

France Credit Analysis

Unédic

Ratings

Foreign Currency	
Long-Term Rating	AAA
Short-Term Rating	F1+

Local Currency	
Long-Term Rating	AAA

Outlooks

Foreign-Currency Long-Term Rating	Stable
Local-Currency Long-Term Rating	Stable

Financial Data

Unédic	31 Dec 08	31 Dec 07
Operating revenue (EURbn)	30.6	29.8
Financial debt (EURbn)	5.4	9.4
Net financial debt (EURbn)	5.0	9.4
Financial charges/ operating revenue (%)	0.9	1.4
Financial debt/ operating revenue (%)	17.5	31.6
Net result/ total revenue (%)	16.0	12.4
Net result (EURbn)	5.0	3.7

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Related Research

- *Ratings of Public-Sector Entities (February 2007)*
- *Credit Analysis on France (January 2009)*

Rating Rationale

- The ratings on Unédic reflect its mission as the sole manager of the French unemployment insurance system, its close supervision by the state and its prudent financial management.
- The French unemployment insurance system is a compulsory system distinct from the social security system. From its creation in 1958, the system has been managed by employers and employees' representative organisations through a non-profit-making association, Unédic. Following the agreement of the state, Unédic's contracts become compulsory and apply to all employers, employees and the unemployed. Unédic is therefore financed through contributions paid by all employers and employees within the private sector. Contributions represent a fixed percentage of the payroll, which makes them relatively predictable.
- Unédic's board of directors has 50 members equally representing the employers and the employees. The state supervises the management of Unédic, with the Minister of Employment and the Minister of Budget having a veto over the board's decisions. In exceptional circumstances such as financial distress, the continuity of the system would be ensured by the state, notably through the appointment of a public agency ("établissement public administratif"; EPA).
- Revenue (ie contributions) and expenditure (ie benefits) are closely correlated to GDP growth. In a favourable economic context, the operating result improved from a EUR817m deficit in 2005 to a EUR6.3bn surplus in 2008 representing 20.5% of operating revenue. The accumulated net surpluses during 2006-2008 totalled EUR10.2bn, which allowed Unédic to reduce its negative net asset position to EUR4.7bn at end-2008. However, in an unfavourable economic and employment context, Unédic is exposed to a scissor effect as a result of both a drop in contributions and a surge in benefit payments. The accumulated net deficit is likely to exceed EUR12bn during 2009-2012.
- Given its growing financing needs, Unédic's board of directors will raise its CP programme ceiling to EUR6bn from August 2009 and has authorised EUR12bn of bond issues for the coming years. In case of financing difficulties, Fitch expects the state to intervene to support Unédic's solvency.

What Could Trigger a Downgrade?

- A downgrade of the sovereign ratings or a significant change in the main characteristics of the French unemployment insurance system would prompt a downgrade. A downgrade could also result from a deterioration of Unédic's liquidity back-up package.

Profile

Created in 1958 for the sole purpose of managing the French unemployment insurance system, Unédic has the legal status of a non-profit-making association. The French unemployment system is co-managed by both employers and employees' representative organisations and framed by law. It is a compulsory system financed through employers and employees' contributions.

Institutional Framework

Sole Manager of the French Unemployment Insurance System

The French unemployment insurance system (UIS) was created on 31 December 1958 under a national collective agreement. It is a compulsory system distinct from the social security system, whose general scheme covers health insurance, retirement, family income support and accidents at work. From its beginning, UIS has been managed by unions through an association, Unédic.

The Law on the Organisation of the Employment Public Service dated 13 February 2008 requires that Unédic provides, in conjunction with the Republic of France (rated 'AAA'/Stable/'F1+') and Pôle Emploi (see below), the employment public service. This public service is defined and governed by the French labour code under two criteria:

- The employment public service consists of careers guidance, training and education and professional integration of the unemployed. It also includes the payment of an unemployment benefit.
- The entities required to carry out the employment public services are the state, Pôle Emploi and Unédic.

