



2005 Sustainable Development Report

Australia and
New Zealand



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environment

water

transport

www.veolia.com.au

message from the CEOs 1



PETER McVEAN
CEO
Veolia Water Australia

Improving the living environment is at the core of our business; therefore, sustainable development is at the heart of everything we do. Each day, we continue to translate our corporate commitment into concrete actions that define our operations.

This regional report covers Veolia Environnement's (VE) activities in Australia and New Zealand. It is a companion volume and supplement to last year's report, updating our key performance indicators. The 2004 report was significant as it was the first time that VE's water, waste and transport divisions in Australia presented a united approach to sustainable development. This united approach commenced in last year's report continues in this update.



LAURENT GABORIT
Managing Director
Veolia Water Systems
& Technologies

Indeed, unity is an issue that Veolia Environnement is addressing throughout the organisation. In November 2005, VE's divisions shed their different names and adopted Veolia as their first name. In Australia, Collex is becoming Veolia Environmental Services and Connex becomes Veolia Transport. In addition to a new name, the organisation embarked on a wide ranging rebranding program describing Veolia Environnement as one business with four operating divisions: water; environmental services; energy and transport.

With continuing drought in Australia and concern over climate change, greater sustainability in our water use is essential. Veolia Water is working with water authorities and industry to reduce wastage of existing water resources and develop new resources through recycling and desalination. This is supported by major R&D projects both at the global level and through our Adelaide R&D centre working in cooperation with local universities and researchers.



DOUG DEAN
Managing Director
VES/Collex

Throughout the past year VES/Collex has started to see our long term investments in sustainable development take shape. In particular, Phase 2 of the Woodlawn eco-precinct is underway paving the way for greater recovery of municipal solid waste by implementing alternative sorting and treatment technologies for metropolitan Sydney. In 2006, the eco-precinct will begin generating renewable, green electricity through the Woodlawn Bioreactor.



HANS BAUNSOE
Managing Director
Veolia Transport

Veolia Transport's largest sustainability push is aimed at 'car culture'. Every time a person opts to leave the car at home and take the train or a bus or a tram, they are playing a part, with the transport provider, in reducing greenhouse gas emissions and thus helping to save our fragile planet. The nature of providing public transport develops a long term partnership between governments, companies that provide services, and the general public who demand a safe and efficient service to go about their day-to-day lives. Veolia Transport's approach to partnership has seen it take a leading position in Australia and New Zealand in creating innovative and sustainable public transport solutions for current and future generations.

our core business: environmental solutions

Veolia Environnement (VE) is the only company in the world that can offer the whole spectrum of environmental services in water (water cycle management), waste management (waste collection, management, treatment and recycling), energy services and transport. The company draws on the coherence of its four divisions, its international presence and its commitment to sustainable development to provide integrated services for public and private customers. VE tailors its comprehensive solutions to solve the challenges faced by customers across the globe.

VEOLIA ENVIRONNEMENT IN AUSTRALIA AND NEW ZEALAND

In Australia and New Zealand, there are three active divisions with consolidated revenue around \$1.4 billion and a workforce of 7,000 who service a wide reaching commercial, industrial and government customer base.

CREATING COMPLETE WATER SOLUTIONS

KEY FACTS

- Design & build water & wastewater plants
- Engineered systems
- Services
- Innovative technologies (Actiflo® clarification, Hydrotech® discfilters, Aquamove® RO units, ion exchange, membrane bioreactors)
- Focusing on reuse and desalination

KEY FACTS

- Management, operation and maintenance of water and wastewater systems for municipal and industrial customers
- Water and wastewater services provided to over two million people in Australia and New Zealand
- Fifteen long term operations contracts including over 30 water and wastewater treatment plants
- Major Australian R&D centre focussed on water reuse

KEY REFERENCES

- Kwinana (WA) and Illawarra (NSW) Water Reclamation Plants - industrial reuse
- Stanwell Power Station, QLD - process water
- Huntly Power Station, NZ - condensate polishing
- Bendigo Mining, VIC - reuse of mine water
- BHP Billiton Ravensthorpe, WA - desalination

WORKFORCE

- 123 employees across 7 offices

KEY REFERENCES

- 10th anniversary of United Water's partnership with SA Water in Adelaide (1.1 million population served)
- Design, build and operation of advanced water treatment plants, including the 126 MLD Aqua submerged membrane plant
- Leader in reuse through the Bolivar SA, Gerringong, NSW and Kyneton, VIC projects

WORKFORCE

- 560 employees across 15 contracts



Solutions & Technologies

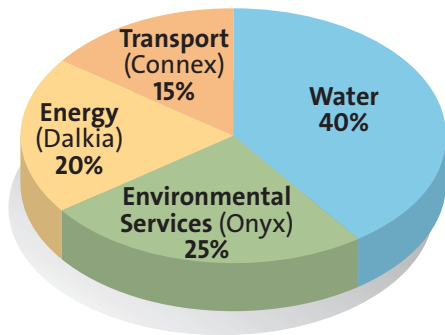


Consolidated global revenue of **AUD\$41.7 billion**

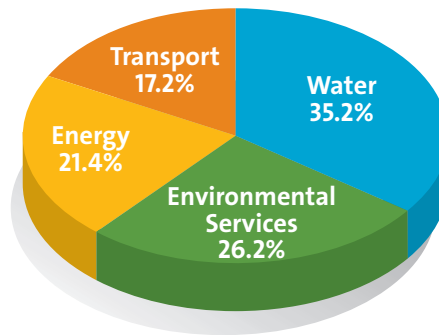
Operations in **65 countries**

251,000 people serving 225 million people everyday

Percentage of Global Revenue



2004



2005

2



IMPROVING THE LIVING ENVIRONMENT

KEY FACTS

- Waste & recyclables management
- Resource recovery solutions – electronics, plastics, cardboard, paper, metals, glass, organics
- Industrial services & facilities management

KEY REFERENCES

- Alternative Waste Technologies, including development of the Woodlawn Alternative Sorting and Processing (WASP) facility
- 50 MW Windfarm under development at Woodlawn
- In-vessel composting technology for source separated organics
- Australia's first national e-waste collection and recycling solution

WORKFORCE

- 2,903 employees across 130 sites



DELIVERING HIGH QUALITY TRANSPORT SERVICES TO COMMUNITIES

KEY FACTS

- More than 180 million passenger journeys per annum
- More than 900 vehicles
- More than 42,000 services per week
- Innovative SMS products awarded the 2005 ARA Corporate Award

KEY REFERENCES

- 15-line Melbourne metropolitan train network
- Sydney's light rail and monorail systems
- Bus networks in Sydney, Perth and Brisbane
- Auckland's passenger rail network

WORKFORCE

- 3,602 employees in Melbourne, Sydney, Perth, Brisbane and Auckland



tools for sustainability

IMPROVING OUR MANAGEMENT SYSTEMS

Sustainable development related objectives and targets continue to be set, implemented and monitored through the various management systems for Occupational Health and Safety (OHS), environmental, quality, risk and compliance deployed by VE in Australia and New Zealand. The type, scope and extent of integration of the management systems depend on industry, contractual, regulatory and stakeholder requirements as well as business structure. A common element of these systems is risk management in accordance with AS 4360.

VEOLIA WATER

Veolia Water Australia (VWA) Head Office achieved certification by Benchmark Certification to ISO 9001 in 2005. VWA is certified for the provision of project development, including overall management of design and construction, and operations and maintenance of water and wastewater systems. All operational sites maintained their certifications to ISO 9001, ISO 14001 and AS 4801 with the Noosa Water Treatment Plant and the Illawarra and Woronora Water Filtrations plants achieving re-certification to all three standards.

United Water (95% owned by VWA) extended its EMS certification from its wastewater operations to include water treatment and networks activities in Adelaide, Ballarat and Ballarat Small Towns. This means that all United Water operations are now certified to both ISO 9001 and ISO 14001.

