Moody's
INVESTORS SERVICE

# Rating Action: Moody's affirms Suez Environnement's A3 rating; stable outlook

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**Approximately EUR5.5 billion rated debt securities affected**

London, 01 May 2013 -- Moody's Investors Service has today affirmed the A3/Prime-2 senior unsecured ratings, and the Baa2 preferred stock rating, of Suez Environnement Company ('Suez Environnement' or 'the group'). The outlook on all ratings is stable.

RATINGS RATIONALE

Moody's says that the rating affirmation factors in the combination of a revision downwards of the consolidated group's credit quality to A3 from mid single-A, moderated by the group's progress in reducing the proportion of debt at subsidiary level.

The assessment of Suez Environnement's consolidated credit quality at A3 takes account of a challenging operating environment, especially in Europe where the group generates 70% of its turnover, as well as the group's financial policy which targets a net financial debt/EBITDA ratio of around 3 times, and a stable dividend payout. Following 2012, when the group's credit metrics (funds from operations (FFO)/net debt 19.8%; retained cashflow (RCF)/net debt 14.3%) fell short of current guidance for the rating, the revised A3 assessment reflects that although Moody's expects some recovery in metrics in 2013, this is unlikely to be to levels consistent with consolidated credit quality of mid single-A.

A weak economy is expected to result in a further drop in waste volumes in 2013, following the 2.5% decline in 2012, and pressure on commodity prices. Ongoing structural volume declines and pricing pressure in French water limit the ability of that segment fully to offset pressure in waste, although Moody's notes the positive revenue effect of the group's rapidly growing 'smart' water services. Suez Environnement is able partly to offset negative pressure on profitability through its ongoing Compass cost cutting programme which is expected to contribute EUR150 million EBITDA in 2013.

The group recently reported Q12013 results, which included an organic revenue decline of 2.6% to EUR3.5 billion and flat EBITDA at EUR570 million, and reaffirmed its 2013 objectives. These include EBITDA of at least EUR2,550 million following EUR2,450 million in 2012, and a net financial debt/EBITDA ratio of around 3x. On that basis, and given the risks to profitability from the tough operating environment and a relatively high dividend pay-out, Moody's estimates that the group's medium-term financial performance will be better aligned with consolidated credit quality at A3.

Given Moody's re-assessment of Suez Environnement's consolidated credit quality, the A3 rating affirmation also factors in the progress made by the group in reducing the proportion of debt located at subsidiaries. This reflects the group's policy of progressively refinancing subsidiary debt at group level except where risk sharing, regulatory or currency considerations support the use of local debt. Although subsidiary debt remains significant, Moody's expects that its proportion within Suez Environnement's debt structure will continue to decline as a result of the group's funding policy, and considers that the subordination risk of parent company creditors is mitigated by the broad diversification of the group's asset portfolio. In Moody's view, therefore, although subsidiary debt implies some residual risk for parent company creditors, this can be accommodated at the A3 rating level.

The stable outlook is based upon modest growth in operating profitability in 2013, continued capital discipline and ongoing efforts to reduce structural subordination. It therefore assumes that credit metrics should strengthen within Moody's revised guidance for the A3 rating, which includes RCF/net debt comfortably in the mid-teens, FFO/net debt in excess of 20% and FFO Interest Cover Ratio (ICR) above 4x.

The following ratings were affirmed:

- Suez Environnement Company: the A3 senior unsecured issuer and debt ratings, the (P)A3 senior unsecured debt rating, the Baa2 preferred stock rating and the Prime-2 senior unsecured issuer and debt ratings and the (P)Prime-2 senior unsecured debt rating.

WHAT COULD CHANGE THE RATING UP/DOWN

Suez Environnement's ratings could be upgraded if RCF/net debt and FFO/net debt were to strengthen sustainably in excess of 20% and 25% respectively.

Conversely, ratings would come under pressure if (i) operating performance shortfalls or increased investments versus plan were to cause metrics to fall short of guidance for the A3 rating level on a sustainable basis; or (ii) if there were a reversal of the policy of concentrating funding at group level.

PRINCIPAL METHODOLOGIES

Suez Environnement Company's ratings were assigned by evaluating factors that Moody's considers relevant to the credit profile of the issuer, such as the company's (i) business risk and competitive position compared with others within the industry; (ii) capital structure and financial risk; (iii) projected performance over the near to intermediate term; and (iv) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside Suez Environnement Company's core industry and believes Suez Environnement Company's ratings are comparable to those of other issuers with similar credit risk.

Headquartered in Paris, France, Suez Environnement Company is a leading global group active in environmental services. In 2012, the company reported revenues of EUR15.1 billion and EBITDA of EUR2,450 million.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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