Moody's Global
Infrastructure Finance

Analysis

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Suez Environnement Company

Paris, France

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Analyst Contacts:

London 44.20.7772.5454

Niel Bisset
Senior Vice President

Paul Marty
Vice President/Senior Analyst

Monica Merli
Team Managing Director

This Credit Analysis provides an in-depth discussion of credit rating(s) for Keele University and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Corporate Profile

An international group specialised in water and waste management

Headquartered in Paris, France, SUEZ Environnement Company SA ("SE/the company/the group"), rated A3/Prime-2 with a stable outlook is one of two major groups active globally in environmental services. As part of the merger of Suez with GDF Group (to create GDF SUEZ) 65% of SE was spun off to Suez shareholders and simultaneously listed on the Euronext Paris and Brussels stock exchanges through an Initial Public Offering (IPO) in July 2008. The company remains controlled through a shareholder agreement by GDF SUEZ, which itself retains 35.4% of the share capital. SE had a market capitalization of about €5.7 billion at end-February 2009.

SE provides services to people and industries in the drinking water, wastewater treatment and waste management fields. As one of the two leaders in the industry, the Group ranks second in France, Europe and globally in the water sector (including the leading position in Spain); and in the waste sector second in France and Europe. In 2007, the group managed a drinking water distribution network of 200,000 km and supplied drinking water to 76 million people, operated 1,746 water plants and produced some 5 billion cubic meters of drinking water. It also provided waste water treatment services to 44 million people, operated 1,535 waste water plants which treated some 2.6 billion cubic meters of waste water and managed a waste water treatment network of 81,000 km. In the area of waste, the Group treated over 40 million tons of waste, and served almost 51 million people and over 420,000 clients in services and industry through its collection activities.

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The Group is organized into three main divisions:

Water Europe, the most profitable division comprises for the most part the French fully owned Lyonnaise des Eaux, and the Spanish utility Agbar (rated A2, stable outlook), which is 46% directly and indirectly owned by SE. The company manages the complete cycle through (i) consulting engineering, (ii) water production and distribution, and (iii) wastewater collection and treatment. Most of its clients in water are local authorities, with which SE enters into Delegation of Public Services (DSP) contracts in France (or their equivalent elsewhere). Under these agreements, which account for about three quarters of water revenues, the group is responsible for operation and management of infrastructure assets which remain owned by the contracting local authority. The Group also enters into shorter-term service contracts with both local authorities and industrial customers.

Waste Europe, which has a broader geographical reach than Water Europe, is the largest division by revenue, and accounted for 46% of the Group's €12.4 billion turnover in 2008. Through its main subsidiaries Sita France, Sita UK & Scandinavia and Sita Benelux & Germany, SE manages the entire waste cycle business through (i) collection and logistics, (ii) pre-treatment, (iii) recovery and recycling, and (iv) disposal. Its customer base is split roughly evenly between local public entities, and industrial and commercial entities.

International, the smallest division, generated € 2.8 billion turnover in 2008 and includes engineering activities worldwide (Degrémont) and selected positions in the United States with United Water (rated A3), Central Europe, China, Australia, and the Middle East.

By geography, the majority of SE's business is generated in Europe, which accounted for 80% of 2008 turnover. Just under 40% of this was in France, with Spain and UK the next largest markets contributing 12.1% and 9.5% respectively. Beyond Europe, North America with 5.2% and Australia 2.2% were the largest single geographical segments in 2008.

Revenues and Profitability by Division in 2008

Division	Turnover	Share	Change 07/08	Operating Income	Share	Change 07/08	Margin
Water Europe	3,853	31.2%	7.1%	415	39.2%	7.5%	10.8%
Waste Europe	5,728	46.3%	3.9%	469	44.3%	2.2%	8.2%
International	2,765	22.4%	6.0%	282	26.6%	4.5%	10.2%
Other	17	0.1%	-	-108	-	-	-
Total*	12,364	100.0%	5.4%	1,059	100.0%	2.4%	8.6%

** Excluding Applus, which was sold in November 2007.*

Ownership structure and relationship with GDF SUEZ

At end-2008, GDF SUEZ (rated Aa3/Prime-1) held a 35.4% stake in SE and exercises control over the company through a Shareholder Agreement with five institutional shareholders holding another 12.6%. Of the other parties to the Shareholder Agreement, the largest is Group Bruxelles Lambert with 7.2%. The effective free-float is therefore 51.7%, of which 2.0% is held by employees. The Agreement's term is for five years from June 2008.