Unédic, as the sole manager of the unemployment insurance system, meets both criteria under the law. Unédic and its mission are therefore closely linked. Consequently, throughout this report, Unédic and UIS will be considered without any differentiation.

The Contractual and Co-Management of Unédic Framed by Law

The UIS is distinct from the social security programme. It is managed by organisations representing both employers and employees. The Law on the Organisation of the Employment Public Service (namely article L 5422-1 and following of the Labour Code) frames the system and defines its main characteristics:

- The UIS is funded by employers and employees' contributions calculated in relation to their gross income.
- The UIS has to be financially balanced. Contributions and benefits rates are set in light of this requirement.
- The UIS is managed by a private entity (ie Unédic), chosen by both employers and employees' representative organisations, under a contract.
- Under this co-management structure both employers and employees' representative organisations have equal influence over the contracted management of the UIS.
- A state agreement is necessary to make the representative contracts enforceable. Following the agreement, contracts become compulsory and apply to all employers, employees and the unemployed.

Continuity of the UIS Ensured by the State

The UIS is managed by both employers and employees' representative organisations, under the law and, with their contracts and decisions agreed by the state. This involvement of the state could be increased in the event of extraordinary circumstances:

- If employers and employees' representatives could not reach an agreement on the contract relating to the management of the UIS, it would be run through a State Council decree, as occurred in 1982.
- If employers and employees' representatives do not reach an agreement determining the private entity in charge of the UIS it would then be managed by an EPA.

- The law states that the Minister of the Budget and the Minister of Employment would in such circumstances have to determine the appropriate measures to be taken to ensure the security and liquidity of the funds of the institution managing the UIS (ie Unédic).

Strong State Support Despite Private Legal Status

Unédic is an association. It does not benefit from the implicit state guarantee on its solvency and liquidity that would derive from EPA status. However, Fitch considers that a body of evidence shows that state intervention would be very likely if Unédic were facing financial difficulties:

- Unédic is the sole manager of the French UIS.
- The UIS is compulsory for all employers and employees.
- The continuity of the UIS would be ensured by the state under exceptional circumstances, notably through the establishment of an EPA as manager.

Should one of these factors cease to obtain (eg if the UIS ceased to be compulsory), Fitch would consider there to be questions about the level of state support.

In practice, state support could include:

- State subsidies to ensure Unédic's long-term solvency, as occurred in 1993 (EUR635m) and 1994 (EUR1,143.4m); and
- Guarantees, as occurred for bond issues in 2003 and 2005.

Since the new Organic Law on Budget Bills came into force in 2006, such budgetary subsidies or debt guarantees would require prior approval from Parliament. However, in Fitch's view, Unédic's liquidity back-up mechanisms (see "Related Risk Limited by Liquidity Management" below), which represent at least one month of liquidity coverage, are likely to be sufficient to allow for the implementation of state support.

Management and Control

Co-Management

Unédic is an association created for an unlimited time, as set out in the National Collective Convention dated 31 December 1958. It has been devolved its missions from contracts signed by both employers and employees' representative organisations. The most recent contract was signed on 19 February 2009 for two years, and was approved by the state through a decree dated 31 March 2009.

Unédic is managed by a 50-member board of directors, equally representing the employers and the employees. The administrators hold office for two years, and can be re-elected. The two-year chairmanship of the board is held alternately by a representative of employers' national organisations and a representative of employees' national unions. The current chairman, Mr Roux de Bézieux, was elected in May 2008. He represents the French Confederation of Business Enterprises ("Mouvement des Entreprises de France").

The board deliberates and approves all financial decisions, including the contribution rate, the conditions in which a benefit is due and borrowing decisions.

The state supervises the management of Unédic:

- Decisions of the board (apart from those that belong to ordinary and current management) are enforceable only if there is no opposition from the Minister of the Budget and the Minister of Employment;
- Two state commissioners, representing the Minister of Employment and the Minister of the Budget attend every meeting of the board of directors;

- Unédic is controlled by the General Inspection of Finances (Ministry of Economy and Finance) and by the accountants of the Public Treasury;
- One member of the General Economic and Financial Control Body (Ministry of Economy and Finance) supervises Unédic.

