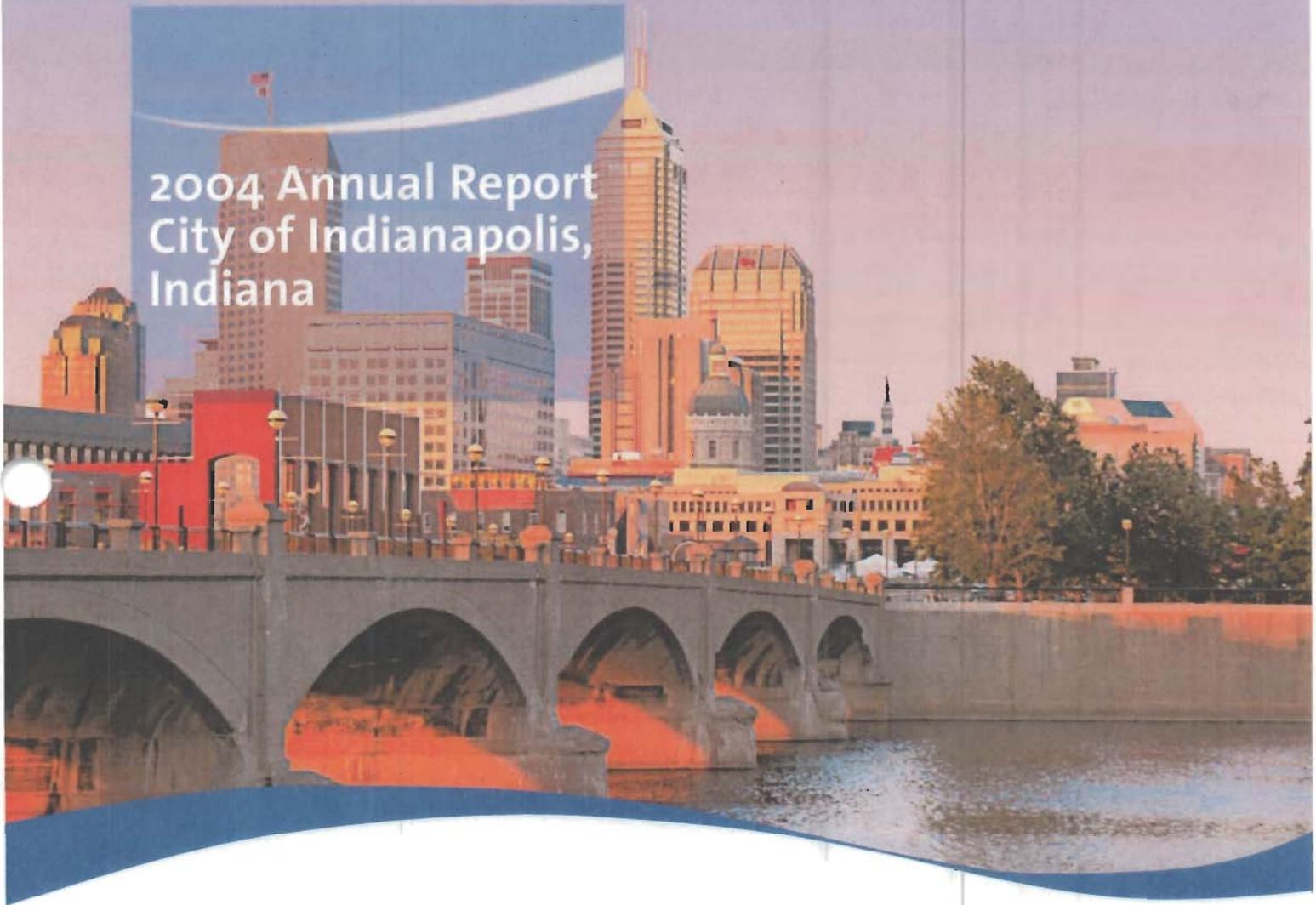


EXHIBIT B



2004 Annual Report
City of Indianapolis,
Indiana



Assets We Manage for You



Scope of Services

- > Operation and maintenance
- > Capital programs
- > Meter reading and replacement
- > Billing, collections and customer service

Facilities

- > System serves approximately 900,000 people
- > 12 water treatment plants
- > 143 MG daily water production
- > 31 pumping stations
- > 4,000 miles of water main
- > 32,000 fire hydrants
- > 19 water storage tanks
- > Eight well fields
- > Service area encompasses most of Marion County and parts of the surrounding eight counties