Moody's factors in the close relationship which SUEZ Environnement maintains with GDF SUEZ, which is formalised in the Shareholder Agreement, and reflected in the control GDF SUEZ exercises over the company with the appointment of nine out of eighteen board members including the Chairman which has a casting vote. The A3 rating also factors in that SE's financing profile benefits from the Financial Framework Agreement with GDF SUEZ.

Management Strategy

SUEZ Environnement's business growth strategy following the IPO is consistent with that pursued when it was 100% owned by Suez, reflecting management continuity and that the Group remains under the direction of GDF SUEZ through the Shareholder Agreement. Following a number of acquisitions and disposals in recent years the Group is focused on reinforcing its position as a benchmark operator in global environmental services through steady and substantial investment in the three divisions.

The strategy reflects the mature but generally fragmented industries in which the Group operates. Moody's assumes management will therefore continue to emphasise steady expansion, and use a combination of development capex and tuck-in acquisitions to achieve its revenue growth target. More generally, SE's strategy is expected to be characterised by the following:

- Maintenance of the existing balance across the Group, so that it avoids becoming disproportionately dependent on any one business strand or model. Although no precise percentages are prescribed, the implication is that as the Group expands it will maintain its present shape and business mix – as between, for example, mature and growing markets; municipal and industrial customers; regulated and non-regulated assets; and short-term service contracts and more capital intensive long-term concession agreements.
- Development of its positioning throughout the value chains in water and waste, on the basis that diversification of activities helps reduce its exposure to downturns in any one segment.
- The COMPASS efficiency program should help to sustain margins through €180m of cumulative EBITDA gains expected over 2008-2010.
- In terms of regional emphasis, its priority is to (i) consolidate and strengthen its positions in Europe; and (ii) to expand in what are faster growing international markets, where the emphasis is expected to be on leveraging existing positions in US water, China and Australia.

More specifically, with regards to each business segment Moody's anticipates:

Water Europe. Given the slow and uncertain rate at which water services in Europe shift from public to private sector management, most growth is expected to come from SUEZ Environnement's two principal markets, France and Spain. Here the main opportunities lie in extending the scope of existing contracts in response to changing local authority demands (to include wastewater management, or desalination capacity, for example), introducing and charging for new customer services (such as automated meter reading), and expanding its client base. Beyond its two core markets, in the absence of significant structural changes, the Group will look to build slowly on relatively small existing positions in Germany, Italy and the UK, usually in partnership.

Waste Europe. In this segment where the Group has more geographically diverse assets and in a relatively fragmented and consolidating industry, the opportunity for development is probably wider and includes consolidation of positions in the traditional collection and treatment segments, and growth in the higher valued added recycling and recovery segment. Its substantial investment in incineration in the Netherlands is a good example of the opportunities for expansion along the waste value chain which industry consolidation can create.

International. SE is expected to expand its existing selected positions in US water, Central Europe, Middle East, China and Australia. However, Degremont is also likely to continue to be used to develop the Group's presence in other fast growing markets, as it has done in the middle-East for example – where it will rely on local partnerships to reduce risk.

Financial Strategy

From a financial strategy perspective, the A3 rating factors in management's moderate risk appetite which it believes gives more flexibility to invest and improves its appeal to potential partners, Its clearly stated leverage tolerance is defined by a net debt/EBITDA limit of less than 3x, compared with the reported ratio of 2.8x at end-2008. In the event that EBITDA were to vary from expectations, Moody's assumes that management would utilise flexibility on both maintenance and development capex to manage debt accordingly even if that were to reduce growth targets in the short-term. In the event that a strategic acquisition were to arise on a scale to breach the leverage target, the rating assumes the Group would take measures to bring it back within target within an 18 month horizon.

