

**Rating Action: Veolia Environnement S.A.**

**Moody's changes Veolia's outlook to negative**

**Approximately EUR11 billion rated debt securities affected**

London, 26 March 2009 -- Moody's Investors Service changed to negative from stable the outlook on the A3 senior unsecured ratings of Veolia Environnement SA ('Veolia' or 'the Group'). Moody's said that the outlook change reflects the sharp slowdown currently being experienced in the waste services market, which accounted for approximately 28% of Veolia's EUR36.2 billion turnover in 2008, and the low visibility on the timing of any future recovery. The Prime-2 short-term rating is unaffected.

While acknowledging the measures taken to conserve cash in 2009, and the ballast provided by the Group's Water division, there remains the risk in Moody's view that the potential duration and severity of the downturn in waste services could cause Veolia's financial profile to remain at a level inconsistent with guidance for the A3 rating, including a minimum retained cash flow (RCF)/net debt ratio of 14%.

Veolia's Waste division experienced a 10% decline in volumes with industrial clients during the fourth quarter of 2008, with like-for-like quarterly revenues 4.5% lower year-on-year. With respect to 2009, Moody's assumes that municipal waste services, which account for roughly one third of revenues, should remain relatively resilient. The negative outlook reflects Moody's concerns that demand from industrial customers for collection and processing especially of hazardous waste is likely to remain weaker during 2009 reflecting the downturn in economic activity in Veolia's core French, US, UK and German markets. Moody's notes that the Group has announced an additional EUR100 million of cost reductions in the waste management division and that its market position has so far helped underpin pricing in certain areas. There remains the risk nevertheless in Moody's view that divisional operating cash flow in 2009 will decline from the EUR1.4 billion generated in 2008.

The negative outlook factors in that the Group is prioritising free cash generation in 2009, with the objective of containing net debt at approximately the EUR16.5 billion reported at end-2008. It plans to do this principally by cutting growth investment and increasing disposals thereby reducing net capital investment by EUR1.6 billion from 2008 levels to EUR2 billion, such that it generates EUR2 billion net cash inflow after investments, and before tax, interest and dividends. While Moody's acknowledges that these steps should help conserve cash and contain leverage, achieving these targets, including substantial asset disposals, is likely to be a challenge in current market conditions. Moreover, given the apparent severity of the current economic downturn and the limited visibility there remains the possibility, in Moody's view, of a further future deterioration in trading conditions which might also extend to the Group's non-Waste businesses, even if to a lesser degree.

Having reported an estimated RCF/net debt ratio of just under 14% for 2008, the negative rating outlook therefore reflects the risk that Veolia's financial risk profile could remain relatively weak and outside the current 14% to 18% guidance range for RCF/net debt for an extended period. To the extent the decline in operating performance was to be sharper than expected, or there were delays in achieving disposals Moody's assumes that Veolia would take appropriate compensating measures to reduce leverage. In the event that these were not forthcoming and that RCF/net debt were to remain at under 14% then the A3 rating would likely come under negative pressure.

Finally, Moody's noted Veolia's sound liquidity profile, underpinned by some EUR3.8 billion of cash, unfettered access to substantial bank facilities and limited medium-term debt maturities.

The previous rating action on Veolia Environnement was taken on 27 June 2005, when Moody's upgraded to A3 from Baa1 its senior unsecured ratings and issuer ratings.

The current ratings were assigned by evaluating factors believed to be relevant to the credit profile of Veolia such as (i) the business risk and competitive position of the issuer versus other within its industries; (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 Veolia's core peer group, and the current ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

Headquartered in Paris, France, Veolia Environnement S.A. is the parent company of one of the world

largest integrated environmental services and outsourcing groups. In 2008, the company reported revenues of EUR36.2 billion and operating income of EUR2.0 billion.

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