

2006 BCSECCOM 692

October 27, 2006

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - *Securities Act*, ss. 48, 76 – Employees & Consultants – exemption from registration and prospectus requirements for employees, consultants, past employees and similar persons - Trades by an issuer’s employee or officer in securities of a fund that was established as part of the issuer’s employee investment plan or in-house investment plan - The employee voluntarily enters into the filer’s employee investment plan; under the plan, the employee will receive units in the fund; the units are exchangeable for securities of the filer; the fund’s sole purpose is to hold securities of the filer for the benefit of plan participants; the employee will receive an information package which includes a summary of the terms of the offering and a notice containing a description of Canadian income tax consequences; upon request, the employee can receive copies of the French reference document filed with the French AMF in respect of the filer’s shares and a copy of the relevant fund’s rules; the filer is not a reporting issuer in any Canadian jurisdiction; the filer has a de minimis connection to Canada; the securities will be resold on an exchange outside of Canada or to a person outside of Canada

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 34(1)(a), 48, 61 and 76

In the Matter of
the Securities Legislation of
Québec, Ontario, Alberta and British Columbia
(the “Jurisdictions”)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Veolia Environnement (the “Filer”)

MRRS Decision Document

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Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the “Legislation”) for:

1. an exemption from the prospectus requirements of the Legislation (the “Prospectus Relief”) so that such requirements do not apply to trades in the units (“Units”) of two collective shareholding vehicles, the FCPE Sequoia Souscription International 2006 (the “Intermediary Classic Fund”) and the Sequoia Classique International FCPE (the “Principal Classic Fund”, and together with the Intermediary Classic Fund, the “Classic Fund”) and one compartment, Sequoia Symphonie International 2006, of another collective shareholding vehicle, FCPE Sequoia Harmonie International (the “Leveraged Fund”, together with the Classic Fund, the “Funds”) made pursuant to the Employee Share Offering (as defined below) to or with Qualifying Employees (as defined below) resident in the Jurisdictions who elect to participate in the Employee Share Offering (the “Canadian Participants”);
2. an exemption from the dealer registration requirements of the Legislation (the “Registration Relief”) so that such requirements do not apply to trades in Units of the Classic Fund made pursuant to the Employee Share Offering to or with Canadian Participants, nor to trades in Units of the Leveraged Fund made pursuant to the Employee Share Offering to or with Canadian Participants not resident in Ontario; and
3. an exemption from the adviser registration requirements and dealer registration requirements of the Legislation so that such requirements do not apply to the manager of the Funds, Natexis Asset Management (the “Manager”) to the extent that its activities described in paragraphs 29 and 30 hereof require compliance with the adviser registration requirements and dealer registration requirements (collectively, with the Prospectus Relief and the Registration Relief, the “Initial Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications

- (a) the Autorité des marchés financiers is the principal regulator for this application, and
- (b) this MMRS decision document evidences the decision of each Decision Maker.

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Interpretation

Defined terms contained in National Instrument 14-101 Definitions or in the Autorité des marchés financiers' Notice 14-101 have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a corporation formed under the laws of France. It is not and has no intention of becoming a reporting issuer (or equivalent) under the Legislation. The shares of the Filer (the "Shares") are listed on Euronext Paris and on the New York Stock Exchange (in the form of American Depositary Receipts).
2. The Filer carries on business in Canada through the following affiliated companies: John Meunier Inc., Veolia Water Canada Inc., Veolia ES Canada Industrial Services Inc., Veolia ES Canada Services Industrielles Inc., Veolia ES Matieres Residuelles Inc., Veolia ES Services D'Assainissement Inc., Veolia ES Sewer Services (Ottawa) Inc., Veolia ES Sewer Services Inc., Veolia ES Canada Inc., 2172-0677 Quebec Inc., 2422-3026 Quebec Inc., Groupe Connex GVI Inc., Groupe Viens Inc. and Les Autobus Boulais Ltée. (the "Canadian Affiliates", together with the Filer and other affiliates of the Filer, the "Veolia Group"). Each of the Canadian Affiliates is a direct or indirect controlled subsidiary of the Filer and is not, and has no intention of becoming, a reporting issuer (or equivalent) under the Legislation.
3. The Filer offers for subscription Shares to employees of the Veolia Group within the frame of its employee savings plan (the "Employee Share Offering"). The Employee Share Offering is comprised of two subscription options: (i) an offering of Shares to be subscribed through the Intermediary Classic Fund (which will be merged with the Principal Classic Fund after completion of the Employee Share Offering (the "Classic Plan"); and (ii) an offering of Shares to be subscribed through the Leveraged Fund (the "Leveraged Plan").
4. Only persons who are employees of a member of the Veolia Group at the time of the Employee Share Offering with a minimum seniority of three months (the "Qualifying Employees") will be invited to participate in the Employee Share Offering.
5. The Funds were established for the purpose of implementing the Employee Share Offering.