The rating also factors in SE's intent to develop its own presence in the international capital and banking markets, including through the establishment of a €5 billion EMTN programme.

Rating Drivers

SUEZ Environnement Company's A3 rating is based on a relatively low business risk profile which factors in that it operates in the relatively low-risk water and waste industries, both of which benefit from positive underlying structural growth dynamics, and are underpinned by long term contracts with creditworthy counterparties. It also factors in the strong positions the Group enjoys within its core markets, and that management's growth strategy will continue to focus growth on expanding these through capital investment and manageable tuck-in acquisitions, while maintaining its leverage limit defined by net debt/EBITDA of less than 3 times. The A3 rating takes account of structural considerations and the substantial proportion of debt at subsidiary level, and is accordingly positioned one notch down from the consolidated group's credit quality, which is seen as mid single-A.

Business Risk Factors

Positive long-term global underlying industry demand trends …

The A3 rating factors in that Suez Environnement operates in industries with positive long-term underlying structural trends. Population growth, the ongoing trend to urbanisation and industrialisation, and an expectation of rising living standards combine to exert pressure on water distribution and waste management infrastructure in most countries. Together with public and regulatory concern at the impact of climate change on scarce resources, including for example water and landfill capacity, this is combining:

- To increase demand for existing technologies for the provision of water, waste water and waste management services. The potential for such increase is most obvious in areas where infrastructure is less developed, such as the Middle East, or China – but is also evident in Spain, for example, where water shortages have led to rising investment in desalination capacity. Suez Environnement estimates the size of the European water market at roughly €70 billion annually, with wide disparities in the average annual bill per inhabitant, which ranges from €72 in Italy, for example, to €231 in Germany, the largest single water market in Europe at €19 billion.
- To extend demand into new service areas and technologies. On the waste side, for example, there are business opportunities for the Group in expanding its operations into recycling and recovery activities at the end of the waste management value chain. In water, there is growing demand for less energy intensive desalination techniques.

... and size of customer base help mitigate risk of downturns and changing patterns of consumption

In the water segment, greater awareness of water as a scarce resource and water saving programmes have impacted volumes of water consumption. In France, for example, the Group estimates that the volumes of water billed have declined by roughly 1% a year on average for the last fifteen years. Moody's notes however that the sheer size of its customer base (more than 12 million customers in France) helps minimise volatility in consumption – which is more likely to be driven by changes in the weather. Even here, though, the impact from volume variances is minimal – with SE estimating that a variance of 1% in consumption from one year to the next has approximately a €10mn impact on revenues.

The waste sector is more vulnerable to the risk that industry growth rates might slow in the context of a broader economic slowdown which can negatively impact demand for SE's services. This is especially true for waste services to industrial and commercial clients which represent 59% of this segment's revenues, and which are usually subject to shorter contract terms than municipal clients.

Local market differences imply varying potential growth rates

While the Group should benefit from growing global demand for water and waste infrastructure and services, growth rates will vary from country to country depending upon existing infrastructure and the relative scarcity of resources. They will also be influenced by differences in structure which determine the extent to which such services are delivered by the public or private sectors and in this respect opportunities for expansion are likely to be greater in the waste than water segments.

By and large water distribution within Europe, with the exception of the UK (excluding Scotland), has tended to remain within the public sector. For example, according to BIPE, public bodies control two thirds of the water services sector in Germany, and 100% in the Netherlands. However, the private sector is better represented in other countries – including SE's two core markets – and accounts for just under half in Spain. In France SE estimates that some 40% (private operators manage 72% of drinking water services and 55% of wastewater,but only 40% of the total water bills) of the €11.8 billion billed in for water and sanitation services is received by private operators. As important, differing structures across countries appear relatively fixed, with limited movement from public to private expected at least in the medium-term. Moody's notes that although there have been examples of re-municipalisation, such as in Paris, this is not believed to be a widespread risk.