Indianapolis Water Partnership Produces Big Results

Key Highlights

- > The partnership has enabled the City to freeze water rates for five years.
- > Veolia Water Indianapolis, LLC (VWI) has tackled the challenge of significant taste and odor problems, reducing the number of complaints from 501 in 2001 to just 26 in 2004.
- > Overall customer satisfaction is above the national average for utilities (70%) with more than 8 of 10 customers saying that VWI is doing an "excellent" or "good" job.
- > The Minority Business Enterprise/Women's Business Enterprise (MBE/WBE) program established by VWI has become one of the premier programs in Central Indiana. Not only are goals exceeded, but mentoring relationships are established as well. The overall goal for MBE/WBE participation is 16% or a spend of \$7,473,428 (combined Operations and Maintenance and Capital). VWI achieved over 31% with an MBE/WBE spend of \$13,939,648 out of a total spend of \$44,834,029.
- > VWI achieved over 94% with a local procurement spend of \$41,983,642 out of a total spend of \$44,834,029. The overall goal for local participation is 86% or a spend of \$38,557,264.
- > VWI posted the best safety numbers in 10 years during 2004.
- > Customer service improvements such as pay-by-phone, on-line bill pay, an interactive voice response system and more readable bills have given customers more access to their account information in a timely manner.
- > Improved infrastructure, fewer main breaks and more efficient water production have resulted from capital projects.

Executive Summary

In 2002, the City of Indianapolis acquired the assets of the waterworks and selected Veolia Water North America to operate and manage the entire Indianapolis Water (IW) system, including its subsidiaries. This marked the start of the largest public-private water partnership in North America.

With the creation of VWI, the City ensured that the waterworks system would receive the global expertise of Veolia Water while maintaining local control and oversight. VWI has made great strides in just two years to prove itself as a worthy and trusted partner in the community.

The 20-year contract allows both the City and VWI to make investments in the waterworks infrastructure, technology, people and the community. With a unique fee structure, including performance-based incentives, continual improvement is in everyone's best interest.

Partnership Incentives

The City included 37 incentive criteria as part of the management agreement to provide outstanding service to its customers. VWI is responsible for operating towards achievement of those established criteria, identified in the following areas:

- > Customer Service
- > Water Quality
- > Capital Projects
- > Technical, Operations and Maintenance (O & M)
- > Caring for the Community

Partnership Highlights

CUSTOMER SERVICE

The Customer Service department has worked hard to provide quality service to customers and clients by providing outstanding service to a diverse set of constituents. Overall customer satisfaction is now above the national average for utilities, according to the annual customer satisfaction survey conducted by an independent firm. **The 2004 survey showed an increase in overall customer satisfaction from the previous two years – 83% in 2004, 76% in 2003 and 73% in 2002.**

The most significant management processes that led to the improved customer satisfaction rating included:

- **Call center management reports** developed and implemented for call center agents, including:
 - productivity report
 - question and answer monitoring form
 - coaching form

These individual reports, along with additional information, are compiled into a contact center report which allows management to see daily performance and track trends affecting customer service.

- **We invested in employees** by providing 160 hours of training for each new agent and on-going training for existing agents, including refresher training for seasonal information. In addition, a training manual has been developed and implemented to ensure consistency among the contact center staff.

The customer service lobby closure was successfully completed with few disruptions or complaints. New and more convenient ways for customers to pay their bills have been established through electronic methods such as pay by phone and internet payments. Other new payment options include Union Federal Bank locations as well as ACE Check Express. All of these payment options are explained in a newly developed brochure called "12 Easy Ways to Pay".

To ensure better billing accuracy, a quality assurance group was established. Meters are now being read two days ahead of the bill date. This has helped to eliminate recordable meter reading errors by giving more time to research and resolve issues.

- > Exceeded 2004 goal for incoming calls answered within 30 seconds. Goal: 82% Achieved: 82.7%.
- > This goal was achieved while answering a total of 616,092 incoming calls for all clients in 2004.

Key Highlights

- > Overall customer satisfaction now exceeds the national average for utilities. The 2004 survey results showed a 10 point increase over 2002 results (83% in 2004, 73% in 2002).
- > Comprehensive system improvements, management processes, 24/7 access, training and many additional measures have created a complete customer care culture.
- > Bill accuracy, new payment methods, improved reporting and accurate meter reading has been delivered through quality-assurance measures.