Veolia Water Systems and Technologies maintained its national certification to ISO 9001 and AS 4801 and is currently reviewing its environmental management system to be on track to achieve ISO 14001 certification by the end of 2006.

VES/COLLEX

VES/Collex is certified nationally by Benchmark Certification Pty Limited. In 2005: VES/Collex maintained its national certification to ISO 9001; additionally, 90% of VES/Collex sites are now certified to AS 4801. VES Collex is on track to complete national certification to ISO 14001 by the end of 2006.

VEOLIA TRANSPORT

Veolia Transport prevents OH&S incidents and continuously improves safety management through a National OH&S Management Program and Committee. The Veolia Transport businesses in each state have individual environmental, quality and safety management systems. Connex Melbourne has maintained certification to AS 4292 for rail safety. In Perth, Southern Coast Transit has maintained certification to ISO 9001.



RESEARCH AND DEVELOPMENT

Research and development (R&D) remains at the core of our approach to sustainable development.

VE's approach to R&D encompasses:

- anticipating our client's needs to provide technical solutions that are more efficient, reliable and widely available;
- guaranteeing safety and environmental health by developing preventative and corrective programs that deal with the emergence of new risks; and
- protecting the environment by improving people's living conditions and saving natural resources

"Research and our capacity to innovate are the keys to our success at its highest level."

Henri Proglia, Chairman & CEO Veolia Environnement,
2005 Management Convention.



VE achieves these solutions through a dedicated team of 600 researchers and specialists located in three centres in France and associated units throughout the world.

WATER STUDIES

Projects in 2005 include:

- Promoting effluent reuse as a resource for sustainable water management.
- Determining the potential of aquifer storage recharge and recover (ASTR) for treatment of stormwater to potable standards.
- Understanding community perceptions of water reuse in collaboration with Flinders University.
- Continuing lagoon algal ecology studies for managing algae in wastewater and water treatment plants at Bolivar and Barker in South Australia.
- Feasibility study and pilot plant aimed at reducing the salinity of reused wastewater.
- Environmental life-cycle assessment of biosolids applications.

WASTE STUDIES

Projects include

- Examination of recycling technologies and methods for recovering electronic waste, plastics, organics and construction and demolition wastes.
- Assessing on-board technology solutions for waste collection to improve the efficiency and customer service.
- Developing alternative fuels alternatives from industrial wastes that would otherwise be disposed of to landfill.
- Optimising bioreactor technology to extract the maximum amount of energy from biogas.

TRANSPORT STUDIES

Projects for Melbourne's train network include:

- Utilising SMS technology to keep passengers updated on peak-hour service delays and interruptions. The service (SMS Updates) is tailored to a subscribers individual travel requirements.
- Utilising SMS technology to provide on-demand timetabling information.

3



BUILDING PARTNERSHIPS IN COLD CLIMATES

VES/Collex continues to work with the Australian Antarctic Division (AAD) and regulatory authorities to support the logistical requirements for the future removal, treatment and disposal of waste from contaminated sites in the sub-Antarctic and Antarctic regions. VES/Collex has just won a second term as the provider of waste management services to the AAD. This contract focuses on current waste arising from AAD's Antarctic and sub-Antarctic activities. There is a long standing partnership between VES/Collex and the AAD for sustainable waste management in ecologically very sensitive areas. We are working with the AAD to increase diversion of resources for beneficial reuse and improve processes which avoid and reduce waste.

In collaboration with the AAD, Melbourne and Macquarie universities, VES/Collex is seeking to develop cold climate remediation technologies. In particular, examining permeable reactive barriers which can be used in-situ at contaminated sites to retard the migration of contaminants. If successful, the technology can be applied at remote Antarctic sites and may also have a larger commercial application for northern hemisphere cold climate contaminated sites.



5

our performance



financial

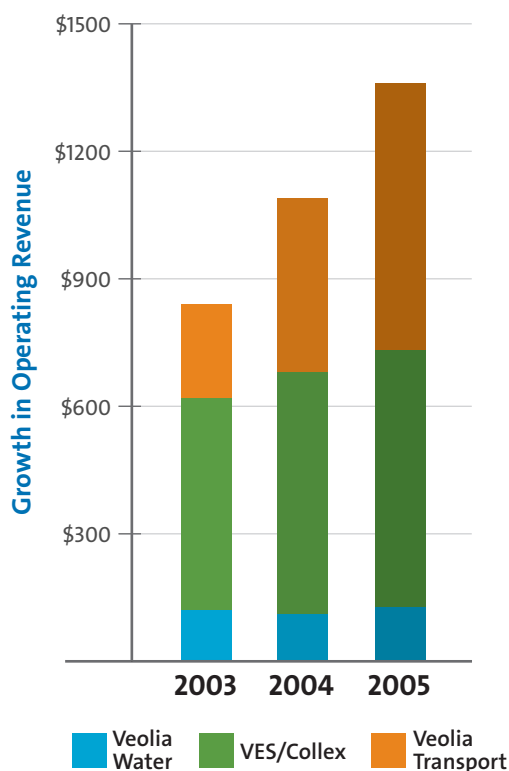
The following data reflects the financial performance of VE businesses in Australia and New Zealand

	2003	2004	2005
Operating Revenue (AUD \$M)	830.8	1,099.6	1,363.8
Other Revenue	48.1	3.9	8.2
Income redistributed to suppliers, employees and other service providers (AUD \$M)	719.1	972.3	1,251.1
Income redistributed to tax authorities	7.8	3.4	3.4
Income for redistribution to financial institutions (AUD \$M)	23.6	12.2	5.7
Revenue for future investment and/or redistribution to shareholders (AUD \$M)	128.3	115.5	111.8
Net capital expenditure (AUD \$M)	84.9	199.5	59.5
Return on capital employed (ROCE)	5%	9%	14%

ECONOMIC PERFORMANCE

At VE we intend to ensure the viability of our activities to secure sustainable economic development by applying our technical expertise and innovative skills in public and private partnerships, by fairly distributing our revenues at a local level, by supplying quality services and access to essential environmental services.

VE has built a strong, economically sustainable and increasingly efficient business in Australia and New Zealand. This is re-inforced by continued revenue growth throughout the divisions. Veolia Transport benefited from the full impact of the Melbourne and Auckland contracts, while Veolia Environmental Services recorded strong growth in industrial services, waste treatment and disposal.



CUSTOMER DATA

Veolia Water

2 million population served
municipal and industrial customers from power, mining,
pulp and paper, food and beverage and pharmaceuticals

VES/Collex

900,000 household services
52,500 commercial and industrial clients

Veolia Transport

180 million people transported annually



MEASURING CUSTOMER SATISFACTION ALONG THE MELBOURNE TRAIN NETWORK

In Melbourne, the Director of Public Transport, (Connex Melbourne's client), commissions monthly telephone surveys to measure whether operators are providing the quality of service customers expect. These surveys identify and assess issues that affect passengers using the service. They might take the form of changes in service levels, delays or overcrowding.




Between August 1999 and April 2004, Connex ran only part of the Melbourne train network and in that time achieved an average customer satisfaction (CSI) score of 70. In April 2004 Connex assumed responsibility for the entire network and inherited lines with customers significantly less satisfied than its previous customers. By the end of 2005 the CSI was 66 with the previous Connex network still reflecting CSIs 70 or higher. Connex's challenge remains to deliver quality services to all its customers in the context of increasing passenger loads.





our performance

social

In our 2004 Sustainable Development Report we outlined VE's challenges, action plans and goals for sustainable development in society. These challenges provide direction for our operations. We are not formally reporting on these indicators, but we would like to chart some of the progress we have made towards achieving them in this report.

