

“ The ability to anticipate the expectations and needs of our future world ”

Producing and distributing drinking water, decontaminating wastewater, disposing of household and industrial waste, reducing energy consumption, minimising greenhouse gas emissions, developing group transport solutions: our activities contribute significantly towards sustainable development. Over and above expertise in environmental services management, our job at Veolia Environnement requires a deep and sincere awareness of such challenges. We are well prepared: when serving towns and businesses, we always operate against a backdrop of commitment to and involvement in the communities which house our facilities. Our global presence brings us face to face with very diverse human, economic and social realities, which enrich our corporate culture. As providers of public and private services for our customers, we must be unshakable in meeting the particular demands of social performance. This 2003 Sustainable Development Report illustrates the progress achieved in each of the economic, environmental and social fields. It is the third to be published by Veolia Environnement, and our experience bolsters our conviction that the choice we have made in placing sustainable development at the core of our strategic corporate thinking represents a tremendous business opportunity. An opportunity for being better understood in our actions, for facilitating dialogue, and opening up further to the world in which we are evolving. An opportunity to get to know ourselves better and to assess our performance with increased clarity. An opportunity to reflect on the impacts of our activities and adjust them to fit the expectations of present and future generations. From this point of view, 2003 has seen important milestones. These include, for instance, explaining our “corporate model” of the way we treat our customers and supply chain. And more specifically, communicating our environmental performance and, via quantified targets, performance in the social sphere. This “maturing” approach to sustainable development, which I notice especially in the interest and involvement shown by our employees, has borne tangible fruit, as the Group has been admitted into the Dow Jones Sustainability Index. All our efforts will be going to ensure that such recognition is consolidated in 2004. We still have a long way to go and, for the future, our challenge is two-fold.

We must first of all continue our efforts to increase the positive impacts of our own operations and the facilities we manage for our customers. We must then be able to anticipate the expectations and needs of a future world and look beyond a day-to-day approach. This is the particular responsibility of being the “leader” in the environmental services sector; a sector situated at the heart of the development of an urban world which combines economic efficiency and an increased respect for natural and social balance. In facing this challenge, we have two major assets. The first lies in our capacity to innovate and, more broadly, in the human richness and diversity with which Veolia Environnement is woven. The second is the fact that the vision of sustainable development is totally aligned with our global corporate strategy, and is a contemporary version of the culture built up by Veolia Environnement throughout its history and which, drawing on its roots, acts as our springboard into the third millennium.

HENRI PROGLIO
Chairman and CEO





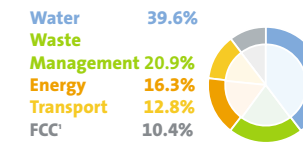
Our approach to sustainable development in 2003

	Veolia Environnement	Average of the 4 best-classed companies with which VE is regularly compared ¹
Turnover	€ 28.6 Bn	Approximately 10 times less
% turnover from water activities	39.6%	Approximately 51%
Number of countries in which present	78	Approximately 7 times less
Headcount	309,563	Approximately 28 times less

This table illustrates the size, complexity and diversity of the contexts in which VE carries out its activities.

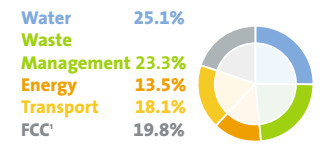
¹ Companies featured in the DJSI or FTSE Global Index in the "Water Utilities" category. Source: Utopies

Turnover for 2003 expressed as a percentage



1 VE share: VE holds 49% in B1998SL, a company with a majority share in the capital of Fomentos de Construcciones y Contratas (FCC), Spain.

Headcount at 31 December 2003 expressed as a percentage



1 Including 50% of Proactiva employees.



1999 2000 2001 2002 2004 2005 2006 2007 2008 2009

OUR GLOBAL PRESENCE

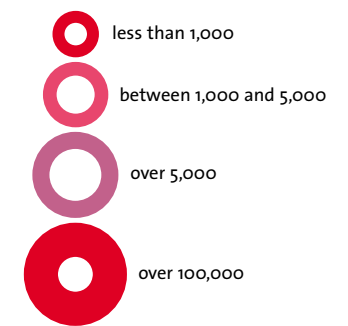
Veolia Environnement is active in 78 countries with 309,563 employees. Global presence is a strength. It also has its challenges. Long term commitments, respect for human rights and communities, operational adaptability, responsibility and innovation in environmental management.



This map illustrates the diversity of the areas in which we operate. Defined by the United Nations Development Programme, the Human Development Index (HDI) measures the average level of development for a country in accordance with 3 criteria: life-expectancy (life-expectancy index), educational level (adult literacy rate) and standard of living (Gross Domestic Product index). It is not, therefore, just an economic analysis. VE realizes 95.7% of its turnover in high HDI countries, and 89% of its employees work in these countries.

Legend:
 ■ high HDI
 ■ medium HDI
 ■ low HDI
 ■ data not available

Distribution of employees per country



NB: the 15 European Union countries, outside France, are grouped together (108,489 employees). Eastern European countries are grouped together (27,002 employees). Our French operations have 104,134 employees.

WATER



As the world leader in water services, VEOLIA WATER provides drinking water and sanitation to 110 million people across the world. Its activities consist of managing water and sanitation facilities for municipal and industrial customers, coming up with solutions and constructing the facilities required to perform these services.

WASTE MANAGEMENT



The sole operator covering the spectrum of solid, liquid and hazardous waste, for both municipal and industrial customers, ONYX, world No.2 in waste management, processes 55 million tonnes of waste across the world. Waste is collected, sorted, transferred and treated before being recycled (material recycling, waste-to-energy conversion to electricity and heat, composting). Onyx is also a service provider in the sector of urban, commercial and industrial cleaning.

ENERGY SERVICES



As European No.1 on the energy services market, DALKIA manages 75,000 facilities worldwide. Its aim is to improve energy efficiency and environmental performance. Dalkia carries out service provision in hot and cold climatic engineering, management of heating and cooling networks and provides integrated facilities management and public lighting services.