When VWI began providing the full range of customer services from bill creation, call center, remittance processing and collections for IW in 2002, we began implementing technology and management tools to better manage the customer processes. Prior to this time, most of the customer service processes were manual, difficult to quantify and measure, with limited technology deployed. The most significant technology enhancements developed and implemented since May 2002, that have had the most significant positive impact on VWI's performance include:

- **Automation of the customer bill payment research function**, implemented by utilizing our remittance processing partner's technology which resulted in streamlining this task from hours to minutes, resulting in faster response time to customer inquiries.
- **Help desk function improvements** adding the capability to track trouble tickets and better manage the process, thus leading to less down time for the call center agents.
- **Conversion to Smart Suite billing system** that eliminated most paper processes and allowed for more timely access to critical information, such as status of field and distribution work orders and bad debt information readily available on a shared drive for employee access. Also enabled a more user-friendly bill format to be implemented with more options for customer messaging.
- **Development of the expertise to produce, refine and customize reports** that enable us to be responsive to client's changing needs for data.
- **Improved customer access** into the call center by increasing the number of lines and capacity by upgrading the phone switch technology. Installation of the Interactive Voice Response system now enables customers to access some account data 24 hours a day, seven days a week, without talking to a live agent. The upgrade also provides management the ability to change messages at any time.



Partnership Highlights

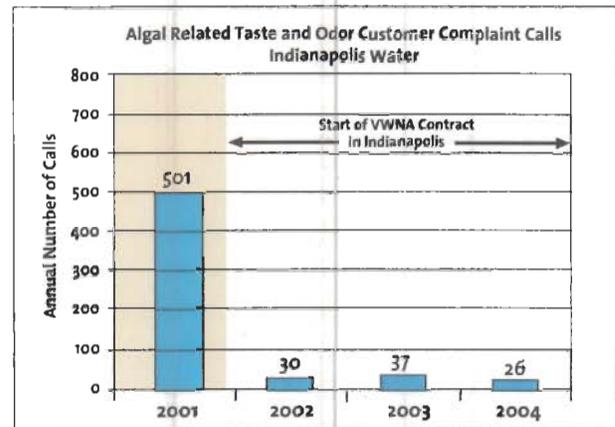
- Our call center reporting software, Symposium, offers the **ability to better analyze workload**, providing more flexibility in scheduling employees, adding skill-based routing functionality and minute-by-minute incoming call center data displayed on the call center floor.
- Utilizing technology from Experian has allowed for **improved credit checking and positive identification of customers**, thereby increasing billing accuracy.
- By using internet technology, **customer service agents are able to more rapidly respond to customer inquiries**. Customers are able to enter account information into the system prior to speaking with an agent, thus reducing call time.
- **New network management** has been installed that provides our Information Technology department the ability to remotely monitor all activity and traffic on the system in order to proactively detect and prevent possible problems.
- A backup **facility generator was installed** at the call center to provide uninterrupted delivery of power to the call center and data center in the event of local power outage.

WATER QUALITY

VWI accepted the challenge of resolving significant taste and odor problems related to algae growth in the drinking water supply reservoirs. In 2002, VWI implemented several initiatives to mitigate objectionable taste and odor events caused by the growth of nuisance algae in the water supply reservoirs. An extensive reservoir monitoring program was initiated to monitor conditions on the supply reservoirs. This was coupled with a proactive algaecide treatment program to mitigate nuisance algal growth before development of severe blooms. In addition, extensive testing was conducted to evaluate the most effective powdered activated carbons for removal of taste and odor causing compounds within the treatment facilities. These tests resulted in changes in the type of carbon used at the faci-

Key Highlights

- > Reduced taste and odor complaints from 501 in 2001 to 26 in 2004.
- > Produced a record 51.9 billion gallons of water in 2004.
- > Performed 172,780 laboratory tests on 32,318 water samples to confirm the water quality.
- > Improved relationships with advocates and agencies.
- > \$250,000 annual investment in Indiana University Purdue University Indianapolis (IUPUI) research partnership



ties. VWI continues to seek improvements in its reservoir monitoring and treatment program through its long-term research partnership with IUPUI. Through this integrated approach to monitoring, evaluating, treating and continually improving, VWI has significantly reduced the number of taste and odor related customer complaints.