CHALLENGES	ACTION PLANS	GOALS	
Employment	Developing employment and making it long term	Reducing turnover percentage 14% by 2005	
		Reducing the number of fixed term contracts 13% by 2005	
Managing and nurturing skills	Meeting the demographic challenge	Maintaining a high percentage of trained employees	
	Training for our profession		
Remuneration, benefits and social welfare	Evaluating and comparing remuneration levels	Deploying a classification and map of employment	
	Developing quality social welfare	Enhancing further the quality of social welfare tools	
Duration and organisation of worktime		Reducing the level of absenteeism 20% by 2005	
		Reducing the number of overtime hours 20% per employee by 2005	
Hygiene, health and safety	Employee health and safety actions	Reducing frequency and severity rates of occupational accidents 18% by 2005	
	Contributing to the health of populations	Implementation of programs on preventing and meeting health challenges	
Social relations	Ensuring employee social representation at all levels	Conducting opinion surveys with different categories of employees	
	Monitoring and assessing employee satisfaction	Pursuing partnerships which favour access to essential services for economically sensitive communities	
Partnership and charity	Contributing to improving the quality of life for communities where we operate		
	Setting up a tailored structure for charity		

PROGRESS  In progress  Met

Our social responsibilities extend to our staff and to the communities we serve.

FOSTERING LONG TERM EMPLOYMENT

In Australia and New Zealand we are employers of choice, attracting and retaining quality staff by sharing our commitment to sustainability, empowering our staff to make valuable contributions and providing opportunities for career development. All divisions take great care to encourage staff participation by communicating with staff via newsletters, staff forums, tool-box meetings, or through the intranet providing a platform for sharing ideas and knowledge.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is the highest priority for VE. This priority is communicated to staff through a broad ranging and determined prevention policy. Elements of this policy include: identifying and preventing danger; providing information to prevent accidents; bolstering the level of safety officers; involving staff representatives in decision making; integrating accident prevention into the company's management policy and supporting people involved in accidents.

LEARNING AND DEVELOPMENT

As an employer of more than 270,000 people around the world, VE believes that the key to attracting and retaining staff is by managing and nurturing skills and offering opportunities for professional development. Increasing customer requirements and ongoing advancements in environmental services also demand that staff skills are continually updated.

SOCIAL RESPONSIBILITY AND COMMUNITY ACTION

VE's activities affect not only its employees, but by the nature of its work, the wider community. Therefore its social responsibility extends to a broad spectrum of stakeholders.

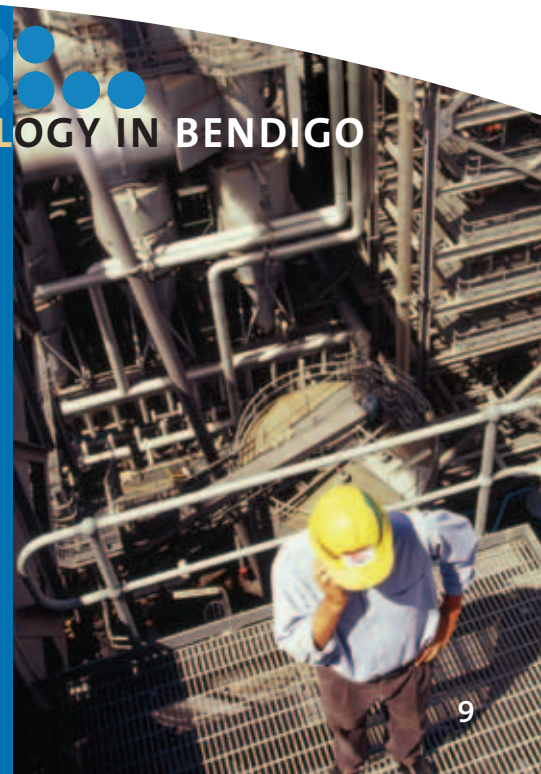
Veolia Environnement believes that truly successful sustainable development is achieved when we match the social development we provide our staff with the social development resources we provide to the communities which host our operations. Simply by the services we provide every day, we are a core part of communities we serve and in many ways, we are able to contribute through sponsorship and community programs.

APPLYING A RISK MANAGEMENT METHODOLOGY IN BENDIGO

When the Victorian Government amended its OHS Regulation on the prevention of falls in the workplace, the Veolia Water team at the Bendigo Water Treatment Plant needed to reassess their workplace. This new regulation put into place controls to prevent accidents and injuries from falls over two metres. The team identified the access area above the continuous microfiltration units (CMF) as hazard in line with the new Regulation.

They conducted a risk assessment applying the "Hierarchy of Control". Steps in this hierarchy are: eliminating the risk by removing a dangerous work practice, substance, or item of equipment; substituting this with a less hazardous work practice, substance, or item of equipment; isolating the hazard from the person, or vice versa; redesigning the workplace to eliminate the hazard; introducing new procedures or supervision; or, as a last resort, using personal protective equipment as a barrier between the worker and the hazard.

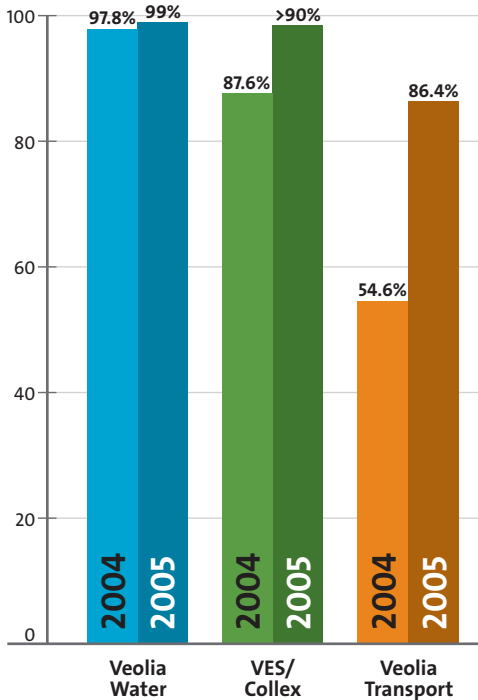
The likelihood of falling was low because access to the area above the CMF units is infrequent. However the consequence of falling was extreme. Therefore management decided to redesign access to the area by installing a handrail and platforms to safeguard against falls.



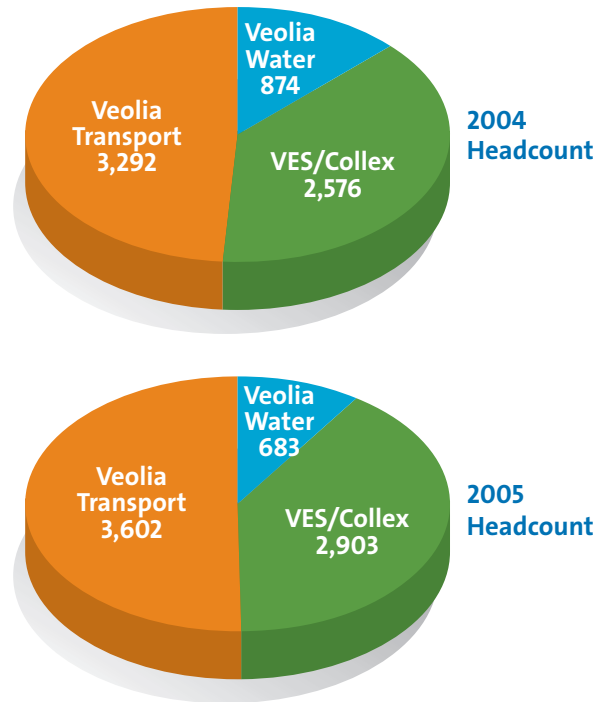
our performance

social

Percentage of VE Australia and New Zealand employees involved in training



VE in Australia and New Zealand headcount by division



CASE STUDY DEVELOPING QUALIFIED, MOTIVATED FRONT LINE STAFF

Both VES/Collex and Veolia Transport rely heavily on road transport, either to move people or to collect and transport waste. Effective road transport is a fundamental element of our businesses. Our drivers form a large, highly visible element of our workforce which encounters the general public daily. VE companies have been providing training and professional development to drivers in New South Wales. Each driver undertakes a Certificate III in Transport and Distribution. Completing this training gives the driver the qualifications, skills and confidence to understand the nature of their work; follow safety and customer service procedures and perform in their job to the best of their ability.