Pôle Emploi: Responsible for Payment of Unemployment Insurance Benefits and Temporarily for Collection of Contributions

The Law on the Organisation of Employment Public Services dated 13 February 2008 created a public entity called Pôle Emploi through a merger between the National Employment Agency and all Assédics, local entities in charge of the collection of employment contributions and the payment of unemployment insurance benefits. Before the reform, Unédic was the head of the network of Assédics.

The relations between the state, Unédic and Pôle Emploi are set by the law and by contract, especially the multi-year contract between the state, Unédic and Pôle Emploi dated 2 April 2009 and the contract between Unédic and Pôle Emploi dated 19 December 2008, which is related to contributions collection and benefits payments.

The main characteristics of this tripartite relation are:

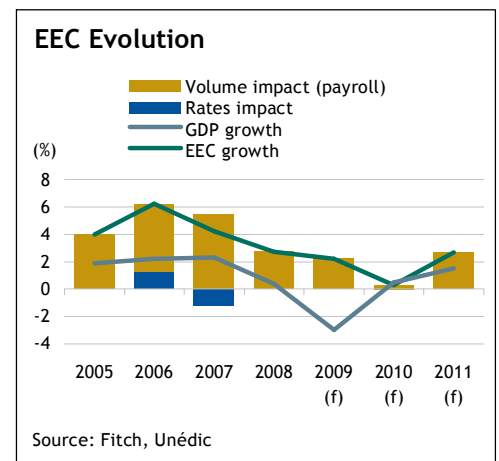
- Pôle-Emploi provides, on behalf of Unédic, payment of the unemployment insurance benefit (UIB). Unédic set all the criteria related to the conditions of eligibility, the amount allocated and the period of benefit.
- Pôle-Emploi provides, temporarily and on behalf of Unédic, the collection of contributions that used to be collected by the Assédics. From 1 January 2011, this role should be transferred to the Union for the Collection of Social Security Contributions (“Union pour le Recouvrement des Cotisations de Sécurité Sociale”) headed by the “Agence Centrale des Organismes de Sécurité Sociale” (ACOSS; rated ‘F1+’);
- Unédic finances Pôle Emploi by transferring to it a minimum annual amount of 10% of employers and employees’ contributions collected the previous year (about EUR2.9bn in 2009).

Finance: Income Statement

Revenue: Mainly Contributions

Employers and employees’ contributions (EECs) are Unédic’s main resource. They are based on gross income and limited to EUR11,436 per month in 2009 (4x the ceiling set by the social security system). The contract dated 19 February 2009 set the contribution rate at 6.4% shared between employers (4%) and employees (2.4%).

EECs totalled EUR30.3bn in 2009 compared with EUR29.5bn in 2007. They accounted for 99% of operating revenue and 97.6% (excluding exceptional revenue) in 2008. EECs were dynamic during 2004-2008, achieving a compound annual growth rate of 4.3%. EECs’ evolution depends on the rate set and payroll growth. It is therefore closely correlated to GDP, with a six-month time-lag.



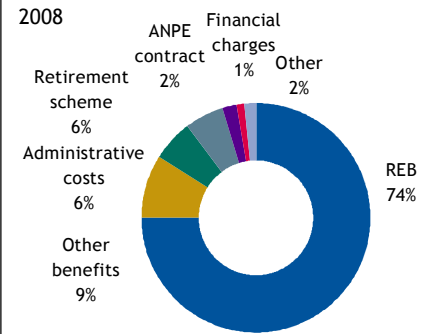
Expenditure: Mainly Benefits

Unemployment insurance benefits (UIBs) are Unédic’s main expenditure. The main UIB is the return to employment benefit (REB), which was EUR19.6bn in 2008 and

accounted for 80.4% of operating expenditure and 75% of total expenditure. Like EECs, UIBs' growth is closely correlated to GDP growth. The terms of REB payments (conditions, amount and benefit period) are set by the contract dated 19 February 2009.

