusing colors. Building materials were bought locally to minimize transportation and stimulate the local economy, with as much use made as possible of recycled or natural materials such as fly ash, recycled paper, soya and sunflower seeds. Water consumption was optimized by using recycling and water conservation techniques. Inside, there is an under-floor air system and the building is designed to limit pollution coming in from the outside, from painting operations or crowds of people. In addition, the 94 buses run on compressed natural gas, which reduces air pollution. The Santa Clarita facility is the first building of its kind to receive LEED certification. The green building concept is being considered in France for bus depots. Many depots already include HQE characteristics such as energy efficiency and recycling of the water used to wash the buses.

# Information about methodology used in environmental and social data reporting

**In the absence of a recognized and relevant reporting baseline for its activities, the Company has defined its own reporting procedures based on best practices and drafts of international standards.**

## Methodological procedures

The Company's procedures comprise:

- for environmental indicators: a company-wide measurement and reporting protocol, available on the [www.sustainable-development.veolia.com](http://www.sustainable-development.veolia.com) Web site, supplemented by specific instructions for individual Divisions;
- for social indicators: a methodology for compiling, monitoring, analyzing and consolidating the data, using a reporting software package including a workflow process.

## Consolidation methods and scope

The scope of environmental reporting covers all worldwide activities over which the Company has operational control. Jointly controlled (50-50) water companies in France, and the design and operation of industrial water systems are excluded from the scope of reporting. Some subcontracted activities may also be included in the scope of reporting, in particular in the field of waste management (e.g., biogas<sup>G</sup> conversion) or transportation. The scope of social reporting covers all consolidated companies whose human resources are managed by the Company, and those of the jointly controlled (50-50) water companies in which Veolia Environnement is responsible for human resources.

In the case of Proactiva (water and waste management activities in South America), companies owned 50-50 by Veolia Environnement and a Spanish company partner have been kept in the Company in 2006 to ensure the comparability of the data.

### Consolidation method

Within these scopes, environmental and social data is fully consolidated.

### Changes in consolidation scope

Changes in consolidation scope are taken into account on the date on which they become effective. Acquisitions, the creation of companies or contracts won may, however, only be taken into account after a full year of operation. For 2006, the main changes in scope or activity were:

- Veolia Water: full year of operation of contracts in China, Germany and Israel, and new contracts in Australia, the Czech Republic, South Korea, Japan, Taiwan and Thailand;
- Veolia Energy: full year of operation of contracts in Chile, Mexico, Poland and the United States, and the integration of new businesses in Canada, China, Israel and Singapore;

- Veolia Transport: acquisition of various contracts in Europe (Germany, the Netherlands, Norway, Poland and the United Kingdom), and various acquisitions in the United States;
- Veolia Environmental Services: acquisition of new contracts in Asia, Belgium, France and the United Kingdom, and the divestment of six sites in New Zealand and two sites in New Caledonia.

## Choice of indicators

The indicators have been chosen in order to track:

- Company-wide commitments and policy (EMS, environmental audits, etc.)
- performance related to the Company's main challenges and impacts
- effects of the Company's labor practices
- regulatory obligations (e.g., the NRE law in France).

## Consolidation and controls

Environmental data is consolidated and monitored by each Division and by the Environment Department based on data collected from the business units<sup>G</sup>. For certain indicators, data is calculated or estimated directly at the divisional level.

Human resources data is consolidated and checked by the Divisions and by the Company's Human Resources Department. Automated checks are also performed at the business unit level. The data is then checked by Salustro Reydel, the Company's independent auditor.

The most relevant environmental indicators have been audited for the last six years by Ernst & Young, the Company's independent auditor (*see the report on page 100*).

## Methodological limitations

The environmental and social indicators may be subject to methodological limitations due to:

- lack of standardized definitions and national and international legislation
- the unrepresentative nature of certain measurements and estimates
- changes in definition that may affect comparisons
- the practicalities of data collection.

Taking these factors into account, we believe that most of our data is accurate to within approximately 5% to 10%.

For the fiscal year under review, the main limitations and uncertainties relate to:

- methane emissions, which are estimated on the basis of national or international models that are subject to high levels of uncertainty.

The issues and challenges dealt with in this report have been selected according to their level of relevance to the expectations of stakeholders. The process of preparing the sustainable development report takes account of the Global Reporting Initiative G3 guidelines ([www.globalreporting.org](http://www.globalreporting.org)).