However, in waste where the private sector is already better represented, there is room for private operators to win more share. Here, local authorities are more likely to look to private sector expertise to reconcile the requirements of tougher environmental standards and the need to lower costs through economies of scale and multi-year service contracts. BIPE estimates that private sector operators' share of solid waste treatment volumes ranges from 5% in Poland through 58% in Germany to 83% in England and Wales and to a 93% share in France, where SUEZ Environnement and Veolia dominate. And where the private sector develops operations to deliver services along the value chain, that presents opportunity for growth through tuck-in acquisitions

Positioning across the value chain helps diversify risks

SUEZ Environnement's ranking as one of the two operators worldwide able to sell integrated services in both water and waste is an important competitive advantage in Moody's view. The Group's strategic choice to build expertise along the length of the water and waste value chains is designed to diversify its activities on the basis that (i) it helps reduce its exposure to downturns in any one segment and (ii) it allows SE to provide integrated services and address all client needs.

Through SITA the Group is active in the four principal stages of waste management: from (i) basic collection through (ii) pre-treatment and sorting evident in mature and developing markets to (iii) recovery and recycling, demanded only in mature markets; and finally (iv) disposal. Likewise, the Group has the capacity to operate in each of the four principal links of the water value chain: including consulting with Safege, and the expertise of Degrémont in design and build. And together with Agbar, Lyonnaise des Eaux has the capacity to operate complex water production and distribution, and wastewater collection and treatment systems.

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Beyond the benefit of risk diversification that its broad service portfolio implies, the Group's breadth of expertise also gives it the ability to deliver a service matching a particular market's demands and needs. In the Netherlands, for example, where local conditions mean landfill is not an option in waste, the Group has the capacity to collect, sort and convert waste to energy.

Good positions in many of its principal markets help offset competitive pressures

In Moody's view SE's business position is underpinned by the strong shares which the Group has built up in many of the markets in which it operates especially in Europe. In what tend to be fragmented markets characterised by competitive pressure at the regional and local level and, in the case of waste, low barriers to entry, local scale and share provide a useful competitive advantage.

In the water sector, which remains for the most part in the public sector, SE has accumulated solid positions in its core markets - and through Lyonnaise des Eaux and Agbar, the Group ranks as second and first among private operators in water and waste water services in France and Spain, where it serves roughly 19% and 51% of the population. The Group has a broader spread of interests in waste, where the private sector has made more headway, even if Waste Europe remains dominated by its operations in France where SITA ranks as co-leader with roughly 29% of market by value. It ranks first and second in Belgium and the Netherlands respectively with 16% and 7% of the waste markets respectively. In the larger UK and Germany it ranks in the top 4, with 11% in the UK, but only 3% in Germany reflecting the pervasive fragmentation of that market.

Outside Europe, the Group is exporting its know-how and breadth of offering to establish leadings role in the world's fast-growth water and wastewater markets like China and the Middle East. SE ranks number two in the Chinese private market, number three in the US with United Water and has a dominant position in desalinisation in the Middle East, where water shortages are causing the market to develop rapidly.

Large portfolio of long term contracts provides predictable cash flows …

The breadth of SUEZ Environnement's expertise is reflected also in its ability to manage operations and services in accordance with the conventions and structures of the markets in which it operates. Given the spread of the Group's business activities, contract structures vary, although Moody's notes that those involving a commitment of capital by SE tend to be of longer duration – including those where, as part of the agreement, it is either building, renewing or improving the standards of the assets operated. By and large, agreements with municipalities tend to be longer than those with private sector entities. Its agreements with the local public entities which account for the substantial majority of activity in the water sector are of two types:

- Delegation of public services (DSP) contracts in France, or their equivalent elsewhere, generally of 10 to 20 years duration. Under these SE is responsible for all or part of service management, including relations with, and billing, end users
- Contracts for services, where the public entity is billed, involve medium and long term contracts of 5 to 20 years .