Following the reform of the employment public service, Unédic has contributed to Pôle Emploi's financing. This contribution represents 10% of EECs collected the previous year, about EUR2.9bn in 2009, the first full year (EUR104m in 2008 pro rata).

Expenditure Distribution



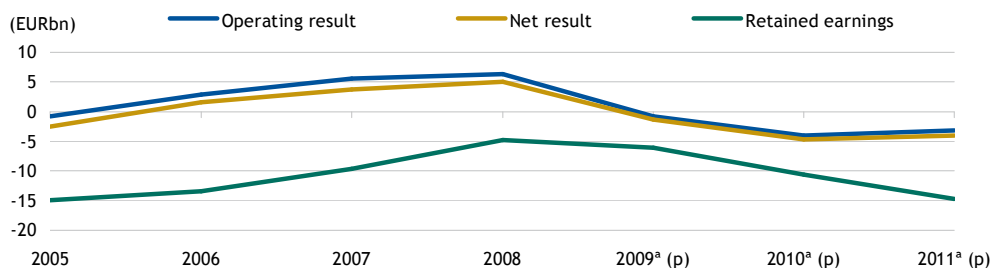
Source: Unédic

Budgetary Performance: Closely Correlated to GDP Growth

Revenue and expenditure are closely correlated to GDP growth. From 2005 and in a favourable economic context Unédic benefited from decreasing operating expenditure and growing operating revenue. Operating results improved from a EUR817m deficit in 2005 to a EUR6.3bn surplus in 2008 representing 20.5% of operating revenue. Since 2006, Unédic has posted an annual net surplus: the accumulated net result during 2006-2008 totalled EUR10.2bn, which allowed Unédic to reduce its negative net asset position to EUR4.7bn at year-end 2008.

However, in an unfavourable economic context, Unédic is exposed to a scissor effect. In 2009, its operating result is likely to be EUR800m (a deficit partly explained by the financing of Pôle Emploi, which is recorded in operating costs and not in administrative costs). From 2009, therefore, the gap between operating result and net result will be reduced. The accumulated net deficit is likely to exceed EUR12bn during 2009-2012.

Budgetary Performance



^a From 2009, Unédic's contribution to Pôle Emploi's financing reduces operating result
Source: Fitch, Unédic

Debt and Liquidity

Financial Debt Decreased From 2005 But Will Grow From 2009

Unédic's negative net assets position improved from EUR15bn in 2005 to EUR4.7bn in 2008. Financial debt decreased by EUR7.9bn during this period and totalled EUR5.3bn at year-end 2008 (net debt totalled EUR5bn). It was made up of:

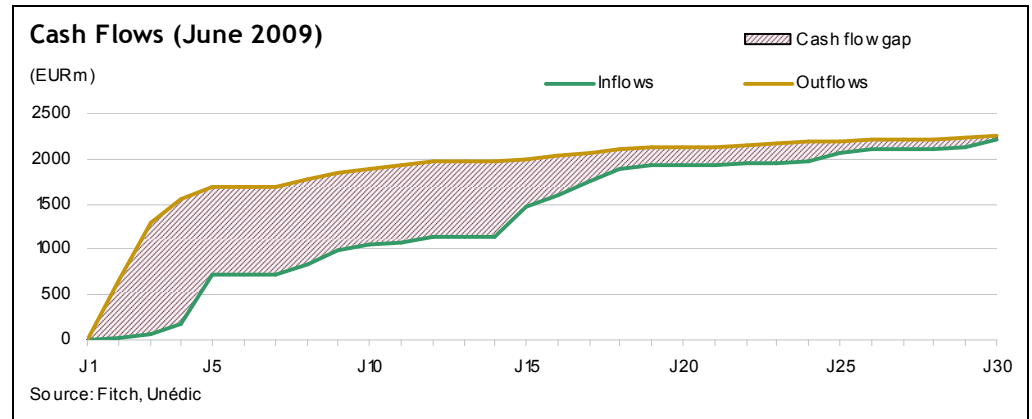
- A EUR2.2bn bond issued in February 2005 with a state guarantee and maturing in February 2010;
- Commercial paper ("Billets de trésorerie") issued and totalling EUR3bn, equivalent to the CP programme ceiling; and
- EUR100m of bank credit facilities.