Corresponding GRI <sup>G</sup> indicators	Pages	Reason for omission
<b>Business strategy and profile</b>		
<b>Profile</b>		
1.1	3	
1.2	4-5, 8-11, 50-51, 40-43, 44, 46-47	
<b>Organizational profile</b>		
2.1	4-5	
2.2	4-5, 12-28	
2.3	4-5, 12-28	
2.4	104	
2.5	4-5, 8-11	
2.6		+
2.7	4-5, 8-11, 13, 17, 21, 25	
2.8	4-5, 12-28, 58-59	
2.9		+
2.10	55	
<b>Report parameters</b>		
3.1	38	
3.2		+
3.3	38, 99-100	
3.4	102	
3.5	40-43, 50-51, 96, 101	
3.6	96	
3.7	38, 96	
3.8	96	
3.9	96	
3.10	96	
3.11	96	
3.12	97	
3.13	100-101	
<b>Governance and commitments</b>		
4.1	44	
4.2	44	
4.3	44	
4.4	44	
4.5	42-43 (partial)	
4.6	44-45	
4.7	44	
4.8	39, 40-43, 45	
4.9	44	
4.10	44	
4.11	46-47	
4.12	38, 39, 40-43	
4.13	48-49, 65	
4.14	51	
4.15	51	
4.16	51 (partial)	
4.17		●
<b>Managerial approach and performance indicators</b>		
<b>Economic performance</b>		
EC1	58-59, 33	
EC2	13, 17, 21, 25, 84-89 (partial)	
EC3		+
EC4		◆
EC5	67-71	
EC6		●
EC7	75 (partial)	
EC8		◆
EC9		●
<b>Environmental performance</b>		
EN1		■
EN2		■
EN3	78-83, 98	
EN4	78-83, 98	
EN5	78-83, 98	
EN6	78-83, 84-89, 98, 20-23	
EN7	78-83, 84-89, 98, 20-23	
EN8	78-83, 89, 98	
EN9	78-83, 90-91, 98	
EN10	78-83, 98	
EN11	92-93	
EN12	92-93	
EN13	92-93	

Corresponding GRI <sup>G</sup> indicators	Pages	Reason for omission
EN14	92-93	
EN15	92-93	
EN16	78-83, 84-89, 98	
EN17	78-83, 84-89, 98	
EN18	84-89	
EN19		●
EN20	78-83, 84-89, 98	
EN21	78-83, 96, 98	
EN22	78-83, 98	
EN23	78-83, 98	
EN24		■
EN25		●
EN26	84-88, 90-91	
EN27		■
EN28		+
EN29		■
EN30	30	
<b>Social performance: working conditions</b>		
LA1	67-71, 99	
LA2	67-71, 99	
LA3		●
LA4		+
LA5		+
LA6		+
LA7	67-71, 99	
LA8	74	
LA9	71	
LA10	67-71, 99	
LA11	73	
LA12		●
LA13	67-71, 99	
LA14	67-71, 99	
<b>Social performance: human rights</b>		
HR1		●
HR2		●
HR3		●
HR4		●
HR5		●
HR6		●
HR7		●
HR8		●
HR9		●
<b>Social performance: impact on society</b>		
SO1		●
SO2	46-47	
SO3	45	
SO4		+
SO5	48-49	
SO6		●
SO7		+
SO8		+
<b>Social performance: impact of products</b>		
PR1		●
PR2		●
PR3		●
PR4		●
PR5	60-61	
PR6		●
PR7		●
PR8		■
PR9		+

**Key**

- Indicator insufficiently suited to the specific nature of our business
- Indicator not collected or consolidated
- ◆ Veolia Environnement does not wish to report on this indicator
- +

Data available in our 2006 annual report, in our 2006 Form 20-F SEC registration document or on our Web site