TRANSPORT



As the leading European private operator for surface passenger transport with 1.5 billion passengers in 2003, CONNEX provides delegated management of all forms of road & rail networks. It is also developing new passenger services (on-demand transport, transit site management...) and provides freight transport and logistics services.

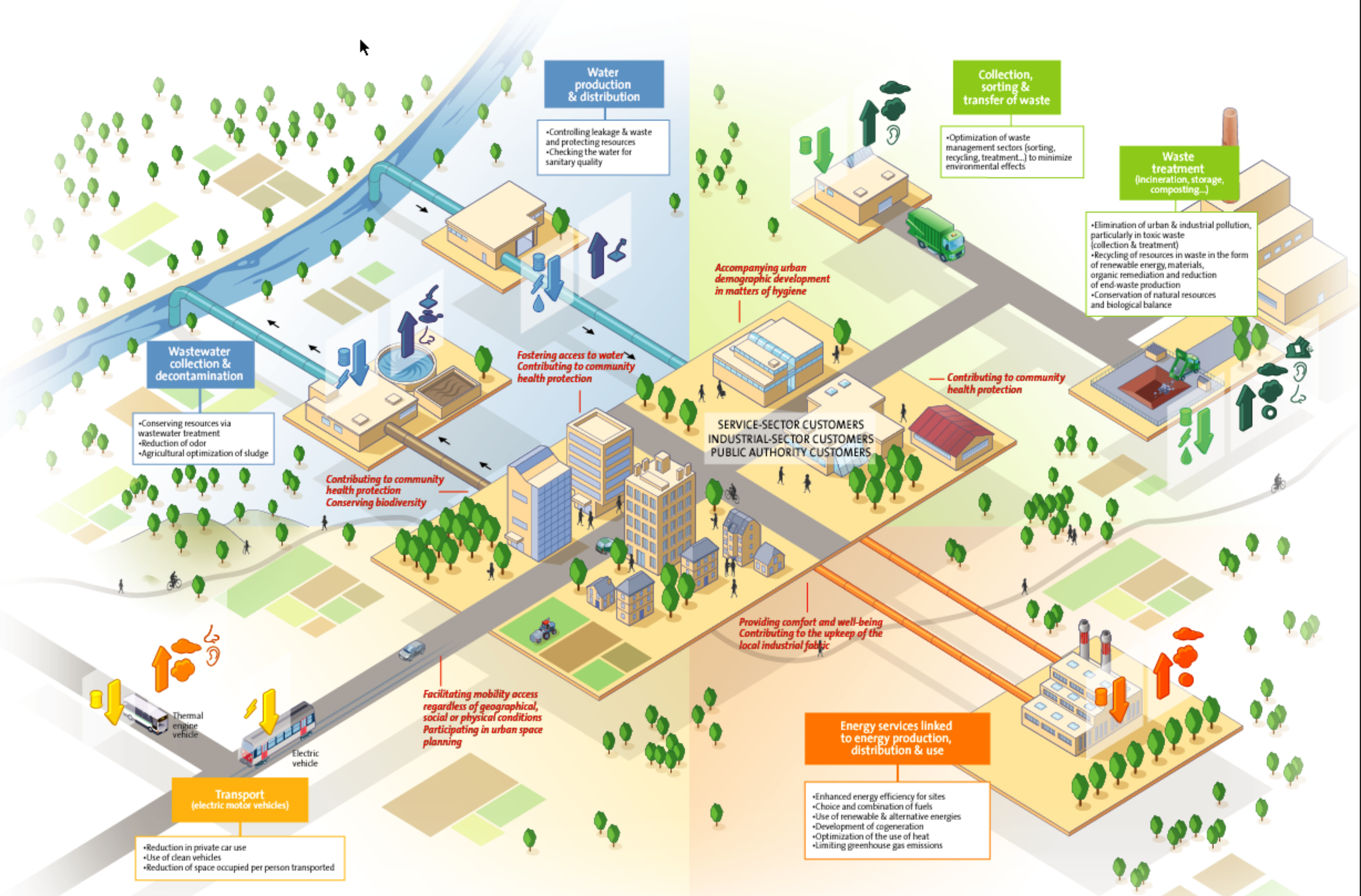
FCC



(Fomento de Construcciones y Contratas) No.1 in the waste management sector in Spain serving 43 million inhabitants in 1,500 municipalities, No.2 in water management in Spain, FCC also operates in the building sector.

OUR PROFESSION: ENVIRONMENTAL SERVICES

The impacts



A commitment-based approach

Our principles and organization testify to our commitment to and awareness of our responsibilities. Governed by our Charter and our values, the scope of our action, the rules which structure

our organization in terms of corporate governance, business ethics, dialogue with stakeholders and risk management are all in clear-cut line with our determination to develop sustainably.

OUR SUSTAINABLE DEVELOPMENT CHARTER: OUR 10 COMMITMENTS

1	To protect the environment, to preserve natural resources and encourage biodiversity	pages 38 to 54
2	To establish and deploy an environmental management system enabling objectives to be identified, action plans to be implemented and progress to be monitored	pages 38 to 40
3	To ensure that our facilities and services comply with relevant regulations, taking account of standards as they develop	pages 38 to 54
4	To go beyond the minimum legal requirements in terms of improving personal health and safety protection	pages 34, 35, 38 to 54
5	To increase our efforts in terms of research, development and innovation, in order to improve our ability to respond to environmental challenges	pages 14 to 15
6	To develop our employees' skills, to encourage them to be autonomous and to promote corporate innovation	pages 28 to 36
7	To encourage our partners, sub-contractors and suppliers to abide by our sustainable development commitments	
8	To anticipate the needs and expectations of the public in terms of environmental services	pages 14, 15 and 27
9	To participate in the social development of communities where our facilities are based	page 37
10	To promote the commitments made in the UN Global Compact and to work with all stakeholders in facilitating access to essential services and towards the respect of fundamental rights	pages 9, 12, 13 and 27