Given the increasing financing need, Unédic's board of directors decided in June

2009 to raise the level of its CP programme ceiling to EUR6bn from August 2009 and authorised EUR12bn of bond issues for the coming years. The first bond issue is planned for end-2009 and is likely to total EUR3bn.

Related Risk Limited by Liquidity Management

Unédic has to face cash flow gaps throughout each month. On average, more than 70% of expenditure is disbursed by the fifth of a month, whereas only 30% of revenue is collected. This gap is reduced progressively throughout a month, and by the twentieth, more than 90% of expenditure has been disbursed and more than 85% of revenue collected.



To cover the increasing cash flow gap due to the scissor effect, Unédic's CP programme ceiling will be raised to EUR6bn in August 2009. Unédic's back-up lines total EUR3bn but Unédic has never used them. Under Unédic's liquidity plan for 2009, these back-up lines cover at least 40 days of CP repayment in case of financial distress. In Fitch's view, this 40-day period would be sufficient to allow the implementation of state support.

Unedic's Liquidity Back-Up Lines

Bank	Ratings	Back-up line amount (EURm)
Natixis	A+ / Stable / F1+	500
Compagnie de Financement Foncier (Caisse d'Epargne Group)	(A+ / Stable / F1+)	250
Banque Fédérative du Crédit Mutuel	AA- / Stable / F1+	100
BNP	AA / Negative / F1+	365
Calyon	AA- / Stable / F1+	365
Société Générale	A+ / Stable / F1+	365
CIC	AA- / Stable / F1+	100
HSBC France	AA / Negative / F1+	455
Crédit du Nord	A / Stable / F1	250
Caisse d'Epargne Ile de France (Caisse d'Epargne group)	(A+ / Stable / F1+)	250

Source: Fitch

Following the increase of the CP programme ceiling, Unédic is committed to maintaining a cash liquidity cushion of EUR1bn-2.5bn. Unédic is also progressively lengthening the average maturity of its CP issues with a target of 3.5 months with daily repayments in order to limit refinancing risk.

In Fitch's view, this set of liquidity coverage mechanisms would provide at least one month of liquidity coverage even in very adverse market conditions. This delay would be likely to prove sufficient to allow for the implementation of state support in case of need. The capacity of Unédic to maintain its liquidity back-up package will be key to maintaining the ratings at their current level.

Appendix A

Unédic Profit and Loss Account - Summary Data

(EURm)	Actual				
	2004	2005	2006	2007	2008
Operating revenue	26,282.0	27,229.7	28,733.9	29,843.2	30,636.3
Of which unemployment insurance contributions	25,678.7	26,708.4	28,351.1	29,536.3	30,339.4
Operating charges	-29,014.9	-28,046.7	-25,893.7	-24,301.8	-24,342.4
Of which main unemployment insurance benefit	-22,835.5	-23,102.0	-20,969.5	-19,639.1	-19,582.4
Operating result	-2,732.9	-817.0	2,840.2	5,541.4	6,293.9
Administrative revenue	196.9	203.8	196.6	192.1	424.4
Administrative costs	-1,498.1	-1,519.4	-1,546.8	-1,582.8	-1,483.1
Of which staff costs	-776.6	-808.8	-825.3	-848.4	-757.7
Administrative result	-1,301.2	-1,315.6	-1,350.2	-1,390.7	-1,058.7
Financial revenue	0.2	0.0	0.0	0.0	13.5
Financial charges	-236.6	-346.3	-417.2	-424.0	-277.9
Financial result	-236.4	-346.3	-417.2	-424.0	-264.4
Extraordinary result	1.7	4.1	452.8	1.6	3.7
Net result	-4,268.8	-2,474.8	1,525.6	3,728.3	4,974.5
Retained earnings at year-end	-12,491.4	-14,966.2	-13,440.6	-9,712.3	-4,737.8