2006

## ENVIRONMENTAL PERFORMANCE DATA

	Unit	2004	2005	2006	Veolia Water	Veolia Energy	Veolia Environmental Services	Veolia Transport	GRIG see p.97
<b>MANAGEMENT</b>									
Relevant revenue covered by an EMS (including ISO 14001 certified facilities) *	%	53%	66%	72%	84%	92%	63%	40%	
Relevant revenue covered by a certified management system (ISO 9000 or 14001) #	%	67%	65%	68%	87%	78%	70%	28%	
Number of sites covered by an ISO 14001 certificate °	Number	529	705	853	223	69	520	41	
Drivers (Veolia Transport) who have received training in environmental performance	%	59%	70%	64%	-	-	-	64%	
Priority facilities audited (cumulative since Jan. 1, 2002) *	%	57%	80%	87%	89%	95%	84%	67%	
Revenue from relevant activities <sup>§</sup>	Billions of €	17.7	17.4	19.2	5.9	5.6	3.2	4.5	
<b>AIR</b>									
Direct CO <sub>2</sub> emissions *	Million metric tons CO <sub>2</sub>	23.9	26.1	27.9	0.2	20.7	5.2	1.8	
Indirect CO <sub>2</sub> emissions due to electricity consumption	Million metric tons CO <sub>2</sub>	-	2.7	3	2.12	0.27	0.27	0.36	
Direct CH <sub>4</sub> emissions	Thousand metric tons CH <sub>4</sub>	366	362.4	405.4	-	-	405.3	0.1	
Total direct greenhouse gas emissions * °	Million metric tons CO <sub>2</sub> eq.	31.5	33.7	36.5	0.2	20.7	13.7	1.9	
Direct and indirect (electricity) greenhouse gas emissions °	Million metric tons CO <sub>2</sub> eq.	-	36.4	39.5	2.3	21	14	2.2	
Overall reduction of greenhouse gas emissions ≈	Million metric tons CO <sub>2</sub>	-	8.3	8.9	0.04	4.21	2.55	2.10	
Of which overall reduction of CO <sub>2</sub> emissions (Veolia Energy) ≈	Million metric tons CO <sub>2</sub>	-	4	4.2	-	4.21	-	-	
Of which CO <sub>2</sub> emissions avoided ≈	Million metric tons CO <sub>2</sub>	-	4.3	4.7	0.04	-	2.55	2.10	
CO <sub>2</sub> emissions/thermal MWh produced at facilities of more than 20 MW (World) ***	Met. tons CO <sub>2</sub> /MWh prod.	0.297	0.337	0.342	-	0.342	-	-	
Landfills (non-hazardous waste) equipped with biogas recovery and treatment systems (in operation and for which Veolia ES has control over capital investments) * °	%	64%	70%	80%	-	-	80%	-	
SOx emissions from waste incineration plants (hazardous and non-hazardous) per metric ton of waste incinerated °	g/metric ton incinerated	151	147	106	-	-	106	-	
NOx emissions from waste incineration plants (hazardous and non-hazardous) per metric ton of waste incinerated	g/metric ton incinerated	1,233	1,172	965	-	-	965	-	
Particulate matter emissions from waste incineration plants (hazardous and non-hazardous) per metric ton of waste incinerated	g/metric ton incinerated	34	27	20	-	-	20	-	
HCl emissions from waste incineration plants (hazardous and non-hazardous) per metric ton of waste incinerated	g/metric ton incinerated	129	80	55	-	-	55	-	
Passenger transportation vehicle emissions per unit E.g., Passenger transportation vehicle emissions of CO per unit									
CO*	g/km	-	2.62	2.49	-	-	-	2.49	
HC*	g/km	-	0.70	0.68	-	-	-	0.68	
Particulates*	g/km	-	0.35	0.33	-	-	-	0.33	
Completion of Legionella risk prevention plan *	%	76%	80%	85%	-	85%	-	-	
Waste treated in incinerators with dioxin emissions lower than 0.1 ng/Nm <sup>3</sup> in plants where Veolia ES has control over capital investments * °	%	68%	77%	86.4%	-	-	86.4%	-	
<b>WATER</b>									
Water distribution network efficiency (World) *	%	77.3%	77.0%	77.7%	77.7%	-	-	-	
Water Loss Index (World) *	m <sup>3</sup> /km/day	-	-	11.2	11.2	-	-	-	
Water distribution network efficiency (EU 15)	%	81.2%	80.7%	81.1%	81.1%	-	-	-	
Industrial water consumption °	Million m <sup>3</sup>	246.3	210.3	391.4	368.5	3.6	17.9	1.4	
Wastewater treatment efficiency (biological treatment plants with a treatment capacity of over 3 metric tons of BOD5 per day (50,000 PE) * °	%	93%	91%	90.1%	90.1%	-	-	-	
Percentage of customers equipped with water metering device	%	91%	93%	93%	93%	-	-	-	
Landfills collecting and treating leachates (internally or externally) (in operation and for which Veolia ES has control over capital investments) *	%	95%	96%	98%	-	-	98%	-	
Drinking water quality – bacteriological compliance rate	%	99.3%	99.3%	99.3%	99.3%	-	-	-	
Drinking water quality – overall compliance rate	%	98.9%	98.7%	99.1%	99.1%	-	-	-	
<b>ENERGY</b>									
Total energy production (electricity and heat) *	Million MWh	70.5	71.5	73.9	0.3	67	7.6	-	
Production of renewable or alternative energy (electricity and heat)	Million MWh	-	11.2	11.9	0.3	4	7.6	-	
Incineration plants equipped with energy conversion systems	%	91%	91%	90.3%	-	-	90.3%	-	
Total energy consumption (electricity and heat) ° ***	Million MWh	-	-	111.3	6	91.3	5.7	8.3	
Renewable and alternative energy consumption	Million MWh	4.8	4.2	4.4	-	4.4	-	-	
Renewable and alternative energy consumption	%	5.7%	4.9%	4.9%	-	4.9%	-	-	
<b>WASTE</b>									
Quantity of sludge dealt with	Thousand metric tons dry matter	777	806	866	866	-	-	-	
Waste recycled	%	12%	12%	11%	-	-	11%	-	
Quantity of waste recycled	Million metric tons	7	7	7.1	-	-	7.1	-	
Quantity of compost produced °	Million metric tons	757	764	851.6	24.9	-	826.7	-	
<b>SOIL</b>									
Sludge produced recycled for agriculture °	%	46%	40%	47%	47%	-	-	-	
Landfill surface restored	ha	210	190	195	-	-	195	-	

(\*) : Indicator externally verified (°) : Indicators complying with France's NRE requirements (-) : Indicators not available, not significant or not applicable

(\*\*) : 2006 value pro forma 2005: 0.331 metric tons CO<sub>2</sub>/MWh (see page 81) (#) : Includes Veolia Transport's NFS service certificates in France

(\*\*\*) : Methodology amended in 2006: now includes consumption in respect of waste collection and service vehicles as well as part of own consumption. The Company's own consumption of heat must be estimated. (≈) : See climate change pages (pp. 84-89)