In both these contract forms, ownership of the asset remains with the local authority, in contrast for example to the UK and US, where SE itself owns the assets in a regulated market. Agreements for industrial customers are typically for relatively short-term service or consulting contracts, usually of 2-5 years' duration

Within the waste industry, contracts fall into two broad categories:

- with local public entities, which are generally medium to long-term contracts: 3-7 years for collection, and up to 20 or even 30 years for treatment;
- with industrial operators, which tend to be shorter – and can be limited to a single year, renewable, for collection.

The rating takes account of its solid base of recurring revenues, generated from its portfolio of thousands of contracts (LDEF's contracts alone included nearly 2,600 DSP contracts at end-2007). These give good visibility of future income streams and help offset the fact that SE's own fixed asset base is limited.

... supported by good contract retention and renewal rates

SE's contract driven business model relies on its ability to renew contracts at maturity, which is in turn dependent on its performance during the contract, its relationship with the customer and the price offered at renewal. In addition to simply retaining the business, renewal is an important point at which to expand the range of services (eg the introduction of automatic meter reading) or commit to a level of investment within a contract which can help also to offset negative pricing pressure which might be exerted by the client. Important forthcoming renewals include the €60 million revenue Paris Rive Gauche agreement in 2009 and Bordeaux's waste water contract in 2012.

In that connection, Moody's notes that SE has a sound record of renewing its contracts at expiry,with a renewal rate above 90 % for Agbar and Lyonnaise des Eaux France's (LDEF) in recent years, and the capacity to leverage existing positions to develop new services and activities. Moody's notes also that LDEF has been successful in recent years at substituting contract losses with wins elsewhere at the expense of alternative providers.

Average contract term is also a significant rating factor and Moody's notes that at 12 years in France and nearly 20 years in Spain average contract maturity for SE gives good forward earnings visibility.

Contracts structured to minimise revenue and cost risks

Concession contracts with municipalities include a price escalation formula which is automatically applied once or twice a year and which applies any revision in line with annual inflation so that SE is protected against such increases. Moody's takes comfort from the fact that the majority of both the water and waste business concessions are with municipalities, the rest being shorter term contracts with industrial customers that are revised annually. Price escalation formulas on these contracts are based on the specific contract cost structure and have historically been aligned with inflation.

Furthermore, where SE's subsidiaries operate in countries where the water sector is regulated (i.e. United Water, Bristol Water and the Chilean water activities), the concessions are generally operated under a cost-plus regime where prices are adjusted annually for changes in variable costs (as opposed to a fixed-tariff regime which allows the company to benefit from fixed returns on investments). Moody's believes that SE has developed strong contractual frameworks over time to allocate effectively the implied risks and minimise its exposure to inflation. Although the company does carry some project risk, the Group's exposure is generally limited to the equity investment, which Moody's believes to be relatively small in the context of the Group as a whole.

Over 90 % of exposure to OECD countries, and large proportion of municipal counterparties reduces credit risk

SE's rating takes into account that roughly 87% of its revenues are generated by countries with relatively stable political, legal and economic profiles. France alone accounted for just under 40% of 2008 turnover, with the rest of Europe accounting for a further 40%. The rating also incorporates the fact that while the importance of operations in the Middle East and in China will continue to increase, these are unlikely in Moody's view to alter materially the balance of revenues or cash flow from its more mature and stronger markets in the short and medium term.

In water, the Group's customers consist largely of local public entities with industrial clients representing a minority share of revenues (mainly through Ondeo Industrial Solutions in Europe, which posted €142 million turnover in 2008). Another strength of SE's business from a credit perspective is that medium to long-term contracts are largely with different public or almost-public authorities like municipalities. Approximately 70% across the group is generated from contracts with public authorities which are typically considered as low credit risk, most of which are backed by the tax base of a Aaa rated government credit in SE's developed markets.

Evolving regulations in both the water and waste sector implies both risks and opportunities

These days, most businesses face changing standards and regulations, including the companies operating in the water and waste cycles. Although Moody's believes that SE adequately structures its contracts, maintains systems to control standards and undertakes risk assessment, changing regulations or events could create risks. However, tighter regulation of the waste sector would more likely create opportunities for SE as complexity of the business rises and the barriers to entry increase.