The IUPUI partnership is proving to be a huge success, not only in providing technical expertise to develop watershed management strategies, but in leveraging other funding sources for improving Indianapolis source water quality and in developing a technical center of expertise at the university. In 2004, the university added three new faculty positions in the water resource management area largely due to the stability offered by VWI's long-term commitment. The research and development activities currently undertaken by the partnership are associated with understanding, modeling and predicting reservoir water quality and how the water quality may be impacted by various management practices.

VWI has worked closely with the Technical Advisory Group (TAG) on a variety of complex operational and water quality issues. The TAG is made up of scientists and engineers representing local industries, environmen-



tal organizations and universities, who provide a forum for discussion and evaluation of technical and policy issues. The TAG has taken up topics ranging from long-term capital planning to comply with future water quality regulations, to reservoir management to minimize taste and odor issues, to proper response procedures in the event of certain water quality questions or concerns. VWI has included international Veolia Water experts as well as outside experts and regulatory personnel in meetings on specific topic areas where their involvement proved to be beneficial. The TAG discussions have resulted in improved relationships with local community environmental advocates and with regulatory agencies.

SAFETY

Continuous employee training has assisted in reducing the number of incidents. VWI has reduced the recordable incident rate an average of 7.7% over a 10-year history compared with the water supply industry rate reduction of 4.1% per year over the same time period.

We reduced the recordable incident rate 22% in 2003 and 18% in 2004 when compared with the year previous. The recordable incident rate of 7.07 for 2004 was an all-time low for VWI.

We delivered over 50 training sessions and classes on a variety of topics including confined space, asbestos awareness, vehicle safety and others. Four new guidance policies were developed and implemented and the first-ever employee evacuation drill was conducted.

Key Highlights

- > The recordable incident rate of 7.07 for 2004 was the all-time best safety record for the utility in the past 10 years.

Year	Indianapolis Water/ VWI Recordable Incident Rate	Bureau of Labor Statistics Data for SIC Code (1623) Water, Sewer Pipeline (communications and powerline)	Bureau of Labor Statistics Data for SIC Code 4941 (Water Supply)
2001	10.4	7.8	5.9
2002	9.82	6.2	8.2
2003	8.64	6.9	6.6
2004	7.07	not available	not available



Partnership Highlights

CAPITAL PROJECTS AND INVESTMENTS

Key Highlights

- › Gaps in the system were closed using proactive capital projects.
- › Capital projects reduced main breaks and other service interruptions.
- › System reliability has been improved, in large part, because of capital projects completed under VWI's management.
- › Executed \$46.2 million of capital projects in 2004.

Under previous management of IW, capital projects were prioritized differently. VWI has identified numerous projects which improve the system's efficiency and reliability and meet future water quality regulations. Typically these projects improve the redundancy and flexibility of the system.

Our project's priorities are focused on infrastructure and water quality. As a result, these projects improve the system's

operating effectiveness, long term reliability and improve customer relations. Examples include:

- **30 projects totaling approximately 30 miles of main** were identified and approved for construction. These projects close gaps in the system, improve the hydraulic efficiency of the system and reduce the number of dead-ends that can potentially contribute to water quality issues.
- Over the past two years, **22 projects have been identified and constructed that replace those segments of main with the highest number of main failures.** These failures result in service interruption, damage to City infrastructure such as sidewalks and roads, and loss of water. In the past, these projects had not been a priority. VWI has identified a number of locations that, with coordination with the Indianapolis Department of Public Works, will allow an extended life to their public improvements.
- Four, one-million-gallon elevated storage **tanks are being constructed to improve system reliability** and allow the existing infrastructure to meet peak system demands.
- **Improvements are being made to the existing filters** at the White River and Fall Creek treatment plants that will reduce the requirements for backwash water and increase the available supply.
- An expansion is underway at Geist Station to **increase this plant's capacity** by 4 million gallons per day.
- Significant improvements have been identified at the White River Treatment Plant. **The improvements address infrastructure** that will be unable to meet upcoming water quality regulations and significantly improve the reliability of this source of supply. The improvements include the construction of a new water intake structure for this facility, reducing the dependency on the canal as a source of supply and upgrading the sedimentation/flocculation basins to insure adequate water quality prior to filtration.
- A new **residuals handling facility was created** to eliminate water treatment plant disposal to the Indianapolis sewer system.
- Major pipeline contracts involving neighborhoods with contaminated wells were completed. Cooperation with the Marion County Health and Hospital as well as the Indiana Department of Environmental Management to **install water lines and new customer services and close contaminated wells** occurred to prevent future access.
- An investment in SCADA/technology improvements in 2003 **enhanced chemical and power management** through better data collection, increased online monitoring and improved trend analysis.