## 2006

SOCIAL PERFORMANCE DATA	Unit	2005		Veolia	Veolia	Veolia	Veolia	Veolia	GRIC
		Veolia Environnement*	Environnement*	Water	Energy	Environmental Services	Transport	Environnement France	see p.97
<b>HEADCOUNT</b>									
Total headcount at Dec. 31, 2006		271,153	298,498	77,841	48,789	89,502	81,897	112,896	
• Number of employees with unlimited-term contracts		251,842	278,597	72,525	45,497	83,899	76,249	106,273	
• Number of employees with fixed-term contracts		19,311	19,901	5,316	3,292	5,603	5,648	6,623	
Number of fixed-term contracts converted into unlimited-term contracts		4,979	7,689	1,670	997	2,982	2,036	2,735	
• Number of male employees		218,570	239,352	60,206	40,843	72,479	65,610	89,143	
• Number of female employees		52,583	59,146	17,634	7,946	17,024	16,287	23,753	
• Number of managerial grade employees		21,995	24,007	9,641	5,612	5,654	2,738	12,497	
• Number of non-managerial grade employees		249,158	274,491	68,199	43,177	83,849	79,159	100,399	
Number of employees with work-study contracts at Dec. 31, 2006		3,593	4,787	1,682	1,542	579	976	2,825	
• of which employees with apprenticeship contracts		2,517	2,766	1,275	729	455	303	1,942	
Number of employees with disabilities at Dec. 31, 2006		3,881	4,513	1,292	754	1,360	1,107	2,914	
Total weighted annual average number of employees (full-time equivalent)		252,643	268,746	74,455	47,437	76,258	70,152	105,490	
• Weighted annual average number of employees with unlimited-term contracts		237,630	252,728	70,564	44,878	71,693	65,184	99,428	
• Weighted annual average number of employees with fixed-term contracts		15,012	16,018	3,892	2,558	4,565	4,968	6,062	
<b>NEW HIRES</b>									
Total number of new hires		63,270	71,036	10,148	9,863	32,119	18,805	29,725	
of which with fixed-term contracts		27,197	29,927	4,050	3,092	16,315	6,453	17,835	
of which with unlimited-term contracts		36,073	41,109	6,098	6,771	15,804	12,352	11,890	
<b>DEPARTURES</b>									
Total number of departures		57,528	66,561	8,945	8,758	31,341	17,469	27,076	
of which number of dismissals		7,061	8,564	1,207	2,139	3,068	2,144	2,681	
of which redundancies		672	394	101	74	4	215	0	
<b>JOB MOBILITY</b>									
Total number of transfers		11,873	13,057	2,687	3,188	5,646	1,495	6,793	
of which managerial grade employees		2,045	2,353	689	733	655	243	1,334	
<b>OVERTIME</b>									
Total number of overtime hours	hours	18,684,632	21,900,015	3,973,036	1,921,945	9,356,547	6,648,488	2,966,062	
Average number of overtime hours per employee per year	hours	69	73	51	39	105	81	26	
<b>TEMPORARY EMPLOYEES</b>									
Number of temporary employees (full-time equivalent)		10,566	12,506	4,024	2,094	5,720	661	7,549	
Payment to temporary staffing agencies	€	354,687,770	392,477,199	115,660,552	78,916,811	171,915,897	25,680,152	306,530,072	
<b>ORGANIZATION, WORK TIME, ABSENTEEISM</b>									
Weekly work time	hours	38.3	38.4	38	38.1	38.7	38.2	35.3	
Number of part-time employees (full-time equivalent)		15,767	14,970	2,258	728	5,376	6,589	7,027	
Total number of work days lost through absence	days	3,101,546	3,251,287	806,546	506,815	932,149	1,002,057	1,585,008	
of which total number of work days lost through sick leave	days	2,150,939	2,210,145	553,823	384,359	559,498	710,428	1,052,676	
<b>COMPENSATION, SOCIAL SECURITY CONTRIBUTIONS, PROFIT-SHARING AND EMPLOYEE STOCK PURCHASE PLANS</b>									
Average gross annual compensation	€	24,745	25,247	26,082	23,887	23,764	26,511	28,061	
• Average gross annual compensation (men)	€	25,318	25,966	27,019	24,946	24,211	27,225	28,729	
• Average gross annual compensation (women)	€	22,117	22,127	22,738	18,260	21,511	23,558	25,172	
Gap between average compensation (men and women)	%	14.4	14.8	15.8	26.8	11.2	13.5	12.4	
Ratio of average compensation to average minimum compensation in 19 countries that have a legal minimum wage		2.3	2.2	-	-	-	-	1.9	
Social security contributions as % of total payroll costs	%	31.4	22.3	23.5	22.7	20.3	22.4	27.5	
Total amounts paid in respect of bonus payments (France)	€	54,627,721	57,367,743	34,619,403	8,220,914	7,642,032	5,254,464	54,812,696	
Total amounts paid in respect of employee stock purchase plans (France)	€	48,304,180	57,611,395	24,985,976	11,394,293	15,206,267	6,024,859	56,748,601	
<b>LABOR RELATIONS AND COLLECTIVE AGREEMENTS SUMMARY</b>									
Number of collective agreements signed		1,341	1,505	387	251	307	559	599	
of which related to compensation		730	876	145	135	221	375	379	
of which related to health, safety or working conditions		175	194	76	42	33	43	64	
of which related to employee-employer dialog		101	158	60	36	27	34	90	
of which related to other subjects or several of the above		335	277	106	38	26	107	66	
Total number of employee representatives		14,296	15,687	3,836	2,807	4,650	4,348	10,142	
<b>OCCUPATIONAL HEALTH AND SAFETY</b>									
Number of work accidents with sick leave		11,190	11,273	2,231	1,502	4,851	2,689	5,969	
Total number of days lost through work accidents	days	316,526	327,096	58,766	42,351	129,380	96,593	227,614	
Accident frequency rate		26.1	24.7	17.6	18.6	37.4	22.5	33.3	
Accident severity rate		0.74	0.72	0.46	0.52	1.00	0.81	1.27	
Number of employees trained in safety procedures		108,169	143,468	42,328	23,271	40,434	37,420	50,914	
Number of organizations dedicated to the study of health and safety problems		2,736	2,634	389	651	953	639	725	
<b>TRAINING</b>									
Total training expenditure as a percentage of total payroll costs	%	2.24	2.28	2.55	2.83	1.99	1.97	3.07	
Number of employees who benefited from training		270,783	358,817	106,409	68,805	88,444	94,844	109,016	
• Managerial grade		28,144	47,877	17,832	9,978	6,665	13,168	14,273	
• Non-managerial grade		242,639	310,940	88,577	58,827	81,779	81,676	94,743	
• Men		221,813	283,785	80,123	59,099	75,192	69,274	92,565	
• Women		48,970	75,032	26,286	9,706	13,252	25,570	16,451	
Expenditure per employee trained	€	517.9	431.6	466.1	466.3	406.9	385.4	833.3	
Total number of training hours	hours	4,210,174	5,560,907	1,434,554	992,650	1,205,452	1,921,446	1,785,445	
Average duration of training activities	hours	15.5	15.5	13.5	14.4	13.6	20.3	16.4	
<b>COMMUNITY INVOLVEMENT ACTIVITIES</b>									
• Subsidies for community involvement activities	€	53,545,855	57,295,982	25,480,413	13,073,407	8,158,965	10,377,226	42,083,784	