OUR SET OF FIVE VALUES

The Group's commitment is also embodied in the five values which have been designated by employees as being the most representative of our action:

- ◆ CUSTOMER FOCUS
- ◆ RESPONSIBILITY
- ◆ INNOVATION
- ◆ PERFORMANCE
- ◆ SOLIDARITY



www.durable.veoliaenvironnement.com
 ► 2003 Annual Report – Group Values

VE's commitment to implementing the UN Global Compact

Since 2002, Veolia Environnement has been a member of the UN Global Compact which brings together businesses and United Nations organizations, the labor world and the civil society around 9 principles relating to human rights, labor standards and the environment. The Group favors local commitments, aimed at decentralized cooperation in line with the work in which it was involved at the Johannesburg World Summit in August 2002. VE's performance has been rewarded by the company's being selected as one of the 5 leading French businesses invited to speak at the annual Learning Forum of the UN Global Compact that was held in Brazil

in December 2003. At the Forum, VE presented the implementation of an infrastructure dedicated to the initiative steered by the United Nations Institute for Training and Research (UNITAR), "boosting local capacities for sustainable urbanization". This program contributes to the transfer of know-how in the field of urban public services management to locally elected officers. Skills centers to which VE contributes its expertise were opened in 2003 (Kuala-Lumpur, Curitiba and Ouagadougou). They have already received 90 participants from over 30 major cities.



www.unglobalcompact.org

VEOLIA AND THE 9 PRINCIPLES OF THE UN GLOBAL COMPACT

Reminder of the principles	Methods of implementation by VE
1 Businesses should support and respect internationally proclaimed human rights and	<ul style="list-style-type: none"> ◆ Setting-up and application of the Ethics, Belief & Responsibility Program ◆ Involvement of NGOs in developing future training on human rights
2 make sure that they are not complicit in human rights abuse	<ul style="list-style-type: none"> ◆ VE Sustainable Development Charter, article 10 (2001)
3 Businesses should uphold the right of association and the effective recognition of the right to collective bargaining	<ul style="list-style-type: none"> ◆ Compagnie Générale des Eaux Fundamental Social Rights Charter (1996) ◆ Creation of the France Veolia Environnement Group Committee
4 The elimination of all forms of forced and compulsory labor	<ul style="list-style-type: none"> ◆ Annual global monitoring of some one hundred social indicators ◆ Measurement of trends and corrective actions (2002)
5 The effective abolition of child labor	<ul style="list-style-type: none"> ◆ Assessment and diffusion of best practice in the Social Initiatives Handbook
6 The elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> ◆ Purchasing Charter: guaranteeing that ILO principles are adhered to (2002)
7 Businesses should support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> ◆ Deployment of the Environmental Management System across the Group's activities – monitoring of 37 performance indicators in the environmental sphere (2001) ◆ Setting-up of an Environment Management Committee ◆ Setting up of a Coordination Committee for the Evaluation and Prevention of Risks (2002) ◆ Setting-up of a crisis management infrastructure common to the whole Group ◆ Work by the Institut Veolia Environnement on catastrophic risks and climate change
8 Undertake initiatives to promote greater environmental responsibility and	<ul style="list-style-type: none"> ◆ Implementation of educational programs on health and environment-related issues: <ul style="list-style-type: none"> – in Chad, in partnership with the French Red Cross, aimed at heightening children's awareness of better hygiene practices (2002) – in Morocco, to improve hygiene & health education and access to water, in partnership with UNICEF ◆ Charity Charter, focusing on environmental and sustainable development criteria (2002) ◆ Involvement of environmental NGOs in training programs for future Group executives (2001)
9 encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> ◆ Implementation of Research & Development programs dedicated to technological innovation in resource management (in particular water management within the scope of the KompetenzZentrum in Berlin), alternative technologies, renewable energies and waste-to-energy conversion

◆ Carried out in 2003

Our principles of corporate governance

A NEW STRUCTURAL ORGANIZATION

The Combined General Assembly of April 30, 2003 ratified the changeover from the company's organization with an Executive Board and a Supervisory Board, to the structure of a Corporation governed by a Board of Directors aimed at providing better representation of the Group's current wide spectrum of shareholders. Our determination to underpin the foundations of our corporate governance is expressed by the independent status of the Board Directors, and the transparency of the decisions regarding major strategy and the Group's overall policy.

The **Board of Directors (BD)** defines strategic policy and monitors implementation. 10 of the 14 directors are independent members and have no relationships with the corporation or its management that could jeopardize their freedom of judgement. This independence is assessed every year by the Board. The Board of Directors has met 5 times between taking office on April 30 and the end of the 2003 financial year, with an average attendance rate of 75%. It has drawn up a set of internal regulations which define directors' rights and duties. In particular, directors undertake to respect the rules governing concurrent holding of corporate offices in the light of new French NRE legislation (see page 2). The BD has formed two bespoke committees to assist it. The make-up and attributions of these committees are set out in their own internal regulations. The **Accounts, Audits and Commitments Committee** examines the relevance and consistency of accounting methods adopted in drawing up consolidated and company accounts. It met 5 times in 2003 and comprises three members, who are all independent.

The **Appointments and Remunerations Committee** submits proposals to the Board regarding remuneration of company representatives who are on the Board and supervises application of the rules governing how the variable part of such remunerations, is fixed. It is also responsible for the program for renewing company representatives and abiding by the criteria of independence laid down in the Board's internal regulations. This Committee meets twice a year and comprises three members, one of whom is independent.

TRANSPARENCY IN COMMUNICATION WITH SHAREHOLDERS

The 2003 General Assembly brought together approximately 1,000 shareholders. At the Paris Salon Actionaria in November 2003, several hundred shareholders were able to meet members of VE's shareholder Consultative Committee. Created in 2003 and made up of 9 members, including one representative from employee shareholders, this committee has been designed to understand and answer individual shareholder expectations concerning the Group's different areas of work. Finally, the Shareholders' Club, which numbers 30,000 members, keeps them regularly informed via the Shareholders' Newsletter, the Shareholder Guide, the dedicated Internet website and a freephone number (0 805 800 000).