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6. The Funds are not and have no intention of becoming reporting issuers under the Legislation.
7. The Funds are collective shareholding vehicles (fonds communs de placement d'entreprise or "FCPEs") of a type commonly used in France for the conservation or custodianship of shares held by employee investors. The Funds have been registered with and approved by the Autorité des marchés financiers in France (the "French AMF"). Only Qualifying Employees will be allowed to hold Units of the Funds in an amount proportionate to their respective investments in the Funds.
8. Under French law, all Units acquired in the Employee Share Offering will be subject to a hold period of approximately five years (the "Lock-Up Period"), subject to certain exceptions prescribed by French law (such as a release on death or termination of employment).
9. The Canadian Affiliates will, as part of the Employee Share Offering, offer the Canadian Participants a matching contribution in the form of Shares issued by the Filer and awarded for free to be contributed under the Classic Plan (the "Contributed Shares"). For this purpose, the Filer will issue Shares at the Subscription Price (defined below) corresponding to the amount of the matching contribution to which each employee is entitled pursuant to his or her personal investment, as predetermined and communicated to the Canadian Participants prior to the commencement of Employee Share Offering (the "Matching Contribution Program").
10. Under the Classic Plan, at the end of the Lock-Up Period or in the event of an early redemption resulting from the Canadian Participant exercising one of the exceptions to the Lock-Up Period prescribed by French law, a Canadian Participant may (i) redeem Units in the Classic Fund for a cash payment equal to the then market value of the Shares, or (ii) continue to hold Units in the Classic Fund and redeem those Units at a later date.
11. Under the Leveraged Plan, at the end of the Lock-Up Period, the Swap Agreement (defined below) will terminate; after making the final swap payments, a Canadian Participant may: (i) redeem his or her Units of the Leveraged Fund in consideration for payment of an amount calculated pursuant to the Redemption Formula (defined below); (ii) transfer his or her Units of the Leveraged Fund in consideration for the issuance of Units of equivalent value of the Classic Fund, which may in future be redeemed for an equivalent amount in cash; or (c) retain his or her Units of the Leveraged Fund until he or she wishes to redeem them.

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12. Under the Classic Plan, Canadian Participants will be issued Units in the Classic Fund, which will subscribe for Shares on behalf of the Canadian Participants, at a subscription price that is equal to the average of the opening price of the Shares on the 20 trading days preceding the date of fixing of the subscription price by the Filer (the "Reference Price"), less a 20% discount (the "Subscription Price").
13. Dividends paid on the Shares held in the Classic Fund will be contributed to the Classic Fund and used to purchase additional Shares. To reflect this reinvestment, no additional Units (or fractions thereof) of the Classic Fund will be issued to employees; rather, the net asset value of Units of the Classic Fund will be increased to reflect this dividend reinvestment.
14. Under the Leveraged Plan, Canadian Participants will subscribe for Units in the Leveraged Fund, and the Leveraged Fund will then subscribe for Shares using the Employee Contribution (as described below) and certain financing made available by Calyon (the "Bank"), which is governed by the laws of France.
15. Canadian Participants in the Leveraged Plan receive a 20% discount on the Reference Price.
16. Participation in the Leveraged Plan represents an opportunity for Qualifying Employees potentially to obtain significantly higher gains than would be available through participation in the Classic Plan, by virtue of the Qualifying Employee's indirect participation in a financing arrangement involving a swap agreement (the "Swap Agreement") between the Leveraged Fund and the Bank. In economic terms, the Swap Agreement effectively involves the following exchange of payments: for each Share which may be subscribed for by the Qualifying Employee's contribution (the "Employee Contribution") under the Leveraged Plan at the Reference Price less the 20% discount, the Bank will lend to the Leveraged Fund (on behalf of the Canadian Participant) an amount sufficient to enable the Leveraged Fund (on behalf of the Canadian Participant) to subscribe for an additional 1.5 Shares (the "Bank Contribution") at the Reference Price less the 20% discount.
17. Under the terms of the Swap Agreement, at the end of the Lock-Up Period (the "Settlement Date"), the Leveraged Fund will owe to the Bank an amount equal to the market value of the Shares held in the Leveraged Fund, less
 - (i) 100% of the Employee Contributions; plus