\* 2005 and 2006 Veolia Environnement data includes data for Veolia Environnement SA head office and Campus Veolia Environnement (not described in detail here)

# Independent opinion

## Fiscal year ended December 31, 2006

### Report on our review of certain environmental indicators

At the request of Veolia Environnement and in our capacity as independent auditor, we have carried out an examination intended to enable us to express moderate assurance with respect to the environmental indicators for 2006 indicated by an asterisk (\*) in the "2006 Environmental Performance Report," on page 98 of the sustainable development report (the "Indicators").

The Indicators were prepared by the Environmental Committee under the responsibility of the general management of Veolia Environnement, in accordance with the Company's 2006 Environmental Reporting Protocol (the "Protocol"), which can be consulted on the Company's Web site<sup>1</sup> and a summary of which appears in the "Information about methodology" section on page 96. It is our duty to express a conclusion about these Indicators on the basis of our review.

#### Nature and extent of the review

We have taken the following steps to obtain moderate assurance that the Indicators do not contain any significant anomalies. A higher level of assurance would have required more extensive studies.

- We have evaluated the Protocol with regard to its precision, clarity, objectivity, exhaustiveness and relevance in relation to the Company's activities and the reports of the principal environmental services companies.
- At the level of the Company and its four Divisions (water, waste management, energy services and transportation), we have interviewed those in charge of environmental reporting. In doing so, we evaluated the application of the Protocol, implemented analytical procedures, and, by means of random checks, verified the calculations and consolidation of data.
- We have selected a sample of eight business units<sup>2</sup> or the equivalent in four countries, according to their activity, their location, their contribution to the Indicators and the results of the audit work carried out during the five previous fiscal years. The business units selected represent on average 11%<sup>3</sup> of the total value of the Indicators. In carrying out this exercise, we verified the understanding and application of the Protocol and conducted detailed tests on the basis of random checks, in order to verify the calculations made and to reconcile the data with the supporting documents.

#### Information on the Protocol

We have the following observations to make on the Protocol:

##### Relevance

- Compared to other environmental services companies, the Company applies best practice in the area of health reporting (dioxins, *Legionella*, water quality, etc.). It applies good reporting practices in relation to the environmental management system, greenhouse gas emissions, wastewater treatment efficiency, and the equipment of landfills<sup>G</sup> for biogas recovery and treatment and for the treatment of leachates<sup>G</sup>.
- The Company has improved its presentation of the consumption and production of energy. It must continue to simplify the indicators relating to transportation vehicle emissions (CO, HC, particulates) by showing the key

variables more clearly (in particular the typologies and rates of renewal of vehicle fleets). The indicators relating to emissions of NOx and SOx should be supplemented in order to cover the Company's principal impacts. The factors associated with the different origins and uses of water consumed by installations could also be specified in more detail.

- Certain activities (engineering and works, management of wastewater collection systems, management of industrial water, waste collection and other energy services) are not yet fully covered by environmental reporting. The Company could also take more account of the environment beyond its operating activities: demand control, management of subcontractors, eco-design, etc.

##### Exhaustiveness

- The scope of reporting is specified in the "Information about methodology" section on page 96, particularly as regards the scope of activities controlled by the Company around the world.
- The Company could explain the concept of operational control better, particularly in the case of joint control (e.g., the case of the Proactiva joint venture in South America), subcontracted activities, or divestments and acquisitions during the fiscal year.