CASE STUDY TSUNAMI RELIEF EFFORT

On Boxing Day 2004, the Indian Ocean Tsunami devastated communities from Indonesia to the Maldives. The way that VE companies responded to this crisis is an example of how we work with each other and with others to serve the community. In Australia VE Companies worked with Clean Up Australia to provide a medium term solution for clean drinking water in Sri Lanka. Skyhydrant is a gravity feed water purification plant that uses membrane technology to purify water to WHO standards. One unit can produce 3,000 litres of water per day and provide 5 years water to a village of 500. Also, VE staff donated from their wages, with the VE matching the donations dollar-for-dollar; and contributed their own time and effort to collect clothes and food to the extent that our Geraldton depot was able to send a ship laden with supplies to the stricken areas. Globally, VE's response was speedy and significant. Veolia Force, VE's emergency humanitarian and development aid unit teamed up with French Government Agencies and the Red Cross on host of initiatives including the provision of 45 tonnes of water storage, distribution and disinfection equipment. Over 100 staff around the world donated their own time to Veolia Force.



SUPPORTING REMOTE COMMUNITIES

Veolia Water is providing its expertise in partnership with existing service providers, to study the needs and means of addressing water supply in remote Aboriginal communities in South Australia. The initial investigations identified a number of objectives to provide these communities with a safe, sustainable water supply. Veolia Water looks forward to contributing to the health and development of these communities.



4



UNITED WATER AND PHOENIX SOCIETY JOIN FORCES

Phoenix Society is a non-profit organisation established in 1958 to employ, train and develop people with intellectual and/or physical disabilities. It has grown into a successful business services provider employing 550 South Australians, of whom 440 have physical and/or intellectual impairment.

United Water, a subsidiary of Veolia Water Australia, has entered into a contract with Phoenix Society that will see 8,500 water meter valve assemblies refurbished and bench tested in South Australia over the next 12 months. With over 650,000 water meters in South Australia it is expected that Phoenix Society employees will refurbish up to 1,000 units per month initially.

The partnership with United Water provides excellent skill and business development opportunities for the Phoenix Society and its workforce, while delivering significant environmental and economic benefits.

Refurbishing valves provides a better environmental outcome by minimising the need to melt down old valve assemblies as has been done in the past. The project also presents an excellent opportunity to further develop the skills of the Society's employees in handling a complex set of tasks in a new business area.

BUILDING BRIDGES BETWEEN STAFF

Managing the flow of knowledge in a geographically dispersed organisation is fraught with challenges.

In Melbourne, Veolia Transport (Connex) employs 2,500 people across metropolitan Melbourne on a 24-hour roster. In addition to newsletters, intranets, payslip notices and the like, Connex uses regular staff forums to engage staff, open lines of communication, provide motivation and a sense of teamwork. These forums are upbeat and inspirational. They leave participants feeling enthused, positive and confident about their work. Acknowledging the shift-work nature of working at Connex, forums are held at different times and locations so as many staff as possible are able to attend.

In May 2005, VES/Collex held a national conference taking a new approach. Over 200 managers spread across operations, sales and administration who would not normally meet had the opportunity to share knowledge, expertise and skills in a wide-reaching internal forum. Feedback from the conference was universally positive. The format of break-out sessions with over 120 specialist presentations gave most participants the chance to share their experiences and skills with their colleagues. This new approach for VES/Collex has set the standard for all future conferences.

BUILDING ENVIRONMENTAL AWARENESS IN SCHOOLS

Each year Veolia Environnement organises a worldwide campaign aimed at raising the awareness of environmental and health issues in primary schools.

In 2005, Veolia Environnement organised for the 2nd year an international children's contest, aiming at raising the awareness of environmental and health issues through a community-based approach among children around the world.

"The environment: it's my nature... and good for health"

School children, aged between 9 and 11 years old, designed their "streamers"-flags symbolising environmental protection-and wrote a short text explaining the thinking behind it. The winning streamers from each country were then printed as real streamers on flag fabric. Cambridge Primary School in Werribee, Victoria, was the winner for Australia. The children who participated in this drawing contest learned a great deal about the importance of their local environment and how looking after their surroundings has huge benefits for their health and well being.



our performance



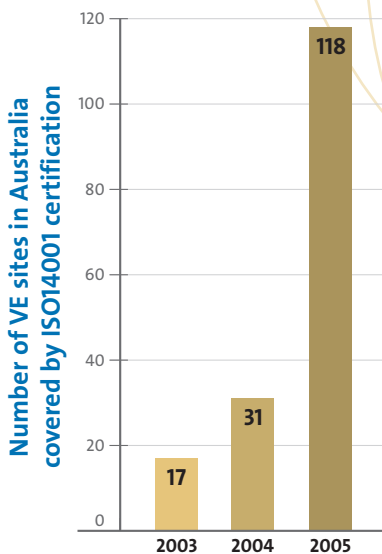
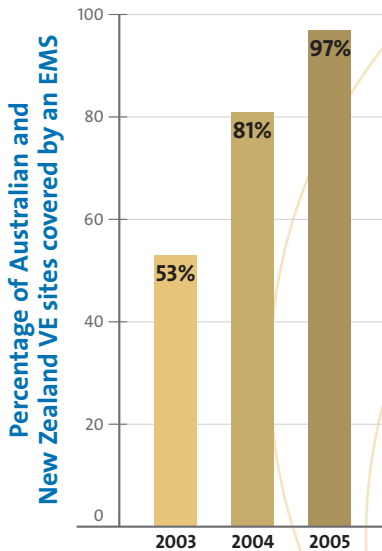
environmental

In our 2004 Sustainable Development Report we outlined VE's challenges, action plans and goals for environmental performance. These challenges provide direction for our operations. We are not formally reporting on these indicators, but we would like to chart some of the progress we have made towards achieving them in this report.

CHALLENGES	ACTION PLANS	GOALS	
Conserving natural resources Conserving water resource consumption	Controlling group consumption water	Controlling industrial water consumption	
	Recycling of agricultural waste	Increasing proportion of agricultural recycling of waste	
Conserving soils and biodiversity	Fostering material recycling	Increasing the tonnes of waste diverted for beneficial reuse	
Conserving energy resources	Improving energy efficiency		
	Developing renewable energies	Increasing the percentage of renewable energies in global production	
Limiting our impacts Fighting against climate change	Reducing CO ₂ emissions in our operations through energy efficiency		
	Trapping and treating biogas in landfills	Reaching 100% of landfills by 2005	
Limiting atmospheric pollutants	Encouraging the use of cleaner fuels in vehicles	Reducing bus emissions by 20% in CO, by 16% in HC and by 22% for particles by 2005	
Limiting local nuisances	Limiting odours	Integrating these concerns at facility design level	
Limiting pollutant discharge into water	Participating in controlling industrial discharge in urban wastewater collecting networks	Proposing a 50-network program by end 2005	
	Collecting and treating leachate in landfills	Reaching 100% of landfills by 2005	
	Enhancing purification efficiency	Maintaining treatment efficiency superior to 80% in wastewater treatment plants	

PROGRESS In progress Met

ENVIRONMENTAL MANAGEMENT SYSTEMS



OUR COMMITMENT

VE recognises its responsibility to lead the way in providing society with environmental services which conserve and protect the natural environment. Our own activities have direct impact on the environment. Reducing and limiting these impacts is the role of the VE Environmental Management System (EMS), the vehicle for improving our environmental goals and objectives.