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Combined General Assembly of April 30, 2003

Respecting ethics: asserting our belief and assuming our responsibility

As a global economic player, VE is fully aware of the risks with which it is confronted. Effectively fighting against risks of corruption requires cooperation between governments, international institutions and businesses. In this spirit, VE has been taking part since 2002 in a grouping of companies that have come together with the aim of bringing heightened awareness and fostering exchanges focused around the French Government's Central Department for the Prevention of Corruption. At the same time, the company has undertaken steps, internally, which have resulted in the publication of a Program entitled "Ethics, Belief and Responsibility", adopted and circulated in 2003. Jointly drafted with Group employees, this program sets out to do more than merely draw up a checklist of prohibitions and aims to win over the support and involvement of all staff in asserting a positive code of conduct with goals to be reached.

The program states six principles, with an illustrative portrayal for each one:

- ◆ Strict compliance with legislation which naturally implies an accurate understanding of laws currently in force in the countries where we operate and the duty for employees to keep themselves informed
- ◆ Fairness, particularly in designing services which guarantee environmental excellence, as well as listening to and always taking account of the real needs of communities and their inhabitants
- ◆ Social responsibility, which concerns work-related safety, employee welfare but also abiding by ILO¹ principles governing child labor, the freedom of association, and the efforts made in professional training
- ◆ Risk management, a strategic sphere which has justified the setting-up of a bespoke organization around

a dedicated committee (Coordination Committee for the Evaluation and Prevention of Risks – CCEPR)

- ◆ Shareholder information
- ◆ Commitments to sustainable development

VE's ethical approach is global. It is adapted to our activities and aims to underpin the relationship of trust which arises between a local service provider and the customer. While its scope is global, its organization is geared locally, and aims at imparting the notion of assuming responsibility; each of the Group's companies implementing the required procedures and adopting the necessary precautions.

GOALS

- ◆ assessment of the diffusion and the implementation of the Program by employees
- ◆ pursuit of efforts to diffuse the Program widely
- ◆ setting-up of an ethics committee whose role is to monitor Program implementation
- ◆ drawing-up of an annual assessment of difficulties encountered during Program implementation
- ◆ broadening the application of the Program's principles to our service providers and supply chain



www.durable.veoliaenvironnement.com
 ► Ethics, Belief and Responsibility Program

¹ International Labour Organisation



The viewpoint of Denis Gasquet, CEO of ONYX, Waste Management Division of Veolia Environnement

"Abiding by local regulations and business morals is not enough; we must go beyond compliance in our business ethics. Since September 2003, ONYX has applied strict specifications which define precise minimum standards for treating waste by landfilling. This means that we refuse to undertake a project if the rules put forward by the customer prevent us from

adhering to our own internal standards. These specifications have been drawn up by the Group's employees and abiding by them sometimes goes beyond local legal compliance, as there are no minimum norms in our activity that are valid on a global scale: this is an ethical approach. Our job is to minimise pollution via a suitable level of treatment, not to shift it from one place

to another or to confine it to sites where it would simply be less visible. Our minimum standards translate this vision of our ethical responsibility and the concern we have to share this approach with our customers. From 2003, this policy has led us to refuse taking part in several tenders and, in the future, we shall continue to work closely with our customers."

Aligning our awareness with stakeholder expectations

By the very nature of its activities, VE is a grass-roots enterprise. Each of our facilities is woven into an urban or industrial fabric forming a specific community whose expectations are many and varied. In engaging with stakeholders, actions at Group level are but part of the process of dialogue, the core of which is carried out by local leaders. In addition, each Business Division takes into account a specific network of stakeholders who are particularly interested in its activities. This mix in the levels of dialogue and the locally-based nature of operations are positive elements. 2003 has been a year of reflection on the means for fostering enhanced visibility of the diversity of initiatives implemented by the Group's companies globally.

GLOBAL WORKING APPROACHES

VE takes part in dialogue at an international level on environmentally- and socially-related issues. In 2003, the Group took part in the World Water Summit in Kyoto, in March, and the Paris World Forum on Sustainable Development in November. The Group was also present at the European Forum for Socially Responsible Investing in June 2003 (see opposite page).

It has pursued action in the field of health and environmental safety (see box on the Health & Environment Clubs). It has also set the ball rolling to establish contacts with leading international NGOs which will extend into 2004 with the aim to implement concrete initiatives.

MEETING EXPECTATIONS

A meeting which brought together a spectrum of stakeholders in December 2002 in London enabled us to hear the questions they had to ask and understand their opinions. In 2003, we strove to provide answers to their queries. For example, the continuing use of our environmental indicators enables us to now provide a performance indicator measuring CO2 production. 2003 also saw progress made in EMS implementation.

GOAL In 2004, we shall be continuing to listen and make joint progress along these lines, we have also set ourselves the goal of setting up, at an experimental level and in a limited area, a new reporting process on Group initiatives carried out in partnership with its stakeholders.

European Forum for Socially Responsible Investing, June 4, 2003

"A survey carried out by donnezvotreavis.com shows that 68% of analysts who attended this roadshow were satisfied by VE's presentation.

We have retained the following positive points:

- ♦ major involvement of Executive Management (only one other company had sent a member of its Executive Management to the event)
- ♦ the Group's CSR (Corporate Social Responsibility) challenges explained
- ♦ in-depth presentation of progress-driven measures and of operational elements implemented

Recommended avenues for improvement:

- ♦ indicators must show a better match with challenges and be put in perspective (comparison by sector, development over time, goal)
 - ♦ the link between CSR and creation of value can be enhanced by citing technical or field difficulties, or difficulties in relations with certain stakeholders which it would be interesting to broach and explain."
- Julien Rivals, Ecodurable*

The Institut Veolia Environnement

INTERFACING WITH THE RESEARCH WORLD

Created in 2001, the Veolia Environnement Institute is a non-profit organization whose mission is to look ahead at the developments which will shape the environmental sector and enrich discussions on the major challenges of sustainable development. With the help of the Foresight Committee, the Institute's central body, made up of internationally-renowned specialists, five major themes have been defined: health & environmental safety, environmental economics, urban growth, climate change and societal aspects of sustainable development.