##### Clarity and objectivity

- The Company provides detailed information in the "Information about methodology" section on page 96, particularly regarding the methodological limitations associated with the Indicators, and in particular for methane emissions estimated on the basis of national models in France, the United Kingdom, the United States and on the basis of the IPCC (tier 2 model) in other countries.
- The Company must include the latest methodological amendments made in the Reporting Protocol that is available on its Web site.

##### Reliability

- Reporting of the Indicators has been made more reliable by the use of the Company's Environmental Information System, which is yet to be deployed throughout the Divisions and business units.
- Management of the data could be improved, particularly by the monitoring of synthesized performance tables on a six-monthly basis.

#### Conclusion

On the basis of our review, we have not observed any significant anomaly liable to detract from the view that the Indicators have been established in accordance with the Protocol in all significant respects.

Paris-La-Défense, April 20, 2007

The Statutory Auditor  
Ernst & Young et Autres  
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Ernst & Young  
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Eric Duvaud

<sup>1</sup> <http://www.sustainable-development.veolia.com>, "publications" section

<sup>2</sup> In France, the South-East region for the water division, the Ile-de-France region for energy services and the Mediterranean region for transportation. At the international level, Veolia Voda, which comprises the water division business units in the Czech Republic, Dalkia Lithuania (comprising the Vilnius and Litesko units), and the transportation and waste management units in Australia (Collex for waste management).

<sup>3</sup> 13% of the revenue from relevant activities<sup>G</sup>, 14% of priority facilities, 10% of direct greenhouse gas emissions (CO<sub>2</sub> and CH<sub>4</sub>), 10% of landfills, 6% of systems concerned by the *Legionella* risk control program, 6% of waste treated in incinerators, 12% of wastewater treated, 9% of water distributed, 11% of the length of water distribution systems, 13% of energy consumption and 15% of energy production.



# Independent opinion of the Sustainable Development Visiting Committee

In 2006 Veolia Environnement decided to create an independent Sustainable Development Visiting Committee in order to enlarge its strategic vision and improve the quality of its reporting. A launch meeting will be held in June 2007 to listen to the experts' expectations and to exchange views on Veolia's objectives and performance. In preparation for this meeting, Veolia has asked the Sustainable Development Visiting Committee members what are, according to them, the major sustainable development challenges the company has to face and what are their key expectations regarding the company's sustainable development policy. The members of the Committee are:

- Mr. John Gummer, Former Minister, Chairman of SANCROFT Group, Chairman of Veolia UK Ltd.
- Mrs. Karina Litvack, Director of the governance and socially responsible investment department of F&C Investment
- Mr. Rajendra K. Pachauri, Director-General of TERI (The Energy and Resources Institute)
- Mr. Ignacy Sachs, Professor at EHESS (Ecole des Hautes Etudes en Sciences Sociales)
- Mr. Jean-Michel Severino, Executive Director of the Agence Française de Développement
- Mr. Björn Stigson, Chairman of WBCSD.

## Karina Litvack

Major challenges facing Veolia Environnement:

- Global corporate culture: the work force is 60% non-French, but neither the Board's composition nor that of the very top management appear to reflect a truly international corporate culture. The biggest SD challenges will emanate from the emerging world, and the best solutions will arise from a mix of experiences.
- Redefining Veolia's role as a political actor: there is an urgent need for companies to engage actively in the political process to mobilize market mechanisms where possible and reform the regulatory framework where necessary.
- Access to water/water pricing: Veolia operates in some areas where the degree of civil awareness is low and public corruption high. What is its strategy for addressing the weaknesses inherent in the political and legal systems of the countries where it anticipates its greatest growth?
- Climate change: the 2005 report seems to lack an overarching strategy for how to deal with this. In fact, the success of the water business is as dependent on a clear adaptation strategy as it is on a mitigation strategy, and both these angles need to be explained.
- Differentiated water service: delivering potable water for drinking only, but also non-potable water for other uses.
- Urban migration: mostly from rural areas to urban mega-cities in the emerging world, but possibly in the opposite direction to some extent as telecommuting and high living costs drive knowledge workers out of big cities. Where does Veolia strategy lie with respect to this?
- Ethics vs Compliance: the real challenge of ethics is to engage the individual in confronting the conflict between "spirit" and "letter," or "legality" and "right." Veolia needs to take a position on this, and demonstrate 1) that it has grasped this and 2) that it has the infrastructure to support its staff in dealing with this.

Based on the 2005 SD report, key expectations regarding Veolia's performance:

- To propose greater clarity and focus on what the company aims to achieve (a shorter report that focuses on the strategy, relegating the detail to links to the Web site, would be better);
- More candor in explaining not only the successes but also what went wrong or proved a real challenge

## John Gummer

Major challenges facing Veolia Environnement:

- The company has to transform the threat of climate change into a business opportunity and identify itself as a major private sector partner for government, both national and local.
- To do this, Veolia must establish a reputation as the most technically efficient provider of carbon saving solutions and detailed carbon measurement; must show expertise across the board in alternative energy solutions; must build an international reputation for advanced water technology in the context of solutions which recognize the need for community involvement in the ownership and control of water resources. It should further refine the contribution which Veolia's transportation expertise can make to sustainability; it should ensure that Veolia's menu for waste solutions is seen to be at the cutting edge of technology.