Financial Risk Factors

From the financial risk perspective, management's maintenance of a moderate financial risk appetite and its stated commitment to a maximum leverage tolerance as defined by a net debt/EBITDA limit of less than 3x (compared with the reported ratio of 2.8x at end-2008) are important supporting factors for the A3 rating. In the event that either EBITDA or net debt were to vary from expectations, Moody's assumes that management would utilise flexibility on both maintenance and development capital expenditures to manage debt accordingly such as to ensure ongoing adherence to its leverage target even if that were to limit growth targets in the short-term.

Rating underpinned by relative stability of revenue growth and profitability

The A3 rating is underpinned by the relative predictability of the business, which has been reflected in the stability of results reported over 2006 to 2008 when revenues increased from €11.4 billion to €12.4 billion. Adjusted for the Applus sale, Group revenues rose 5.6% to €12.4 billion in 2008 on a like-for-like basis. Solid revenue growth has been matched by fairly consistent profitability margins, with overall Group EBITDA margin at 16.9%-17.1%. Principal divisional performance drivers are described below:

- **Water Europe**: Organic revenue growth of 8.5% to €3,853 million in 2008 reflected solid performance at both Lyonnaise des Eaux and Agbar, helped in part by price increases. More recently, the EBITDA margin at 21.1% incorporates also (i) the development of new activities with lower capital intensity and margins, (ii) margin erosion in Agbar's healthcare business due to an adverse loss ratio and the reinforcement of sales force to prepare upcoming renewals.
- **Waste Europe**: Organic revenue growth of 2.9% to €5,728 million in 2008 was somewhat weaker than in recent years, reflecting in part the impact of weaker commodity prices on recycling activities offsetting SE's investment in new services, i.e. sorting, recycling and recovery businesses.
- **International**: Organic revenue growth of 7.1% to €2,765 million in 2008 reflected good performances across the division including Degremont (+7.5%), Asia-Pacific (+12.7%) and Central Europe-Middle East (+7.2%). Profitability has been boosted more recently by the development of regulated activities and successful renegotiations of wastewater contracts in the US, and an improvement in Degremont's margins.

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Operational Highlights

EUR Million	2006	2007	2008
Revenues			
Water Europe	3,817	3,903	3,853
Waste Europe	4,903	5,511	5,728
International	2,713	2,610	2,765
Elim & Other	14	10	18
Total	**11,447**	**12,034**	**12,364**
EBITDA			
Water Europe	758	809	812
Waste Europe	828	903	924
International	398	392	419
Holding	-45	-43	-52
Total	**1,938**	**2,061**	**2,102**
EBITDA Margin			
Water Europe	19.8%	20.7%	21.1%
Waste Europe	16.9%	16.4%	16.1%
International	14.7%	15.0%	15.1%
Total	**16.9%**	**17.1%**	**17.0%**

Cautious approach to capital investment …

In Moody's view SE's near-term growth may be somewhat slower than targeted at the time of the IPO given the temporary slowdown in development capex, and greater caution around in-fill acquisitions – in line with the Group's intent to adapt its short-term priorities in order to sustain free cash generation.

However, Moody's notes that recent investments – particularly in Waste (for example the acquisitions of Boone Comenor, Fayolle, Belland Vision), should boost revenues from 2009, even if at some temporary cost to the margin pending the achievement of expected costs and revenue synergies. Further out, revenues should benefit from the commissioning of two new incinerators in the Netherlands in 2009 and 2011. The International Division's growth from 2009 should be underpinned by the acquisitions in the USA (USC and Naco) in August 2008, as well as by tariff renegotiation on regulated activities.

… should allow leverage to stabilize and gradually improve

The A3 rating factors in that SUEZ Environnement's leverage has risen in the last couple of years: net on balance sheet debt increased to €6 billion at end-2008, from €3.9 billion at end-2006, in large part as a result of the €812 million associated with the Agbar offer, and other in-fill acquisitions. Although adjusted FFO is estimated to have remained in the range €1.7 billion to €1.8 billion during 2006-8, FFO/debt declined to 22% - 23% from almost 30% in 2006. Over the same period retained cashflow (RCF)/Net Debt weakened from over 21% in 2006 to an estimated 16% in 2008, and FFO/Interest coverage weakened from 5.9x to roughly 4.5x.