A demonstration of our commitment is the continued push for certification to global environmental standards. The substantial increase in VE sites in Australia and New Zealand that have been certified to ISO 14001 points to the extent of work that has been undertaken in this area.

Our target in 2005, was to implement an EMS across 60% of the group. We achieved 97%, exceeding our 2005 target as well as our target for 2008 of 80%.

In 2005, we identified 40 priority sites including landfills, hazardous waste treatment and recycling facilities, water treatment and wastewater facilities and Veolia Transport depots. Of these priority sites, 77% have been audited, just short of our target of 80%.



INTEGRATED, HOLISTIC ENVIRONMENTAL SERVICES

The Facilities Operations Group (FOG) is a specialised VES/Collex unit based in Victoria. It draws together all the services that VE can provide to offer a client a triple bottom line solution that addresses their operational, compliance and environmental needs. The FOG provides two-fold benefits to clients:

An environmental benefit. VES/Collex recently won the national resource management contract for General Motors Holden by drawing on its resource recovery innovations, such as energy recovery from foundry sands, briquetting swarf materials, wastewater treatment and efficiency gains.

Meeting the clients triple bottom line. VES/Collex is now responsible for the total plant management at the Tomago Aluminium Smelter in NSW. The real savings arise from reduced administrative overheads as the client no longer manages a large volume of individual contractors; all contractors now on-site are managed by VES/Collex and working under our quality, safety and environmental management system.



our performance

environmental

WATER OUR CHALLENGES

Water scarcity and the need for water conservation remains an important issue in Australia, the world's driest inhabited continent. Our challenge is to conserve water resources by improving the performance of water distribution networks, and developing alternative resources such as encouraging wastewater reuse. Equally important is limiting pollutant discharges by improving the performance of our wastewater treatment plants and preventing wastewater spills into the environment.

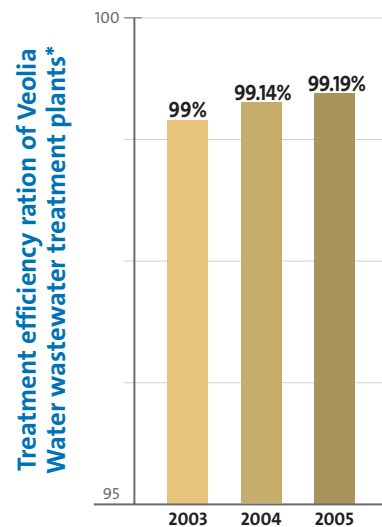
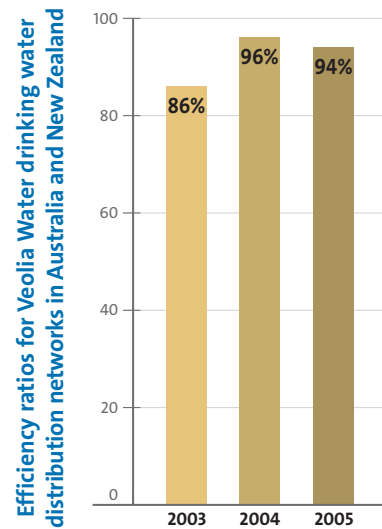
OUR ACTION PLANS AND PERFORMANCE

Conserving water resources

Veolia Water has made great efforts in water conservation by implementing process improvements. Veolia Water has made great efforts in water conservation by implementing process improvements including recycling of all sample water at Illawarra and Woronora WTP, using process water in lieu of potable water for cooling of the ozone generators at Gerringong STP and measuring and reporting of the service water volumes at Bendigo WTP. Seventy five per cent of the wastewater plants operated by Veolia Water companies in Australia and New Zealand involve reuse. And Veolia Water Services and Technologies has recently completed a 20 million litres a day advanced water reclamation plant for Sydney Water which will conserve potable water in the Illawarra region of NSW.

Limiting pollution discharges

Conventional wastewater treatment involves the primary, secondary or tertiary treatment of sewage before it is released into the environment, usually through an ocean outfall or to a watercourse. A measure of the treatment's effectiveness is the percentage removal of the biological oxygen demand (BOD). The wastewater treatment plants operated by Veolia Water in Australia have consistently achieved BODs removal averaging 99%.



* plants with a capacity > 3 tonnes BOD₅ (50,000 equivalent inhabitants)

A NETWORKED ALLIANCE TO RESTORE SYDNEY'S WATER MAINS

Alliance contracts provide our clients with robust solutions which we cannot offer on our own. As a member of NetWorks alliance, VES/Collex has commenced delivering a four-year program worth \$250 million to reduce leaks from Sydney Water's 21,000 km water supply network. It is the largest consolidated water mains renewal program ever undertaken in Australia. The program aims to consolidate a number of Sydney Water initiatives to save precious water and maintain its network.

Together with Bovis Lend Lease and CLM Excavations this is a strong team with proven expertise in project management, water and wastewater infrastructure and pipeline construction.

During the next four years, the alliance expects to renew 300 km of water mains which were constructed in the 1940s, 50s and 60s. Most of these pipes are cast iron, laid without sand fill protection. Limited flexibility, poor drainage and corrosion now account for 98% of today's problems.

"Once you start knocking on doors and talking to people, you realise how much the community cares about saving water, fixing leaks and maintaining our system for the future."

Todd Moeser, VES/Collex Construction Supervisor



Preventing and limiting wastewater spills into the natural environment

Preventing or minimising the accidental release of wastewater into the environment is another area Veolia Water targets for continuous improvement. United Water has addressed leakages by releasing a Code of Practice for the Prevention of Wastewater Overflows in South Australia. The code helps United Water comply with the stringent requirements for South Australia's Environment Protection Policy for Water Quality. The code defines appropriate management, maintenance response and reporting practices to minimise the number of sewage overflows and minimising their impact by improving response times and action.

An associated Overflow Abatement Program has been prepared, including a risk assessment, for a major part of the Adelaide Wastewater System. Issues have been prioritised for future improvement actions by United Water and SA Water. This approach will be eventually rolled out across the Adelaide metropolitan area.

Recycling sludge and biosolids

Sludge (residual from water treatment) and biosolids (residual from wastewater treatment) represent the largest amount of waste produced by Veolia Water and are, therefore, targeted for recycling opportunities. Biosolids contain organic material and nutrients which, when applied properly, can increase soil fertility and improve the water holding capacity of the soil. Veolia Water in Australia recycled 94% of its sludge and biosolids in 2005 for use as compost or in agriculture.



INNOVATION IN WATER TREATMENT AND REUSE

Treating contaminated mine water for reuse & irrigation

Bendigo Mining (VIC) wanted to remove and treat contaminated water from historical underground mine workings at the Moon Gold mine site in Victoria, to enable safe future underground mining activity.

Veolia Water Solutions & Technologies Australia is providing the design, supply, installation and commissioning of a new water treatment plant that will treat up to 7,000 m³/day of contaminated underground mine water. The innovative treatment package using the Actiflo[®] clarification process among others will remove salt, dissolved iron, arsenic, heavy metals, manganese and other contaminants. The high quality treated water produced will be made available for reused by local government and the community for irrigation of golf courses and school ovals, or for discharge as environmental flows into the local lake and creek system.

Protecting a World Heritage sensitive environment

Long term mining activity had resulted in an accumulation of process water at the Rio Tinto ERA Uranium Ranger Mine near Jabiru NT. The mine lease, located on Aboriginal land, is surrounded by World Heritage-listed Kakadu National Park (NT). The decision was taken to purify the water using innovative and sustainable technologies. Veolia Water Solutions & Technologies Australia is providing the design, supply, installation & commissioning of a new water treatment plant that will treat up to 7,000 m³/day. It will remove dissolved solids, ammonia and metals including traces of radium and uranium. A process including lime softening, thickening, clarification, ultrafiltration and reverse osmosis will produce high quality treated water that can be discharged safely into the sensitive surrounding environment.