## Jean-Michel Sévériano

Some of the major challenges facing Veolia Environnement will be water, climate change, conflicts over scarce resources and sanitary issues. These will be all the more acute in developing countries, where demography is rising sharply. To deal with the issue of water preservation, the company must use its advanced Research and Development capacities, and assist policy-makers in making the right choices. To cope with climate change, Veolia must act in three fields: increase the use of clean and renewable energy, improve energy efficiency and reduce the impact of transportation. Veolia should engage a study on how the private sector can contribute to diminishing tensions when conflicts arise around essential services. Based on the 2005 SD report, key expectations regarding Veolia's performance are: increase the use of Clean Development Mechanism projects, especially in developing countries; measure the company's impact on vulnerable populations; improve dialog with NGOs and the participation of the company in international cooperation; focus on local know-how transfer, and finally, ensure that every employee is involved in the company's commitment, for instance by including sustainable development objectives in the remuneration criteria.

## Rajendra K. Pachauri

Major challenges facing Veolia Environnement:

- Mapping its ecological footprint and setting specific goals for its reduction;
- Implications for the removal of poverty and the spread of benefits from its operations to service the poor. Sustainable development implies much more than protection of the environment and natural resources, and also encompasses the disparities in reduction of income and wealth as well as the elimination of poverty. The big challenge today is of these efforts within the bounds of commercial viability and good business performance.

Based on the 2005 SD report, key expectations regarding Veolia's performance:

- A focus on reducing the emissions of greenhouse gases (GHGs) not only in its own operations but in partnership with the organizations that it is working with and working for. This would require the development of a clear plan of action and monitoring achievements to reduce emissions.

## Björn Stigson

Major challenges facing Veolia Environnement:

- Climate change: Veolia has to reduce its own emissions but there will also be growing demands from its customers to help them reduce emissions as well. It will also impact water availability, thus Veolia's water business, and Veolia's transportation business, both regarding vehicles, fuels and transportation systems;
- Managing resource scarcity: with the growing population and increased living standards in developing countries, there will be impacts on resource availability and resource prices, which will drive up service costs, as well as demands for resource efficiency (3Rs: Reduce, Reuse, Recycle);
- Business models in developing countries: in a world where 85% of the population will be in developing countries by 2050, "doing business with the poor" will hold important growth potential and requires new business models.

Based on the 2005 SD report, key expectations regarding Veolia's performance:

- To focus on business opportunities in solving the world's problems (the challenges listed above);
- To increase the focus on partnerships to uphold high ethical standards.

# To contact us

Your opinion can help us do better. Please send us your comments:

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# Glossary<sup>G</sup>

**Alternative energy** Natural or industrial sources of energy or calorific energy that is lost if not recovered immediately: biogas, flare gas, etc.

**Bioaerosols** Solid or liquid particles suspended in air and composed of living or dead micro-organisms (bacteria, molds, viruses, etc.) or compounds resulting from their metabolism or decomposition (toxins, mycotoxins, etc.).

**Biodiversity** The full variety and variability of living organisms and the ecological complexes to which they belong. It includes three components: ecosystem diversity, or ecological diversity; animal and plant diversity, or specific diversity; diversity within a single species, or genetic diversity.

**Bioenergy** Energy produced primarily from biomass that can be transformed into fuel or heat.

**Biofuel** A liquid or gaseous product that can be used in the internal combustion engine of transportation vehicles. Its distinctive feature is that it is partially composed of renewable materials originating in crops and farm animals.

**Biogas** Gas resulting from the biological decomposition of organic matter in the absence of oxygen. It contains a high percentage of methane and high calorific and energy potential. It must therefore be recovered to avoid pollution (odors and greenhouse gases). Once recovered, it can also be converted into energy.

**Biomass** All plants and animals, as well as the organic waste associated with them.

**Business unit** (EMS definition) Organizational and geographical entity forming a level of management and consolidation within a division.

## Clean Development Mechanism (CDM)

A Kyoto mechanism encouraging environmental projects in developing countries. The entity that finances the project earns emission credits.

**CNG** Compressed Natural Gas used as a vehicle fuel.

## Cogeneration (or combined heat and power)

Process consisting in producing heat and electrical power at the same time from a single energy input. Electricity, which can be used for internal purposes or sold, is produced by a turbine or an engine. The waste heat from the exhaust fumes is recovered and channeled into a heating circuit.

**Composting** One of the techniques used to recycle organic waste. This biological process treats organic waste (green waste, the fermentable portion of household waste, sludge from municipal wastewater treatment plants, etc.) by exposing it to air, which speeds up decomposition. This technique results in compost, which can be used in agriculture.

## District heating and cooling network

A network made up of a central production unit and a network of pipes. It makes it possible to supply public and private institutions (schools, hospitals, offices and housing units) with heat, hot water and air conditioning.

## Environmental Management System (EMS)

System allowing an organization to implement its environmental policy and reach the targets set for controlling the main environmental impacts of its activities and complying with regulatory requirements.