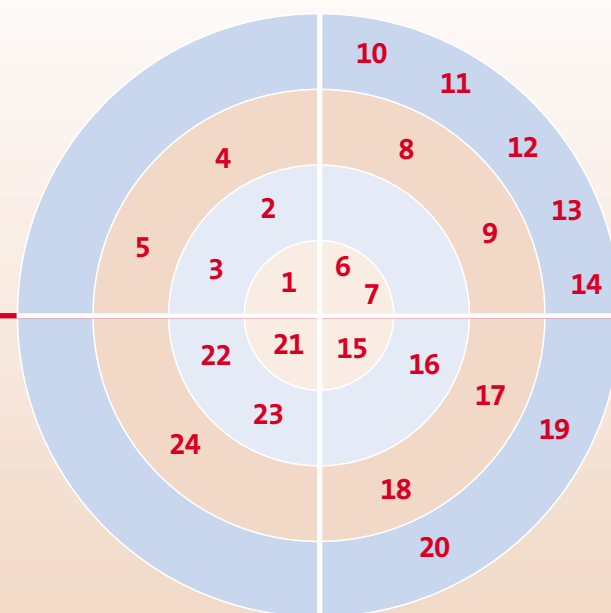
Currently, ten issues are being dealt with in depth with panels of experts, through studies carried out, for example, on the social worth of delegated facilities management, the protection of critical infrastructures and financing of catastrophic risks as well as the issue of new urban constraints. Research has also been carried out on cost-benefit analyses in the fields of environment and health, with the aim of assessing methods for underpinning decisions and risk management. This approach is particularly relevant for sectors linked to Veolia Environnement's activity. The Institute also works alongside the Institut Pasteur on "Education, Environment and Health" issues, themes which are at the core of the sustainable development challenge.

 www.institutveoliaenvironnement.org

Identifying the main expectations

- ◆◆◆ Preventing environmental and health risks 1
- ◆◆◆ Deploying a tailored EMS 2
- ◆◆◆ Restricting impacts 3
- ◆◆ Conserving natural environments 4
- ◆◆ Conserving resources 5

ENVIRONMENT



- 6 Access to essential services ◆◆◆◆
- 7 Transparent and concrete information ◆◆◆◆
- 8 Service quality and good cost/efficacy ratio ◆◆◆
- 9 Technical innovations ◆◆
- 10 VE financial viability ◆
- 11 Ethics and good governance ◆
- 12 Contribution to SD performance of other activity sectors ◆
- 13 Contribution to financing of essential services ◆
- 14 Sustainable and fair commercial relations ◆

ECONOMIC

SOCIAL

- 15 Respect of human rights ◆◆◆◆
- 16 Hygiene, health & safety for employees ◆◆◆◆
- 17 Equal opportunities at work ◆◆◆
- 18 Maintaining a satisfactory social climate in a post-alliance environment ◆◆◆
- 19 Qualification-rewarded training for employees ◆◆◆
- 20 Opportunities for internal mobility ◆◆

CROSS-DISCIPLINES

- ◆◆◆◆ Opening seamless dialogue 21
- ◆◆◆◆ Contributing to public policies of sustainable development 22
- ◆◆◆◆ Adhering to and anticipating regulatory requirements 23
- ◆◆◆◆ Partnerships, discussions and perspectives 24

Identified expectations are classified on the one hand according to 4 themes (Environment / Cross-disciplines / Economic / Social) and on the other according to the number of categories of stakeholders for whom these constitute a core concern.

- Stakeholder categories:**
- ◆ Shareholders and financial institutions
 - ◆ Industrial and municipal customers
 - ◆ Consumers and consumer associations
 - ◆ Employees and union organizations
 - ◆ Local communities
 - ◆ Associations and NGOs
 - ◆ Public authorities
 - ◆ Scientific and University partners
 - ◆ Professional bodies
 - ◆ Supply chain

- Number of stakeholder categories:**
- ◆ 4 primarily concerned stakeholder categories
 - ◆ 3 primarily concerned stakeholder categories
 - ◆ 2 primarily concerned stakeholder categories
 - ◆ 1 primarily concerned stakeholder category

Health & Environment Clubs An example of engaging with stakeholders

These regional training meetings address the potential effects of the environment on health and target sector professionals. Since 2002, 6 meetings organized by VE in partnership with the *Quotidien du Médecin* and the *Quotidien du Pharmacien* journals were addressed by experts on water-related health risks (Montpellier, Lyon, Metz), legionnaire's disease (Rennes), impacts of air quality on health (Nice) and dioxins (Lille).



Victor's "Hats off" campaign

Veolia Environnement has launched an awareness-raising campaign in the French regional daily press with a view to rewarding simple, civic actions in favor of the environment. This "hats off" campaign awards a 1000 euros prize which, to date, has benefited 80 associations or operations selected.

Research & Development in pursuit of sustainable development

Proactive and with a keen sense for innovation and assessment, Research & Development is at the core of Veolia Environnement's approach to sustainable development. As an environmental service provider, our Group must come forward with efficient solutions, from economic, environmental and health points of view.

By anticipating future environmental and health concerns, by exploring innovative technologies likely to drastically change our work over the long term, by keeping up and being proactive with regards to customer demands, R&D contributes towards broadening and diversifying the Group's offering. It enables it to stand out from the competitive pack. Developing technical solutions adapted to local contexts means that our customers can have better economic, environmental and social choice.