Protecting the environment and decreasing potable water use

The Illawarra Wastewater Reclamation Plant (NSW) designed and built by Veolia Water Solutions & Technologies Australia on behalf of Sydney Water treats wastewater from 300,000 residents. The works involved the consolidation of three sewage treatment plants into one and the provision of a water recycling plant that uses microfiltration and reverse osmosis to produce 20 megalitres/day of high quality water for industrial reuse by BlueScope Steel at Port Kembla. The scheme provides dual environmental benefits – decreasing ocean wastewater discharge volume by 40% and decreasing the use of potable water in the steel making process by more than 60%. Overall, the plant provides significant environmental benefits to the community in terms of improved water quality at beaches and the conservation of drinking water resources in a growing population area.



our performance

environmental

AIR AND ENERGY

One major environmental challenge faced by society, is combating climate change by reducing greenhouse gas (GHG) emissions. Veolia Environnement takes a precautionary approach to managing the earth's ecosystem and as such works actively to limit its impacts on the environment.

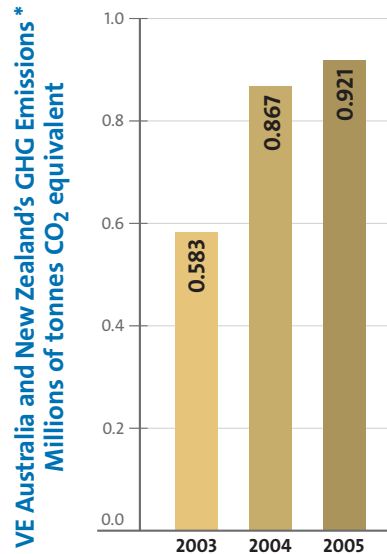
In 2005, our carbon dioxide emissions in Australia and New Zealand increased by 6.2% to 921,105 tonnes of CO₂ equivalent. This increase reflects the growth of our business. However when comparing our GHG emissions to revenue, the decrease of 15% from 2004 reflects that as our business has grown, it has become more resource efficient.

VES/Collex is deploying waste-to-energy technology which uses landfill gas emissions to generate green electricity. A first step to establishing this capability is capturing landfill gas emissions. These emissions are then flared to reduce odour and fugitive emissions from the landfill; and to reduce risk of fire from gas explosions. With three facilities now operating in Australia, including the Woodlawn Bioreactor, there has been a substantial increase CO₂ equivalent emissions from landfill gas flaring. We expect these emissions levels to fall when flaring is replaced by landfill gas engines generating electricity.

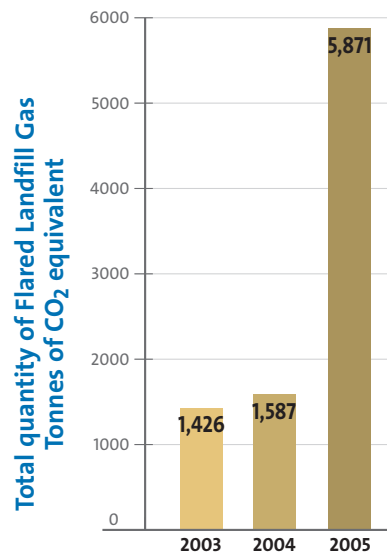
Methane, a component of landfill gas, is 23 times more harmful to the atmosphere than carbon dioxide

Reducing transport related emissions

With transport at the heart of two of VE's three businesses in Australia, VE is continually trialling the use of alternative fuel sources as a means to further reduce GHG emissions. In NSW, Veolia Environmental Services participates in two programs for its municipal collection vehicles: Greenfleet, program for heavy vehicles that plants trees to offset carbon dioxide emissions;



* excludes emissions from Veolia Transport ULP Consumption



GREENHOUSE FRIENDLY CARBON CREDITS

NRS, VES/Collex's joint venture for composting, employs an enclosed, in vessel composting system which uses an aerobic method to produce compost. This method avoids generating methane, a greenhouse gas 23 times more potent than carbon dioxide. It is because of these avoided emissions that NRS can qualify for credits under the federal government's Greenhouse Friendly program.

To date, 15,000 credits have been sold to BP (Beyond Petroleum) who will use these credits to offset emissions generated from the production of fuel. Collex has also sold 15,000 credits to HSBC holdings in London. HSBC is the first major bank to go 'carbon neutral'.



GHG emissions compared to revenue (grams of CO₂ equivalent per revenue \$)



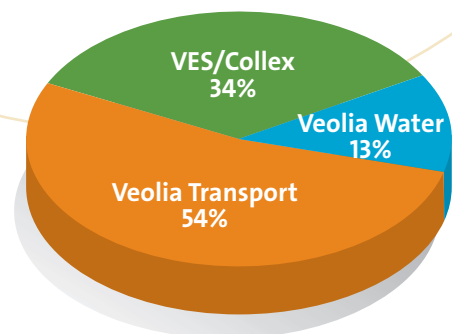
and Cleanfleet, an audited fleet management program coordinated by the NSW Roads and Transport Authority aimed at improving air quality by removing vehicle emissions from poorly maintained diesel vehicles. VE also runs a series of training programs to ensure drivers are better aware of the environmental consequences of their activity. The programs develop skills for reducing fuel consumption and wear-and-tear on equipment, improve the comfort and safety of passengers in their vehicles, and to reduce accidents. In Australia and New Zealand, 97% of Veolia Transport drivers have received training in environmental efficiency.

Limiting atmospheric pollutants and health risks

VE takes care to control health risks directly related to its activities by reducing the emissions that it discharges into the atmosphere and implementing appropriate prevention plans.

Public transport greatly reduces congestion on our roads, it also significantly reduces the amount of vehicle pollutant emissions by providing an alternative to the use of private cars. VE is committed to reducing the quantity of pollutants through: refurbishing vehicles with catalytic particle filters to reduce CO, HC and particle emissions (where feasible); managing and renewing our fleet so that our vehicles run smoothly, with reduced emissions, and where possible, using low polluting fuels such as natural gas.

Breakdown of GHG emissions between VE Australia and New Zealand divisions 2005 (millions of tonnes CO₂ equivalent)



WATER TECHNOLOGY REDUCING EMISSIONS IN ENERGY GENERATION

CASE STUDY

The new Stanwell Raw Water Pre-Treatment Plant, located at Stanwell Power Station (QLD) showcases innovative technology and helps the power station to provide reliable, cost-effective and sustainable energy while reducing greenhouse gas emissions.

The plant treats 80,000 m³/day of raw water, by removing suspended solids from the river, and providing clarified water for cooling tower feed of the power station. Using the Actiflo® technology, the plant is able to generate significant water and cost savings. It also reduces chemical use and risk of Legionella. The use of raw water from this river often resulted in large amounts of solids accumulating in the cooling system equipment. The build-up of solids had to be removed at regular intervals. The greater impact of this plant is that by using clean water, the power station is able to increase its efficiency and reduce its carbon dioxide emissions.

Veolia Water Solutions & Technologies was responsible for the design, supply, construction, testing and commissioning of the raw water pre-treatment plant.



our performance



environmental

WASTE HELPING CLIENTS RECOVER RESOURCES

When reviewing a proposal or introducing waste treatment technology, Veolia Environmental Services/Collex considers long-term viability by ensuring that our solution is both environmentally friendly and economically feasible. CReeD, our international waste and energy research centre draws on the resources of a team of researchers continually experimenting with ways to reduce the environmental impacts of waste materials. It is through this team that we are able to provide our clients with the latest innovations in waste processing ensuring that we provide our clients with more than just one waste processing and recovery solution.