- In order to assist the City in **determining their capital financial needs and avoid unexpected capital requests during the year, VWI has consistently identified critical capital projects in the Capital Plan** and has achieved both incentives in this category each year.

TECHNICAL OPERATIONS & MAINTENANCE

VWI has implemented operational and distribution system modifications to improve water pressure to areas of the IW system prone to experiencing low pressure. Using pressure monitors installed within the distribution network, VWI continually monitors pressures at key locations. The number of occurrences in 2003 and 2004 in which the pressure at any of these locations dropped below 30 psi was reduced by an average of over 40% from the number occurring in the baseline year of 2002. This reduction was due to a combination of recommending and implementing distribution system infrastructure improvements in certain critical areas, and ensuring that the pumping system is operated in a manner to minimize even momentary low pressure occurrences.

VWI has made process adjustments in several areas to provide more efficient operation and improved water quality. Modifications were made at the Fall Creek and White River treatment plants to provide alternative locations in the surface water treatment process to blend groundwater. The alternate blending locations provide additional flexibility to optimize the coagulation and filtration processes at the treatment facilities. In addition, VWI has switched from the use of low concentrations of chlorine as a pre-oxidant during warm-weather periods to the use of sodium permanganate. This change has reduced the formation of disinfection by-products in the treatment process, thus improving water quality delivered to Indianapolis customers.

VWI has implemented several upgrades to its monitoring and control systems in both the treatment plants and in the distribution systems. Several process monitoring instruments were installed online in the treatment process to provide additional continuous, real-time monitoring. In addition, online water quality instruments were installed at critical locations

Key Highlights

- VWI has increased efficiency in the system through the use of technology.
- Water quality has been increased with the use of alternative treatments.
- Project management technology has been streamlined for more effective tracking.

to assess potential water quality degradation within the distribution system. A new control room was constructed at the White River Treatment Plant to upgrade the control and reliability of the treatment process. In addition, the control room included an operator interface for controlling pumps and valves throughout the distribution system to provide an alternative location for these operations.

VWI successfully implemented Synergen in September 2003. Synergen is an Enterprise Asset and Work Management system (EAM) / Computerized Maintenance Management System (CMMS) that allows companies to optimize asset performance and reliability. Through the use of the CMMS, maintenance programs are streamlined and the full life cycle of the asset is taken into consideration. Synergen is a web-structured program that allows projects to share information to improve overall efficiency.

Maintenance costs were more accurately captured and reporting to the client was greatly improved. Preventive Maintenance (PM) tasks were generated based off calendar date and/or run time. Initially the PM were developed from past practice, but with the implementation of Reliability Centered Maintenance (RCM), the frequency and scope of the PM are changing for improved asset management.

RCM is a process used to determine what maintenance activities should be done to an asset to ensure it operates at the user's expectations throughout its life. RCM uses seven separate activities to identify what should be done to properly maintain an asset. VWI has analyzed over 20 separate processes throughout the overall system. Many predictive tasks have been established and the results have been favorable.

The process of continually inputting facility information into the water system Global Information System (GIS) has improved since VWI began management of the system. The process has been streamlined by using technology, improved project tracking system and commitment to ever decreasing deadlines. Global Position Systems are being used to speed data entry as well as increase the accuracy of locating each fitting, valve, fitting and pipe. The project tracking system helps all know when projects are ready for the next step. Total number of projects added to GIS between 2002 and 2004 was 2,090.



Partnership Highlights

CARING FOR THE COMMUNITY

VWI has one of the best MBE/WBE programs in Central Indiana. The program engages the services of many local and national firms and aggressively courts MBE's and WBE's for ongoing projects. With these firms now responsible for more than 31% of subcontracted work for capital and O & M, VWI has well exceeded the city's stated requirements and levels reached by prior managers of the system.

In 2004, we far exceeded goals in the MBE/WBE program.