THE MAJOR FOCUS AREAS FOR RESEARCH IN 2003:

Water / Wastewater Treatment

- ◆ Sustainable management of water resources
- ◆ Water treatment technologies (membrane procedures, decontamination and purification technologies)
- ◆ Water quality in drinking water supply networks
- ◆ Wastewater treatment systems management (modelling, real-time facilities management)
- ◆ Reduction in sludge quantities
- ◆ Air and odour treatment processes

Energy services

- ◆ Optimization of technical and economic efficiency of facilities
- ◆ Technology development: fuel cells (see box page 15), cogeneration applications, renewable energies (wood products and photovoltaic cells)

Waste management

- ◆ Flow analysis and mechanization of sorting plants
- ◆ Conversion of landfills into waste-to-energy plants
- ◆ Technical and environmental assessment of recovered solid fuel products
- ◆ Modeling of Household Waste Incineration Plants and other thermal processes

Transport

- ◆ Experiments with clean fuel (Natural Gas for Vehicles) and processes for reducing emissions into the atmosphere
- ◆ New IT-based systems for travellers
- ◆ Development of new services

SYNERGIES WHICH TESTIFY TO THE ALIGNMENT OF OUR GOALS

- ◆ Certain areas of research require an integrated approach. Such is the case with sewage sludge which constitutes the largest flow of waste produced by the Group. The regular increase in these volumes resulting from the heightened efficacy of our decontamination processes, is combined with the concerns about agricultural spreading as useful soil conditioners, a process which is often encouraged by regulatory requirements. Research in this sector, for which approximately 10% of R&D funding is earmarked, aims at making agricultural use of such sludge more reliable, and developing techniques for at-source reduction of products whose quality is too poor for the soil.
- ◆ Controlling Legionnaire bacteria in industrial or service sector plants is an ever-increasing concern in our communities, confronted with an aging and consequently more exposed population. A tool has been developed for diagnostic purposes and for making the plants which we manage safer.



Current research is focused on developing quick-analysis methods that are essential for enhancing site monitoring. Finally, the pilot study on the mechanisms of the spread and elimination of Legionnaire bacteria is continuing.

- ◆ Research programs on staff mobility should result in better management of human and material resources across our workforce as IT and communications technologies are adopted on-board vehicles. Innovation- and technology-driven solutions are being increasingly considered in a multi-disciplinary context, testifying of our global activities coherence.

FROM LAB TO FIELD

Research programs are defined and carried out in close collaboration with Group operators, so as to take into account customer and partner concerns. We thus ensure that we are highly customer-focused, while at the same time heeding technical, regulatory and environmental considerations. The R&D process combines several stages: definition of needs, test equipment in the laboratory and a pilot field unit. All development is systematically rounded off by assessment, after a trial period carried out under operational conditions.

A POWERFUL R&D NETWORK

- 600 people work in the Research, Technological Development and Quality Control Departments:
- ◆ 300 employees are directly concerned with research in the following sectors, organized by technical sector:
 - Anjou Recherche (treatment of water and wastewater)
 - The Creed (treatment of waste and waste-to-energy conversion, energy services)
 - Eurolum (research and innovation in the transport sector)
 - Associated entities in Germany (the KompetenzZentrum Wasser in Berlin), northern Europe and Australia.
 - The Group's Health and Environment Departments and shared technical support units.
 - ◆ 300 other engineers and technicians are active in the business units. Their mission is to ensure industrial development and reliability of prototypes from research centers.

Operational staff enjoy the back-up of R&D colleagues across all the areas where VE is present.

- ◆ Research can, in addition, call on a network of five laboratories which carry out the whole spectrum of quality control, particularly in the health and environmental fields. This network of laboratories is coordinated by VE's Environmental Analysis Center which employs 140 specialist technicians and engineers. Our researchers can also count on myriad partnerships with industrialists, local authorities, government bodies and public and private research laboratories. These networks translate into business projects which enrich Group service and product offering. Both Research and Environment Departments jointly take part in defining strategic sustainable development policy lines and implementing the Group's experiments in this field on a day-to-day basis.



The viewpoint of **Michel Desbordes**, Director of Polytech Montpellier

International expert in urban hydrology

"Water management is today divided up between different players. This segmentation in the water cycle is in part responsible for present-day forms of pollution. Water management should be integrated within a global approach that favors protection of upstream catchment areas rather than decontaminating at the end of the chain. Such an approach requires joint efforts between public and private players. Private water management and service provider companies are neither owners of water nor responsible for possible pollutants which might be found in it. On the other hand, their expertise confers on them the care of duty to ensure the quality of supplied water. In this context, responsibilities are shared and they should not be assumed alone but jointly with all players.

Controlling flood risks, for instance, which stem from uncontrollable climatic phenomena, can only be contemplated in partnership with public authorities by developing suitable technical solutions. Similarly, the problems of endocrine disruptors must be tackled jointly with the industrialists concerned so as to restrict source discharges and avoid extra treatment costs. R&D should foster such an integrated management approach by developing the tools which make it possible to measure the quality of water on the scale of a hydrological basin, and detect the presence of noxious elements in real time. But R&D's role is also to continue to create and design tomorrow's solutions today, especially with regards to treating rainwater, as has always been the case for instance with the Ecole de l'Eau Française."

The fuel cell, a paradigm-shifting technology for our sector

In partnership with the EDF Electricity Board and several public and private research centers, VE has engaged upon an assessment of available fuel cell technologies. We are measuring technical performances, defining operating and maintenance conditions and constraints of these technologies in the field. Fuels cells are a cogeneration process (joint production of heat and electricity from a single fuel) whose overall yield and operating costs give hope for significant gain in comparison to conventional technologies. The fuel cell's limited environmental impact in terms of NOx and SOx emissions, sound emissions and vibrations is also one of the technology's important assets. In addition, if we can ultimately manage to produce hydrogen from fossil fuels and trap CO2, without using fossil fuels, then fuel cells will become a non-greenhouse gas emitting technology.