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- (ii) a guaranteed yield of 10% on the Subscription Price; and
 - (iii) an amount equal to 1.6 times the Average Increase (as defined below), if any, of the shares acquired with the Employee Contributions (together with (i) and (ii) above, the “Redemption Formula”)
- 18. The “Average Increase” is determined as the difference between (i) the average of the closing price of a Share observed on the last trading day of each month (a “Monthly Quote”) on Eurolist Euronext Paris during the five year term of the Leveraged Plan (i.e., the average of sixty quotes), and (ii) the Subscription Price. If a Monthly Quote is less than the Subscription Price, the Subscription Price will be substituted for the Monthly Quote for that month in the calculation of the Average Increase.
- 19. If, at the Settlement Date, the market value of the Shares held in the Leveraged Fund is less than 100% of the Employee Contributions, the Bank will, pursuant to a guarantee agreement, make a cash contribution to the Leveraged Fund to make up any shortfall.
- 20. At the end of the Lock-Up Period, the Swap Agreement will terminate after the making of final swap payments and a Canadian Participant (i) may redeem his or her Leveraged Fund Units in consideration for a payment of an amount calculated pursuant to the Redemption Formula; (ii) transfer his or her Units of the Leveraged Fund in consideration for the issuance of Units of equivalent value of the Classic Fund; or (iii) retain his or her Units in the Leveraged Fund until he or she wishes to redeem them.
- 21. Under no circumstances will a Canadian Participant in the Leveraged Fund be entitled to receive less than 100% of his or her Employee Contribution at the end of the Lock-Up Period, nor be liable for any other amounts.
- 22. Under French law, each Fund, as a FCPE, is a limited liability entity. Each Fund’s portfolio will consist exclusively of Shares of the Filer and, in the case of the Classic Fund, from time to time, cash in respect of dividends paid on the Shares which will be reinvested in Shares. The Leveraged Fund’s portfolio will also include the Swap Agreement. From time to time, either portfolio may include cash or cash equivalents that the Funds may hold pending investments in Shares and for purposes of Unit redemptions. The risk statement provided to Canadian Participants will confirm that, under no circumstances, will a Canadian Participant in the Leveraged Plan be liable to any of the Leveraged Fund, the Bank or the Filer for any amounts in excess of his or her Employee Contribution under the Leveraged Plan.

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23. During the term of the Swap Agreement, dividends paid on the Shares held in the Leveraged Fund will be remitted to the Leveraged Fund, and the Leveraged Fund will remit an equivalent amount to the Bank as partial consideration for the obligations assumed by the Bank under the Swap Agreement.
24. For Canadian federal income tax purposes, the Canadian Participants in the Leveraged Fund should be deemed to receive all dividends paid on the Shares financed by either the Employee Contribution or the Bank Contribution, at the time such dividends are paid to the Leveraged Fund, notwithstanding the actual non-receipt of the dividends by the Canadian Participants by virtue of the terms of the Swap Agreement. Consequently, Canadian Participants will be required to fund the tax liabilities associated with the dividends from their own resources.
25. The declaration of dividends on the Shares remains at the sole discretion of the board of directors of the Filer. The Filer has not made any commitment to the Bank as to any minimum payment in respect of dividends.
26. To respond to the fact that, at the time of the initial investment decision relating to participation in the Leveraged Plan, Canadian Participants will be unable to quantify their potential income tax liability resulting from such participation, the Filer or the Canadian Affiliates will indemnify each Canadian Participant in the Leveraged Plan for all tax costs to the Canadian Participants associated with the payment of dividends in excess of a specified amount of euros per Share during the Lock-Up Period such that, in all cases, a Canadian Participant will, at the time of the original investment decision, be able to determine his or her maximum tax liability in connection with dividends received by the Leveraged Fund on his or her behalf under the Leveraged Plan.
27. At the time the Canadian Participant's obligations under the Swap Agreement are settled, the Canadian Participant should realize a capital gain (or capital loss) by virtue of having participated in the Swap Agreement to the extent that amounts received by the Leveraged Fund, on behalf of the Canadian Participant, from the Bank exceed (or are less than) amounts paid by the Leveraged Fund, on behalf of the Canadian Participant to the Bank. To the extent that dividends on Shares that are deemed to have been received by a Canadian Participant are paid by the Leveraged Fund on behalf of the Canadian Participant to the Bank, such payments will reduce the amount of any capital gain (or increase the amount of any capital loss) to the Canadian Participant under the Swap Agreement. Capital losses (gains) realized by a

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Canadian Participant under the Swap Agreement may be offset against (reduced by) any capital gains (losses) realized by the Canadian Participant on a disposition of the Shares, in accordance with the rules and conditions under the *Income Tax Act* (Canada) or comparable provincial legislation (as applicable).

