

Fitch Affirms Veolia's Senior Unsecured Rating at 'A-'

Fitch Ratings-London/Paris/Warsaw-05 February 2009: Fitch Ratings has today affirmed France-based utility group Veolia Environnement S.A.'s (Veolia) Long-term Issuer Default Rating (IDR) at 'A-' (A minus) with a Stable Outlook. Veolia's senior unsecured rating and Short-term IDR are affirmed at 'A-' (A minus) and 'F2' respectively.

The ratings reflect Veolia's solid business profile as a leading provider of water, waste management, energy and transportation services to local authorities (70%) and industrial customers (30%), with 85% of turnover derived from the European and North American markets in 2008. Long-term contracts provide revenue visibility, while the company is able to pass on a large part of embedded price risks to customers through indexation clauses forming part of the long-term agreements. The franchise is well-diversified through geographical spread and a substantial number of contracts with a broad client base. The group has expanded rapidly in the last three years through organic growth and bolt-on acquisitions in a favourable business and regulatory environment.

Management revised its 2008 targets in October as economic activity slowed markedly. Instead of a 6% increase in cash flow from operations, the group now only expects to achieve flat performance in comparison with 2007. As a result, management decided to implement a tighter control of new investments, scale back capex for 2008 and 2009 and accelerate the asset disposal programme, while also reinforcing efficiency measures. Fitch has a positive view of management's strategic decision to revise downwards capex plans in line with weaker-than-expected cash flow from operations and the deteriorating economic outlook.

Considering the revised outlook for 2008, Fitch expects leverage in terms of lease adjusted net debt / EBITDAR to moderately increase towards 5.0x in 2008 from 4.5x in 2007. The latter was forecasted without taking into account asset disposals, of which management had a target of EUR1bn to be completed or committed by FYE08. Depending on the cash flow impact of disposals, actual leverage is likely to range somewhere in between the thresholds cited above.

If Veolia maintains its discipline with regard to investment activity, the group should be able to stabilise or even partly reverse the gearing development anticipated for FYE08 aided by lower one-off expenses relating to contract bids and acquisitions, the realisation of a substantial part of targeted efficiencies (expected cost reductions of up to EUR400m by end 2010), and various projects progressing from set-up/construction stage to revenue generation.

As of end-June 2008, total liquidity was EUR6.6bn (after deducting restricted cash and not taking into consideration committed bank facilities which are due to expire in 2009) compared to debt maturities over the next three years of around EUR5bn. In light of management's statement that investment activity in 2009 will not create any financing needs, the group has sufficient funds into 2010.

Veolia recently hired a new CFO. At the same time, the group reconfirmed guidance for its FY08 results. There is currently no information on whether the new CFO may seek to change Veolia's treasury or investment policy. Any material changes regarding the policy may prompt a rating review.

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