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Leverage Summary

Eur Million	2006	2007
Gross Financial Debt	5,935.0	7,073.0
Cash & Marketable Securities	1,994.8	1,466.2
Net Debt as Reported	**3,940.0**	**5,607.0**
Cash	53.5	179.5
Pensions	231.0	172.0
Operating Leases	1,988.0	1,739.0
Net Debt as Adjusted by Moody's	**6,105.0**	**7,339.0**
Gross Cash Flow before WC changes as reported	1,363.3	1,227.2
Two Thirds of operating leases expenses	220.7	193.3
Net disbursements under concession contracts added back	192.8	207.9
Other	49.2	99.0
Funds from Operations as adjusted by Moody's	**1,826.0**	**1,727.4**
Dividends	-502.3	-549.7
Retained Cash Flow (RCF) as adjusted by Moody's	**1,323.7**	**1,177.7**
FFO/Net Adjusted Debt	**29.9%**	**23.5%**
RCF/Net Adjusted Debt	**21.7%**	**16.0%**

In the context of weaker economic conditions, the rating factors in that SUEZ Environnement will manage investment according to its financial strategy – and intends to calibrate capital expenditure according to the cash generated from operations, and its success at making targeted disposals (although these are likely to be more difficult to achieve in the current environment). On that basis, the A3 rating factors in that credit metrics should gradually improve such that RCF/Debt is in excess of 16%, and FFO/Interest coverage is around 4.5x, thresholds which in Moody's view are consistent with a consolidated credit profile of mid single-A given the Group's business risk profile.

Liquidity profile

Moody's considers the Group's liquidity profile is adequate, supported by substantial cash balances, the Financial Framework Agreement with GDF SUEZ and bilateral committed facilities. In Moody's view, when combined with solid free cash flow generation, these help offset the potential risks associated with the relatively short-term debt maturity profile with which the Group was established in July 2008.

At end-2008 the Group had €1.8 billion of cash on balance sheet, comfortably covering approximately €1.2 billion of external debt repayments due in 2009, and in line with the Group's financial policy of maintaining sufficient cash on hand to meet the next twelve months' maturities. In addition it had unused committed bank facilities of almost €1.0 billion, which expire between 2009 and 2014. Most of these facilities contain no triggers, covenants, MAC or general restriction.

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Moody's notes that following its spin-off in 2008, Suez Environnement is aiming to extend its debt maturity profile from an average of 3.5 years, by borrowing in its own name and diversifying its borrowing away from GDF SUEZ which currently represents some 39% of gross debt. Although this is likely to prove relatively expensive in current conditions, Moody's draws comfort from the contractually agreed Framework Agreement which ensures that Suez Environnement has the necessary access to liquidity until the Agreement's expiry at end-2010.

Structural Considerations

Suez Environnement's A3/P-2 issuer ratings take into account the structural subordination of bond holders to creditors at subsidiary level given the large amount of debt located at subsidiaries. The ratings thereby reflect bondholders' distance from the operating companies' cash flows, and the low proportion of gross and net debt carried at the holding company level. Accordingly Moody's notches Suez Environnement's own rating by one notch down from the consolidated Group's credit quality, which is seen as mid single-A. Moody's notes the Group's intent to refinance a proportion of subsidiary debt at the holding company level as it establishes its own independent sources of funding. All other things being equal, elimination of structural subordination as a result of refinancing subsidiary debt at holding company level could also potentially lead to an upgrade over the medium-term.

Moody's Related Research

Rating Methodologies

- Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations – Part II, February 2006 (96729)
- European Regulated Utility Groups; Methodology Update – January 2007 (101671)

Special Comments

- Corporates in EMEA: 2008 Review & 2009 Outlook, January 2009 (113617)

Analyses

- Veolia Environnement S.A., September 2008 (111516)
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Author	Senior Associate	Production Specialist
Niel Bisset	Beryl Terrin	Nita Desai

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