Risks demand vigilance

The Coordination Committee for the Evaluation and Prevention of Risks (CCEPR) continued its work throughout 2003, backed up by the Group's Legal Department, and in partnership with all its Divisions and cross-disciplinary units (see box below).

With regards to **environmental and health risks**, VE is particularly vigilant, whether this be in monitoring operations or preventing pollution which conventional methods are unable to deal with. To achieve this goal, the Group calls on bespoke R&D programs and research center expertise. These programs have already enabled significant knowledge to be acquired and suitable treatment methods to be developed. For example his experience has been especially used to control the risk of Legionnaire bacteria in the most sensitive networks (in particular cooling towers and supply of sanitary hot water). Finally, the Group's involvement at sites that present major technological risks, (called "Seveso" plants), requires precautions of a particular nature to be taken, both with regards to the operation of such plants and taking into account safety programs used by customers. In support of these precautions, specific efforts have been made in monitoring compliance and performance and have been incorporated in the Environmental Management System.

With regard to **legal and financial risks**, VE is exposed to market risks (particularly in terms of interest rates, exchange rates or liquidity) which it is unable to control.

In this light, the Group has therefore decided to adopt a certain number of measures to improve evaluation of risks of instability which might have a bearing on the normal course of activities (in particulier at political, legal, monetary or social levels) and to enable suitable contractual provisions to be negotiated. In addition, VE has drawn up a "Handbook of Rules for Funding & Cashflow Management" which provides for centralized, controlled steering through the different risks in the area of financial management. Finally, these efforts were accompanied by a strengthening of reporting procedures to the Accounts Committee, in compliance with the recommendations of legislation governing financial security. Accordingly, the Committee carried out a review of the internal audit program across the Group, an inspection of auditor involvement (work program, audit scope and fees), and monitoring of accounting standards and the information system.

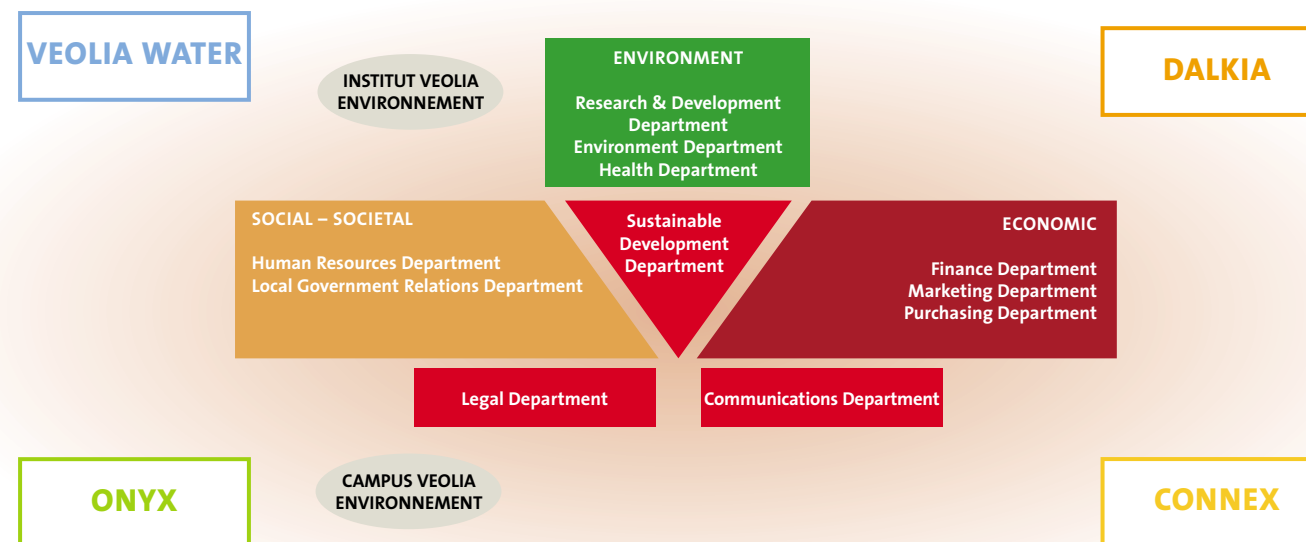
With regards to **security of property and safety of people**, instructions were drawn up and ratified by the Group's Health Department, with a view to preventing accidents and protecting people against threats of all nature. In this light, a test was carried out in Romania by Veolia Water, with the aim of extending it to other countries. In France, in order to ensure heightened safety in the transport sector, fruitful exchanges brought together magistrates, police officials and Connex employees aimed at jointly seeking the most suitable responses to threats to people (staff and passengers) and equipment.

The Coordination Committee for Evaluating and Preventing Risks (CCEPR)

In 2003 the CCEPR, which brings together legal directors and the main technical Division Heads, as well as cross-disciplinary functions of VE, focused its work on three priority themes: **1)** Industrial plant safety, underscoring protection against criminal risks: audits, revised instructions, updating of safety programs, strengthening of vigilance and training of personnel, participation in the work of the General Secretary for National Defence. **2)** Formalizing of a system aimed at crisis management focusing on two pivotal points: at each Divisional level an operational 24 hour obligation in France and abroad and eventual activation of a VE crisis unit under an Executive Committee member. **3)** An improved approach to legal risk, particularly in contractual relations abroad: check on co-contractors' reputation and drawing up of standard agreements.

A dedicated and enhanced alert system

Since October 2003, VE has adopted a crisis management system used in its industrial operations, and for health- and environment-related matters which backs up current crisis management procedures in each Division.



Sustainable development management

ENGAGING ALL CORPORATE PLAYERS

In an environmental services corporation, sustainable development is an issue in which everyone must be engaged. For 4 years now, VE has implemented a cross-disciplinary structure which involves everyone across the company. The Sustainable Development Department reports directly to the Chairman and CEO. Via the Sustainable Development Committee, it is backed up by representatives from the Group's 4 Divisions, as well as VE's main functional management. Through coordination and steering, this infrastructure ensures that goals and action plans are in line with progress-driven measures and meet both stakeholder expectations and legal and administrative obligations.

