



Moody's Investors Service

Rating Action: Moody's changes Suez Environnement's rating outlook to negative from stable; A3/Prime-2 ratings affirmed

Global Credit Research - 23 Oct 2009

Approximately EUR3 billion of rated debt securities affected

London, 23 October 2009 -- Moody's Investors Service changed to negative from stable the outlook on the A3 senior unsecured ratings of Suez Environnement SA ('Suez Environnement'/the Group) following the announcement that it had entered into an agreement with Criteria Caixacorp ('Criteria') to enter into a series of transactions (or 'global transaction') which if completed as planned would increase Suez Environnement's economic holding in Aguas de Barcelona ('Agbar', rated A2) to 75% from the current 45.9%. The A3 and Prime-2 ratings were affirmed.

Moody's said that the outlook change reflects that although it considers the transaction to be positive from a strategic and business risk perspective, its net debt impact of up to EUR1.2 billion will reduce Suez Environnement's financial flexibility which in Moody's view would leave the rating weakly positioned in the A3 category.

In Moody's view the proposed global transaction would improve Suez Environnement's business risk profile in a number of ways. In taking full control of Agbar (through a new shareholder agreement with Criteria, which will retain a shareholding of up to 25% in Agbar) the Group would reinforce its positions in water in Spain, Chile, the UK and China, as well being in a position to set a clearer strategic direction. It would also increase the proportion of lower risk regulated activities in its business mix through its assets in Chile and the UK. Finally, the planned sale by Agbar of Adeslas, the health insurer, would enhance the Group's focus on its core water and waste activities.

However, the change of outlook to negative reflects that in Moody's view these business risk positives are offset by the reduction in financial flexibility implied by the associated rise in net debt. Although the final size of the global transaction will remain dependent on the take-up of the delisting tender offer by Agbar minority shareholders, Suez Environnement's net debt could increase by up to EUR1.2 billion as a result of assumed debt and the purchase of Agbar shares from Criteria. The Group estimates this would represent an increase of circa 0.25 in net financial debt to EBITDA ratio. Moody's notes the Group's stated commitment to maintaining net debt/EBITDA below 3x, and to taking the measures necessary to reduce leverage in the event that this is exceeded.

While Moody's acknowledges that Suez Environnement anticipates its planned investment should generate an estimated 10 % increase in current EBITDA (EUR 2.1 billion in 2008) and be free cash flow positive from the outset, the negative outlook nevertheless reflects the risk that Suez Environnement's credit metrics could fall below guidance for the current A3 rating, including retained cash flow/debt in excess of 16%. In the event that this were to occur for an extended period that would lead to negative pressure on the A3 rating Moody's added.

Moody's said that under the terms of the agreement the following transactions were planned:

- (i) a delisting offer of EUR20 to the 10% minority shareholders that own Agbar's free float for a total consideration of up to EUR299 million;
- (ii) the acquisition by Suez Environnement from Criteria of Agbar shares, at EUR20 per share, in order for Suez Environnement to achieve a total 75% stake in Agbar -- for a consideration of EUR647 million; and
- (iii) a simultaneous disposal by Agbar to Criteria of its 54.8% shareholding in Adeslas. In parallel, Criteria will acquire a further 45% stake in Adeslas from Malakoff Mederic.

The proposed transactions remain subject to the approval of Agbar shareholders as well as certain regulatory and anti-trust authorities. Moody's understand that Suez Environnement and Criteria expect the delisting of the company to be finalized in Q1 2010 and to be able to close the global transaction by mid 2010.

Suez Environnement's ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as (i) the business risk and competitive position of the issuer versus others within its industry or sector, (ii) the capital structure and financial risk of the issuer, (iii) the projected performance of the issuer over the near to intermediate term, and (iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals. These attributes were compared against other issuers both within and outside of the Group's core peer group and Suez Environnement's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action on Suez Environnement was taken on 4 March 2009, when Moody's assigned A3/Prime-2 first-time ratings to the company.

Suez Environnement SA, headquartered in Paris, France, is a leading global group active in environmental services. It reported turnover of EUR5.9 billion during the first six months of 2009.

London
Andrew Blease
Senior Vice President
Infrastructure Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Niel Bisset
Senior Vice President
Infrastructure Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or

otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."