28. The Manager, Natexis Asset Management, is an asset management company governed by the laws of France. The Manager is registered with the French AMF to manage French investment funds and complies with the rules of the French AMF. The Manager is not and has no intention of becoming a reporting issuer under the Legislation.
29. The Manager's portfolio management activities in connection with the Employee Share Offering and the Funds are limited to subscribing for Shares from the Filer, selling such Shares as necessary in order to fund redemption requests, and such activities as may be necessary to give effect to the Swap Agreement.
30. The Manager is also responsible for preparing accounting documents and publishing periodic informational documents as provided by the rules of each Fund. The Manager's activities in no way affect the underlying value of the Shares and the Manager will not be involved in providing advice to any Canadian Participants.
31. Shares issued in the Employee Share Offering will be deposited in the relevant Fund through Natexis Banque Populaires (the "Depository"), a large French commercial bank subject to French banking legislation.
32. Under French law, the Depository must be selected by the Manager from among a limited number of companies identified on a list by the French Minister of the Economy, Finance and Industry and its appointment must be approved by the French AMF. The Depository carries out orders to purchase, trade and sell securities in the portfolio and takes all necessary action to allow each Fund to exercise the rights relating to the securities held in its portfolio.
33. The Canadian resident Qualifying Employees will not be induced to participate in the Employee Share Offering by expectation of employment or continued employment.
34. The total amount invested by a Qualifying Employee in the Employee Share Offering, including any Bank Contribution, cannot exceed 25% of his or her estimated gross annual compensation for 2006.

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35. None of the Filer, the Manager, the Canadian Affiliates or any of their employees, agents or representatives will provide investment advice to the Canadian Participants with respect to an investment in the Shares or the Units.
36. The Filer will retain a securities dealer registered as a broker/investment dealer under the Legislation of Ontario (the “Registrant”) to provide advisory services to Canadian Participants resident in Ontario who express interest in the Leveraged Plan and to make a determination, in accordance with industry practices, as to whether an investment in the Leveraged Plan is suitable for each such Canadian Participant based on his or her particular financial circumstances. The Registrant will establish accounts for, and will receive the initial account statements from the Leveraged Fund on behalf of, such Canadian Participants. The Units of the Leveraged Fund will be issued by the Leveraged Fund to Canadian Participants resident in Ontario solely through the Registrant.
37. Units of the Leveraged Fund will be evidenced by account statements issued by the Leveraged Fund.
38. The Canadian Participants will receive an information package in the French or English language, as applicable, which will include a summary of the terms of the Employee Share Offering, a tax notice containing a description of Canadian income tax consequences of subscribing to and holding the Units in the Funds and redeeming Units for cash at the end of the Lock-Up Period. The information package for Canadian Participants in the Leveraged Plan will include all the necessary information for general inquiry and support with respect to the Leveraged Plan and will also include a risk statement which will describe certain risks associated with an investment in Units pursuant to the Leveraged Plan, and a tax calculation document which will illustrate the general Canadian federal income tax consequences of participating in the Leveraged Plan.
39. Upon request, Canadian Participants may receive copies of the Filer’s annual report on Form 20-F filed with the United States Securities and Exchange Commission and/or the French *Document de Référence* filed with the French AMF in respect of the Shares and a copy of the relevant Fund’s rules (which are analogous to company by-laws). The Canadian Participants will also receive copies of the continuous disclosure materials relating to the Filer furnished to the Filer’s shareholders generally.
40. There are approximately 2,306 Qualifying Employees resident in Canada, in the provinces of Québec (1,674), Ontario (588), British Columbia (39) and

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Alberta (5), who represent in the aggregate less than 1% of the number of Veolia Group's employees worldwide.

41. As of the date hereof and after giving effect to the Employee Share Offering, Canadian residents do not and will not beneficially own (which term, for the purposes of this paragraph, is deemed to include all Shares held by the Funds on behalf of Canadian Participants) more than 10% of the Shares and do not and will not represent in number more than 10% of the total number of holders of the Shares as shown on the books of the Filer.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Initial Requested Relief is granted provided that:

1. the first trade in any Units acquired by Canadian Participants pursuant to this Decision in a Jurisdiction is deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction unless the following conditions are met:
 - (a) the issuer of the security
 - (i) was not a reporting issuer in any jurisdiction of Canada at the distribution date, or
 - (ii) is not a reporting issuer in any jurisdiction of Canada at the date of the trade;
 - (b) at the distribution date, after giving effect to the issue of the security and any other securities of the same class or series that were issued at the same time as or as part of the same distribution as the security, residents of Canada
 - (i) did not own directly or indirectly more than 10 percent of the outstanding securities of the class or series, and
 - (ii) did not represent in number more than 10 percent of the total number of owners directly or indirectly of securities of the class or series; and

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(c) the first trade is made

(i) through an exchange, or a market, outside of Canada, or

(ii) to a person or company outside of Canada; and

(2) in Quebec, the required fees are paid in accordance with Section 271.6(1.1) of the *Securities Regulation* (Québec).

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