Key Highlights

- > Central Indiana minority and women business owners single out VWI's MBE/WBE program as one of the best.
- > VWI has contributed more than \$2 million to the community since signing the contract.
- > Community service and volunteerism is practiced by VWI employees starting with senior management's commitment.

With 31% of total expenditures coming from MBE/WBE vendors, we almost doubled the goal of 16% for the year. We were also able to successfully establish mentoring relationships with several MBE/WBE vendors, leading to a nomination for the Mayor's Celebration of Diversity Awards in 2004. One of the goals of the mentoring program with our MBE and WBE vendors is to elevate them from second tier vendors to prime contractors and we are proud to say that over the past two years, two of our second tier vendors have become prime contractors. VWI is also proud to have increased the number of certified MBE/WBE's last year.

The MBE/WBE Review Committee that was established immediately after VWI was awarded the contract to operate and manage the assets of IW is a key reason that the incentive goals have been met and exceeded for the past three years. The committee meets quarterly and reviews the progress of the MBE/WBE Local Services Plan. The plan was put in place as a road map to success for the program.

The committee consists of MBE and WBE business owners and members of organizations such as the Indiana Regional Minority Supplier Development Council, Indiana State Hispanic Chamber of Commerce, National Association of Women Business Owners and the City's Department of Administration.

Keeping money local was another important factor in the City's decision to purchase the waterworks assets. VWI is sensitive to this issue and strives to use local providers whenever possible. Utilization of local providers for the purchase of goods and services for all facets of capital and O&M accounted for 94% of the expenditure dollars for 2004.

Citizens Advisory Group

The Citizens Advisory Group ("CAG") is organized to:

- Establish a medium for communication and feedback on issues relating to the services provided by VWI to customers of IW.
- To provide advice to VWI in the areas of communication with customers, customer service, satisfaction, and water quality.
- To serve as a sounding board through which VWI'S management can communicate ideas, rationale, and explanations regarding VWI's policies and actions to customers.
- To serve as a medium where customers can express their needs and concerns on the services of VWI in the areas of customer service and satisfaction, and water quality.

The CAG is an unincorporated volunteer group, comprised of twenty water customers with a direct stake in water quality and supply issues, plus two VWI employees. An annual CAG survey is performed to assess the members and their satisfaction with the forum. 2004's survey resulted in a nearly 92% satisfaction rate.

Community Involvement

As part of its contractual agreement with the City, VWI agreed to significant community involvement in Indianapolis. Since the contract began, VWI has contributed more than \$2 million to local not-for-profit organizations. This includes multi-year commitments to the world's largest children's museum, The Children's Museum of Indianapolis as well as Martin University, Junior Achievement of Central Indiana and the Purdue University Science Bound program which is a program that provides opportunities for Indianapolis Public School students to earn full scholarships to study careers in the engineering, math, science and technology fields and to promote diversity in these underrepresented academic areas.

VWI's community involvement also includes a major educational outreach component to provide Water Boxes to all of the schools in the IW service territory. The Water Box is an educational tool for grades 4-6 designed to be a hands-on student activity to teach students about water and the water cycle. The Water Box is a safe, simple way to teach all the fundamentals of water. There are currently more than 140 water boxes being used by schools in the IW service territory to teach students about the earth's most valuable resource.



VWI's 10 member senior management team, led by Tim Hewitt, president and operations manager, is also heavily involved in the community, serving on boards or volunteering with the following organizations:

- Little Red Door Cancer Agency
- Indianapolis Chamber of Commerce
- Crossroads of America Boy Scouts
- Greater Indianapolis YMCA
- YWCA
- National Coalition of 100 Black Women
- Community Development Law Center
- Indiana Swimming Executive Committee
- Indiana Regional Minority Supplier Development Council
- Indianapolis Urban League
- Purdue University Science Bound
- St. Mary's Child Development Center
- Indianapolis Symphony Orchestra
- Lutheran High School
- Indiana Chamber Legislative Committee
- Ronald McDonald House Resource Development Committee
- Ballet Internationale
- Eiteljorg Museum of American Indian and Western Art
- BOS Community Development Corporation
- Big Brothers Big Sisters of Central Indiana
- Junior Achievement of Central Indiana
- Flanner House
- Rebuilding Together