**Global Reporting Initiative (GRI)** A private, multistakeholder US initiative set up by a Boston-based NGO, CERES, and the UNEP in 1997. It offers sustainability reporting guidelines that take into account environmental, social and economic performance.

**Greenhouse gas or GHG** (CO<sub>2</sub>, CH<sub>4</sub>, NO<sub>x</sub>, etc.) Gas which, by absorbing part of the sun's rays, is responsible for climate warming.

**Greenhouse gas emission quotas** The authorization to emit 1 metric ton of CO<sub>2</sub> equivalent during a specific period. Such quotas were attributed, in particular, to operators of power plants, in connection with implementation of the European directives designed to achieve the objectives set by the Kyoto Protocol.

**International Financial Reporting Standards (IFRS)** Listed companies in the European Union have adopted these new accounting standards, which draw on the former international accounting standards (IAS) and US Gaap accounting standards.

**Joint Implementation (JI)** Similar to the Clean Development Mechanism (CDM) but the project must be carried out in an industrialized or former Eastern bloc country.

**Kyoto mechanisms** Flexibility mechanisms planned in addition to domestic measures under the Kyoto Protocol to guide signatories in reducing their greenhouse gas emissions. The mechanisms consist of the Emissions Trading Scheme (ETS), the Clean Development Mechanism (CDM) and Joint Implementation (JI).

**Landfill** Current landfill technologies allow waste to be buried and treated under optimum conditions of environmental safety. Many landfills are now fitted with biogas recovery systems.

**Leachate** When stored in landfills and exposed to rain and natural fermentation, waste produces a liquid called leachate. Rich in organic material and trace elements, leachates cannot be put back directly into the natural environment, but must be carefully collected and treated.

**Membrane** A thin layer of organic or mineral material acting as a physical barrier to separate elements at a microscopic level. Separation can be facilitated by a driving force (a difference in pressure, concentration or electrical potential).

**Natura 2000** A network of natural and semi-natural ecological sites of great heritage value because of the natural habitats or exceptional flora and fauna they contain. There are two types of areas in the Natura 2000 network:

→ Special Protection Areas (SPA), classified under the Birds Directive of 1979

→ Special Conservation Areas (SCA), classified under the Habitat Directive of 1992.

**Network efficiency** Ratio of the total volume of water invoiced for industrial and domestic needs to the volumes of water not invoiced for service needs, and the volumes introduced into the distribution network.

**Primary energy** Untransformed products used directly such as crude oil, natural gas, biomass, solar energy, hydraulic energy, wind power, geothermal energy and nuclear energy.

**Priority facilities** (EMS definition) Facilities with the most significant environmental impacts.

**Public-private partnership** Operating method for public services or services of general interest under the control of public authorities that benefit residents, who usually pay the price directly to the service operator. The operator assumes responsibility for service operation as well as investments where necessary. The public services operated by Veolia Environnement mainly involve

municipal and non-hazardous waste collection, treatment and disposal; water and wastewater services; energy production and distribution (heating and hot water); and public transportation.

**Purchasing Power Parity (PPP)** A currency conversion rate that enables the comparison of purchasing power in different countries. The rate expresses the ratio between the quantity of currency units necessary in the various countries to purchase the same basket of goods and services. This conversion rate may be different from the exchange rate, which reflects the reciprocal values of currencies on international money markets rather than the currency's intrinsic value for a consumer.

**REACH** The new European Union directive on chemicals, adopted in December 2006. The acronym stands for Registration, Evaluation and Authorization of Chemicals. Regulation (CE) No. 1907/2006 and Directive 2006/121/CE amending Directive 67/548/CEE were published in the Official Journal on December 30, 2006. REACH will take effect on June 1, 2007.

**Recovery (waste)** The three main types of waste recovery are:

→ Materials recovery or recycling, which enables waste materials to be reused.

→ Energy recovery, which allows the production of electricity or the supply of a heating network.

→ Organic recovery, which consists in transforming the fermentable part of organic waste into compost.

**Relevant activities** (worldwide scope) (EMS definition)

→ Production and distribution of drinking water, collection and treatment of municipal wastewater

→ Waste treatment activities (sorting, composting, incineration, landfill, hazardous waste processing)

→ Energy services (heating and cooling systems, heating and multi-technical maintenance, industrial utilities and facilities management)

→ Transportation of passengers and goods.

**Renewable energy** Produced using natural elements (sunlight, wind, water, earth) without affecting the environment. Among them: solar and wind power, hydroelectricity, geothermal energy, biomass and tidal power, landfill gas, etc.

**Reverse osmosis** A natural principle: if two aqueous solutions with different salt concentrations are separated by a membrane, the water will flow spontaneously from the solution with a lower concentration to the more concentrated solution.

**Stakeholders** Internal and external players with an interest in the company's operation: employees, customers, clients, suppliers, shareholders, non-profit organizations, civil society, public authorities, etc.

**Subsidized connection** The definition varies from country to country. In the widest sense, it describes the connection of low-income homes, carried out at lower cost and offered for a lower price and/or with easy payment terms. In some countries, such as Gabon, this type of connection is proposed to people who commit to keeping their water and electricity consumption below specified thresholds and therefore benefit from a preferential price.

**Wastewater service** Wastewater and stormwater collection and treatment.

Known as "sanitation" in its most basic forms.



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