For example, at Toyota's manufacturing plant in Melbourne, VES/Collex sorts damaged car parts materials from their waste stream. The materials, mainly plastics, are separated and sorted for recycling.



Proposed Woodlawn Alternative Sorting and Processing Facility

THE WOODLAWN ECOPRECINCT GATHERS MOMENTUM

VES/Collex is very excited to report that development at the Woodlawn EcoPrecinct, near Tarago in NSW, is gaining momentum, turning a disused open-cut mine into world class resource and energy recovery centre. It will become one of Australia's largest renewable energy sites.

The heart of the project, the Woodlawn Bioreactor is taking shape. Over the past year, a landfill gas extraction system has been installed which is now collecting gas at the rate of 300m³/h. For the moment, this gas is flared, minimising fugitive greenhouse gas emissions from the waste stored in the bioreactor. By September 2006, the first of twenty GE Jennbacher landfill gas engines will be operational, generating green electricity.

In addition to bioreactor resource recovery, VES/Collex is continuing to promote resource recovery technologies at the Woodlawn site. Tenders have now been called for the construction of the Woodlawn Alternative Sorting and Processing (WASP) facility. Waste entering this facility will be shredded, recyclables extracted and compost produced from the organic material using open windrow composting. The compost generated from WASP will be used to remediate the highly degraded tailings dams and minesite.

Quantity of waste collected, treated and recycled

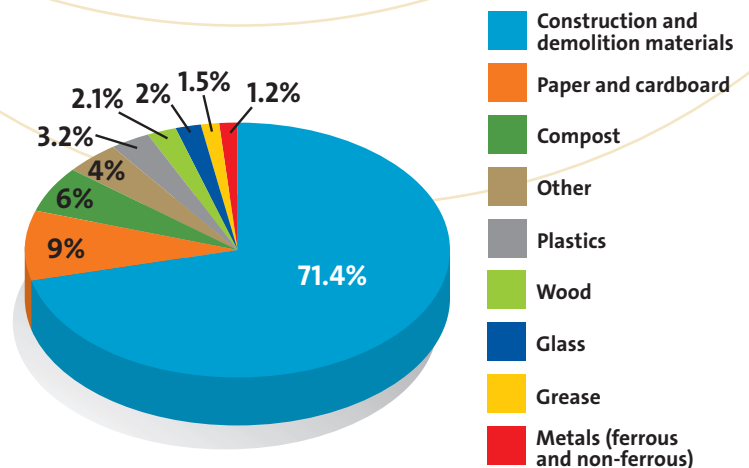
2003	2004	2005
Quantity of waste collected by VES/Collex (000s of tonnes)		
1,735	2,454	3,008
Quantity of waste treated by VES/Collex (000s of tonnes)		
1,808	2,462	3,121
Quantity of waste recycled by VES/Collex (000s of tonnes)		
338	587	497
Quantity of waste diverted to beneficial reuse by VES/Collex (000s of tonnes)		
830	972	1,099

4

In 2005 the volumes of waste collected and treated by VES/Collex increased by 24% over the previous year. However Collex has changed its operations in a number of ways which require explanation as to the extent to which waste has been recycled or applied to beneficial reuse:

- Because of health issues associated with the risk of asbestos hidden in loads received at its construction and demolition waste recycling depots, VES/Collex had to introduce additional safeguards in its processing. This has also led to some of the waste materials being transferred to a third party facility for recycling (that is, they were not recycled on VES/Collex premises). This material (80,000 tonnes in 2005) is included in "recycled" above.
- VES/Collex puts significant importance on resource recovery and application to beneficial reuse, as well as straight recycling. Its bioreactor landfills have been particularly designed to improve gas recovery to produce green energy and to remediate degraded mine sites. A conservative estimate of the organic fraction of the material delivered to Ti Tree and Woodlawn bioreactors (26,000 tonnes in 2003, 109,000 tonnes in 2004 and 257,000 tonnes in 2005) is included in beneficial reuse above.

Breakdown of waste recycled in 2005



CLEAN UP AUSTRALIA DAY

VES/Collex continues to provide resources to Clean Up Australia as a Corporate Partner and major sponsor of Clean Up Australia Day. This is the largest community participation program for the environment in Australia. It is important to us because it enables us to demonstrate sustainable development in action. We believe that through community education, we can collectively develop the values required to move towards sustainable development.





BUILDING A SUSTAINABLE FUTURE

SUSTAINABLE WATER MANAGEMENT

Population growth, climate change and increasingly stringent environmental regulations mean that Australia's water industry has to promote reuse strategies, alternate water sources, technological efficiencies and usage education. With dams levels continuing at low levels and urban water usage restrictions remaining in place, Australia's water challenge continues.

The Water Services Association of Australia predicts that Australia's major urban areas will have a water shortage of over 800 gigalitres a year by 2030 even with recycling in one-quarter of new developments and all consumers reducing their water use by 10 per cent.

In this environment, the focus of Veolia Water is on tailoring innovative water solutions to suit individual client needs. Veolia Water combines its international and local expertise and resources in recycling, desalination and technologically advanced solutions for the treatment of water and wastewater.

Testament to this is the completion of the 20 million litres a day Wollongong Water Reclamation Plant which uses a combination of microfiltration and reverse osmosis technology as part of Sydney Water's Illawarra Wastewater Strategy.

In South Australia, United Water (95% owned by Veolia Water) completed the Bolivar High Salinity project in 2005 and continues to supply treated effluent from the Bolivar Dissolved Air Flotation Filtration wastewater treatment plant for use by market gardeners at Virginia, 30 kms north of Adelaide.

Opportunities such as these, where experience, technology, an industry understanding and a partnership approach make a difference, will continue to be the future and focus for Veolia Water.

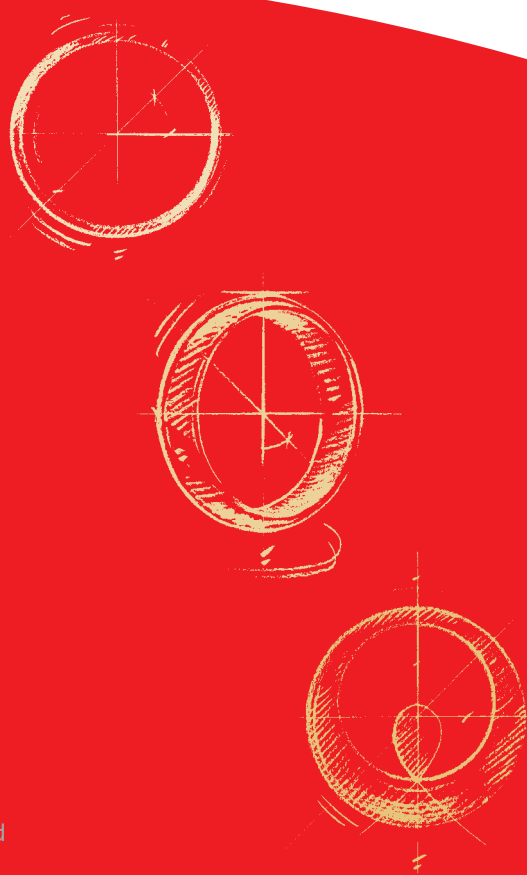
OUR SHARED NAME BECOMES OUR NEW NAME

In November 2005, Veolia Group Chairman and CEO Mr Henri Proglie unveiled a new identity for all the companies working in the Veolia Group. The focus of this identity is a new symbol representing VE's commitment to its clients: continuity, partnership and protection.

The new identity presents VE as one group, one single business with four divisions. These divisions are now named: Veolia Water; Veolia Environmental Services; Veolia Energy and Veolia Transport. This brings home the message to our clients that we have the capacity to examine their needs and provide a holistic, fully integrated, sustainable and cost effective solution.