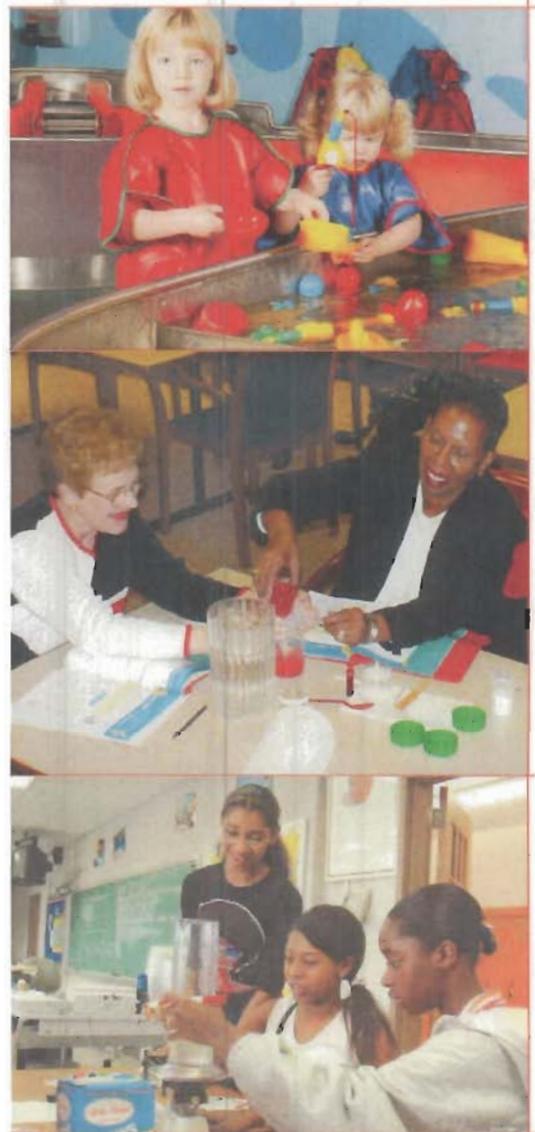
CARING FOR EMPLOYEES

Employee Relations

VWI recognizes that the 400 individuals employed with us are the backbone and lifeblood of the Indianapolis project. Employees are encouraged to participate in community service projects through the VWI employee volunteerism program which recognizes employees who give back to the community. Employees also have the opportunity to participate in community events such as The Race for the Cure, the Indiana State Fair and the Race Against Prostate Cancer with fellow co-workers.

Training and development are key to ensuring the success of the workforce and VWI offers full tuition reimbursement to employees as well as opportunities for a variety of training courses. Employees are encouraged, through goal setting, to stretch their abilities and strive for constant learning.

VWI also supports various employee activities. The activities are determined by a committee made up of employees representing the departments of VWI. Activities include golf tournaments and leagues, a bowling league, fishing tournaments, softball leagues and more. Each year, employees and retirees are invited to a VWI sponsored health and wellness fair where they receive valuable medical tests such as cholesterol and glucose level checks at no cost. VWI also gathers employees and retirees each summer for a fun-filled cookout on the grounds of the Indianapolis Water General Office.



Who We Are

Veolia Water North America is the leading provider of comprehensive water and wastewater services to municipal and industrial customers, providing services to approximately 14 million people in more than 600 communities. We operate the nation's largest public-private partnership for water services in Indianapolis and the country's very first partnership, established in 1972 with Burlingame, Calif., an ongoing customer now for more than 30 years.

Formerly known as USFilter Operating Services, in early 2004, we proudly adopted the name of our parent company. The company is part of Veolia Water, the No. 1 water company in the world, serving more than 110 million customers. Veolia Water is a subsidiary of Veolia Environment, the largest environmental services company in the world, with more than 295,000 employees in about 80 countries and annual revenues of more than \$28.6 billion.

ASSETS WE MANAGE

- Water treatment facilities and distribution systems
- Wastewater treatment facilities and collection systems
- Reclamation and effluent reuse facilities and distribution systems
- Residuals management (sludge/biosolids/compost) and marketing
- Combined sewer and sanitary sewer systems
- Groundwater remediation sites
- All related aboveground and underground assets (plants, pumps, pipes, hydrants, meters, tanks, towers, reservoirs, wells, etc.)
- Call centers and customer service centers

WHAT WE DO

- Operations and maintenance
- Design-build-operate
- Customer service
- Asset management and capital improvements
- Technology and equipment
- Master planning
- Environmental, safety and security programs
- Industrial pretreatment programs
- Financing

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