EXTENDING THE REPORTING PERIMETER

Presenting our performance in the field of sustainable development involves the use of a reporting structure, across an ever-broadening geographical and functional scope. Our environmental and social reporting has been global for 3 years now.

It is based on a network of correspondants who ensure that data covering all the Group's operational facilities works its way back up. In 2003, a first review of relationships with customers which incorporated sustainable development criteria was carried out worldwide and completes the reporting infrastructure.

CONSTANT IMPROVEMENT OF OUR MANAGEMENT SYSTEMS

We aim to set up a sustainable development management system which covers all dimensions of sustainability. For each of them, goals are identified (if possible quantified), as are staggered action plans and monitoring or performance indicators (see table on deployment of our strategy over the following pages).



EMPLOYEE AWARENESS

Several initiatives have been carried out in 2003 to ensure that individual employees better understand and assimilate our culture.

- ◆ 7,500 copies of the Sustainable Development Charter have been circulated and displayed across the world at our sites
- ◆ Our different communication and internal information media now include a section devoted to sustainable development
- ◆ Conferences calling on independent testimonies are organized by VE Campus in partnership with the Academy for Sustainable Development (transport policy in Europe, energy in the 21st century, consumption of recycled goods, the "water war").
- ◆ Gradually, all our training programs will include sections devoted to sustainable development, as is already the case with the "Urban Services Management" University Diploma aimed at training the Group's future middle management.

Summary of management system deployment

ENVIRONMENT (see pages 39 and 40)
Achievements in 2003: EMS coverage doubled

GOAL ▶ Deploying our environmental management system to 60% of relevant activities by 2005 and 80% by 2008

SOCIAL (see pages 28 and 29)
Achievements in 2003: definition of HR action plans per Division

GOAL ▶ Setting out progress targets in the Divisions

ECONOMIC (see pages 22 to 27)
Achievements in 2003: identification among traditional economic indicators of those which correspond to sustainable development

GOAL ▶ Defining additional specific action plans (procurement, customer satisfaction) and setting up performance indicators

Implementing our sustainable development policy

We should like to gradually incorporate all corporate areas in our sustainable development approach and, for each of them, determine goals and phased action plans. The following table constitutes a synthesis of actions undertaken.

Once achieved, the goals become recurrent tools in our corporate management and, as such, are subjected to assessments. Those that were not fully reached in 2003 undergo review. Each year, new goals will be added to our strategic vision.



SDD: Sustainable Development Department ED: Environment Department PD: Purchasing Department
 HRD: Human Resources Department EM: Executive Management

THEMES	Department in charge	Goals	2000	2001	2002	Where we are in 2003	2004	2005	2006	2007	2008
COMMITMENTS	SDD / Divisions	Applying the Sustainable Development Charter across Divisions			50%	100%			recurrent action		
GOVERNANCE & ETHICS	EM	Implementing the Ethics, Belief & Responsibility Program				100%			recurrent action		
STRUCTURE & ENVIRONMENTAL RESPONSIBILITY	ED / Divisions	Setting up and running an environmental committee in each of the Divisions			100%				recurrent action		
		Setting up and running a Group environmental management committee				100%			recurrent action		
ENVIRONMENTAL & SOCIAL MANAGEMENT PROGRAMS	HRD / ED	Determining the challenges, goals and targets			100%				recurrent action		
	Divisions	Defining action plans in each Division			50%	100%			recurrent action		
IMPLEMENTATION OF THE ENVIRONMENTAL MANAGEMENT SYSTEM	ED	Extending the coverage of relevant activities ^e by the EMS (Environmental Management System)			15%	31%		60%			80%
REGULATORY COMPLIANCE	ED	Carrying out internal audits on priority sites ^e			10-15%	36%		80%			100%
INDICATORS & REPORTING (ENVIRONMENTAL & SOCIAL)	HRD / ED / SDD	Implementing social and environmental reporting worldwide			100%				recurrent action		
		Implementing customer / consumer relations reporting				70%			100%		
		Extending the reporting perimeter to industrial customers						100%			
		Upgrading basic indicators to performance indicators and monitoring any changes			25%	70%		80%			100%
PROCUREMENT & OUTSOURCING	PD	Formalizing the action plan with our supply chain			100%				recurrent action		
		Integrating sustainable development in Procurement management: criteria for selecting suppliers, contractual clauses, buyer training			20%	35%		50%	80%		100%
RISK MANAGEMENT	EM / Risk Committee	Identifying and preventing risks and coordinating a crisis management plan			90%	100%			recurrent action		
SUSTAINABLE DEVELOPMENT AWARENESS & TRAINING	Divisions / HRD (Internal Communications + VE Campus) / SDD	Carrying out awareness raising with employees							recurrent action		
		Integrating sustainable development in training manuals				40%	80%	100%			
STAKEHOLDER DIALOGUE	SDD / Divisions	Engaging with local stakeholders							recurrent action		
		Structuring dialogue with stakeholders at Group level				50%	80%	100%			
EXTERNAL COMMUNICATIONS	SDD	Publishing an annual sustainable development report							recurrent action		
		Setting up and updating an Internet website dedicated to sustainable development			100%				recurrent action		

2


Measuring performance in 2003

1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010

For four years now, measuring our performance has been the keystone to our sustainable development approach. In 2003, we defined new assessment indicators for our **environmental performance** and quantified our goals for **social performance**. We have improved the presentation of our **economic performance** and assessment of our customer satisfaction. These efforts give greater transparency when assessing our performance and also strengthen our commitment to sustainable development.



OUR ECONOMIC PERFORMANCE
Creating sustainable value for stakeholders



OUR SOCIAL PERFORMANCE
Managing and nurturing skills,
anticipating and innovating



OUR ENVIRONMENTAL PERFORMANCE
Conserving natural environments and limiting our impacts