VE's new brand architecture re-inforces: the feeling of belonging; the cohesion between divisions and countries as one market and one firm; our international visibility for all our clients; and our image as professionals, experts and leaders.

This initiative presents us with a unique opportunity to re-examine our united competitive strengths and apply them, in partnership, to new and emerging opportunities in building a sustainable future.



SUSTAINABLE WASTE MANAGEMENT

VES/Collex takes an active role in leading the community to more sustainable resource management practices. It does this by ensuring that the full environmental, economic and social costs of all different alternatives are understood.

The challenge, in waste management, is to evaluate the best resource recovery outcome for resources that would otherwise end up in *conventional* landfill and to be able to communicate that message successfully to our clients. Our bioreactor facilities at Ti Tree and Woodlawn will significantly enhance the contribution we can make to resource recovery in the municipal waste stream.

VES/Collex continues to build partnerships with a range of industries to achieve more sustainable outcomes. Product Stewardship, an environmental concept gaining more and more acceptance, requires all stakeholders (that is suppliers, producers, consumers and waste managers) to accept responsibility for the life cycle environmental impacts of their products. As a result, VES/Collex continues to expand its role beyond that of waste manager to one of resource manager.

As a Resource Manager, VES/Collex is modifying the way that it works with clients. By engaging them at an early stage in their product development cycle, VES/Collex can work with them to eliminate waste by designing products that take into account end-of-life disassembly, potential waste products and products that can be recycled and returned to the productive economy. In this way, our clients can achieve true sustainable outcomes.

TRANSPORTING OUR PASSENGERS INTO THE FUTURE

The biggest challenge in public transport remains 'car culture'. Australians are fortunate to have with world class road networks and investment in public transport has not kept pace, meaning the car is a very attractive alternative to trains, trams, buses and ferries.

However the future of public transport is very positive as all state governments have aggressive public transport policies to increase the market share of public transport versus the private car. In particular there are: major upgrades of train networks in Sydney and Melbourne; extensions of train networks in Sydney and Perth; bus rapid transit systems in Sydney and Brisbane; a rationalisation of bus services in Sydney and Melbourne; and substantial development of bus services in Melbourne.

So while supply is being improved, and given the increase in petrol prices, demand has increased also. In Melbourne, for example, train travel increased by about 10% in 2005 – three times the average growth over the past decade. In Auckland, dramatic growth is being experienced as the number of services increases. It is clear that if quality services are made available, people will use them.

Other challenges we face include: increasing private sector involvement in the provision of passenger transport (at present 55% of systems are operated by government bodies); gaining productivity improvements; ensuring passengers can seamlessly transfer between various vehicles as they make multi-modal trips; managing better ticketing systems to improve the travel experience; gaining productivity improvements; recruiting and retaining young people to address the problems inherent in an ageing workforce and in particular, attracting new drivers for trains and buses.

Veolia Transport remains well placed to continue to provide quality transport solutions for customers throughout Australia and New Zealand.

6 recognised performance

Veolia Environnement companies work hard to provide the best solutions for our clients and customers. The following projects received external recognition in 2005.

VEOLIA WATER

Kwinana Water Reclamation Plant in WA (17 million litres a day capacity) was the national winner of the Australian Water Association's Water Environment Merit Award in 2005. It was also highly commended in the Global Water Awards 2005 (Global Water International). Veolia Water Solutions and Technologies was responsible for the design and build.

United Water's Bolivar High Salinity Project received awards the engineering, project management and sustainability aspects of the development. The Civic Trust of South Australia presented the project with two awards: The Award of Merit in the Materials category and the People's Choice Award. These awards recognise projects that enhance the strength and evolution of the civic environment, assist in the restoration and preservations of the natural environment and and are socially and environmentally sustainable. The Australian Institute of Project Management Achievement Award and the Engineers Australia SA Division Engineering Excellence Award (Civil Category) recognised the technical aspects of the project.

United Water, together with SA Water also won the Australian Water Association South Australian Water Award in the Infrastructure Development & Management Category for the Mawson Lakes Recycled Water System.

Globally, Veolia Water Systems and Technologies continues to gain recognition for its water desalination programs. Global Water Intelligence (GWI), is one of the main international news publications aimed at professionals working in the water sector. The prizes were awarded on the basis of votes cast by readers of GWI and members of the International Desalination Association (IDA). Veolia Water Systems and Technologies has been awarded Best Desalination Plant of the Year for the 330,000 m³/day reverse osmosis desalination plat at Ashkelon, Israel; also Veolia water Solutions and Technolgies was voted Best Desalination Company of the Year for Large Projects. Further, Veolia Entropie (a VWS&T company) was high commended for the the multiple effect distillation desalination plant for BHP Billiton's Ravensthorpe Nickel Mine in Western Australia.

VES/COLLEX

Collex Tasmania won a Business Excellence Award sponsored by the Business East, an association that assists and supports businesses in Hobart's Clarence Municipality. The award acknowledged the company's business acumen, customer service and corporate citizenship.

Collex Tasmania was named "Employer of New Apprentices" for Tasmania at the Minister's Awards for Excellence. This award given by the Federal Department of Education Science and Training and recognises Collex's commitment to developing the skills of its workforce.

The Woodlawn Bioreactor project won the Engineering Excellence (Environment) award and the Sustainability by Engineers Australia award at Queensland's Engineering Excellence Awards. These awards are presented by the Queensland Branch of the Institute of Engineers, Australia. The award was presented to the alliance which developed the project: VES/Collex, Barclay Mowlem (construction contractors) and Maunsell Australia (engineering consultants).

VEOLIA TRANSPORT

Connex Melbourne received the Australasian Rail Association 2005 Rail Industry Award for Excellence - Corporate Award. In addition, VT Perth has been awarded with a Gold Safety Award, which recognises the high standard of quality, environment and safety systems used to maintain their operations.



VEOLIA ENVIRONNEMENT

ENVIRONMENT & SUSTAINABLE DEVELOPMENT REPORTS

- 2001
- 2002
- 2003
- 2004 Global Report
- 2004 Australia and New Zealand Report
- 2005 Global Report

SOCIAL REPORT

- 2002
- 2003
- 2004

ETHICS

- 2003
- 2005

VEOLIA ENVIRONMENTAL SERVICES

ACTIVITY AND SUSTAINABLE DEVELOPMENT REPORT

- 2003

SOCIAL REPORT

- 2003

ENVIRONMENT REPORT

- 2002
- 2001

VES/COLLEX

SUSTAINABLE DEVELOPMENT REPORT

- 2002
- 2000





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VEOLIA TRANSPORT PROVIDES SUPPORT FOR COMMUNITY GROUPS AND SCHOOLS

In Sydney, Veolia Transport provides free buses to schools within communities where it operates for transporting students to Hazelhurst Gallery on Monday and Tuesdays of each week providing access to the gallery for children who would not normally have the opportunity to experience local and international art.

Veolia Transport also supplies buses free-of-charge to Calvary Hospital for elderly patients who have undergone surgery or long-term cancer treatment to help these patients re-familiarise themselves with how to use public transport, regain their independence and integrate back into the community.

Veolia Transport provides safety training for primary school pupils using buses. In Sydney's south a Veolia Transport safety officer teaches students road safety rules including crossing roads safely, safety to and from the bus stop, safe practices at a bus stop and safely boarding and alighting a bus. In Melbourne, Veolia Transport (Connex) works in partnership with the Richmond Football Club to teach primary school aged children about rail safety through a program called Connex Tigers. Young children's sporting heroes take the lead, to convey safety messages in a way that is fun, accessible and popular. In 2005, 17,500 primary school pupils in 121 schools met the Tigers.

CASE STUDY





 **VEOLIA**
ENVIRONNEMENT

