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.

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