Source: Fitch, Unédic

Appendix B

Unédic Balance Sheet - Summary Data

(EURm)	Year end				
	2004	2005	2006	2007	2008
A. Current assets					
Trade receivables and related accounts	3,660.0	4,154.2	4,181.2	4,240.5	4,322.5
Cash	19.7	14.7	23.9	25.3	394.6
Accruals	18.1	28.1	29.2	35.7	25.8
Total A	3,697.8	4,197.0	4,234.3	4,301.5	4,742.9
B. Fixed assets					
Tangible assets	608.1	577.1	550.3	530.9	499.1
Intangible assets	25.9	27.3	28.9	25.9	23.3
Financial assets	30.0	28.4	29.6	31.4	32.5
Total B	664.0	632.8	608.8	588.2	554.9
C. Other assets					
Total C	18.9	19.0	11.2	4.8	1.0
D. Total assets (A+B+C)	4,380.7	4,848.8	4,854.3	4,894.5	5,298.7
E. Operating liabilities					
Trade payables	4,196.5	4,012.6	3,312.2	2,456.9	2,330.3
Other short-term creditors	2,399.4	2,322.9	1,862.8	2,471.9	2,288.7
Accruals	16.6	3.2	23.2	23.4	21.1
Total E	6,612.5	6,338.7	5,198.2	4,952.2	4,640.1
F. Provisions					
Total F	324.3	253.8	249.1	237.7	43.9
G. Financial debt (including accrued interest)					
Bank credit facilities	n.a.	897.9	1,026.0	132.9	78.5
Short-term credit lines	n.a.	1,500.0	0.0	0.0	0.0
Commercial paper	n.a.	2,500.0	3,000.0	2,870.0	3,000.0
Bridge loan	n.a.	1,000.0	0.0	0.0	0.0
Securitisation	n.a.	0.0	1,501.9	100.2	0.0
Other financial debt	n.a.	15.2	8.7	13.3	14.0
Bonds	4,040.3	7,309.4	7,311.0	6,300.5	2,260.2
Total G	9,935.2	13,222.5	12,847.6	9,416.9	5,352.7
H. Total liabilities (E+F+G)	16,872.0	19,815.0	18,294.9	14,606.8	10,036.7
I. Net assets (D-H)	-12,491.3	-14,966.2	-13,440.6	-9,712.3	-4,738.0
J. Capital and reserves					
Retained earnings	-8,222.5	-12,491.4	-14,966.2	-13,440.6	-9,712.3
Net income (P&L)	-4,268.8	-2,474.8	1,525.6	3,728.3	4,974.4
Total J	-12,491.3	-14,966.2	-13,440.6	-9,712.3	-4,738.0

n.a. Not available
Source: Fitch, Unédic

Appendix C

Unédic Cash Flow Statement

(EURm)	Year end				
	2004	2005	2006	2007	2008
Net result	-4,268.8	-2,474.8	1,525.6	3,728.3	4,974.4
Amortisation and provisions	-130.2	24.7	127.1	104.9	-129.0
Capital gain/losses on sales of fixed assets	-5.9	-6.1	-4.7	-3.1	-5.7
Change in working capital	155.0	-783.1	-1,193.9	-328.3	-353.8
A. Cash flow from operating activities	-4,249.9	-3,239.3	454.1	3,501.8	4,485.9
Acquisitions of fixed assets	-80.9	-78.2	-72.4	-71.0	-49.9
Disposals of fixed assets	14.4	28.5	7.3	8.0	8.0
Change in financial assets	-3.7	-2.1	-1.2	-1.8	-1.1
Change in payables on fixed assets	-6.3	8.6	-3.9	-5.1	-9.7
B. Cash flow from investing activities	-76.5	-43.2	-70.2	-69.9	-52.7
Commercial paper	1,200.0	1,300.0	500.0	-130.0	130.0
Bridge loan (securitisation)	0.0	1,000.0	-1,000.0	0.0	0.0
Bridge loan (bond issuance)	2,200.0	-2,200.0	0.0	0.0	0.0
Short-term credit lines	0.0	500.0	-1,500.0	0.0	0.0
Securitisation	0.0	0.0	1,500.0	-1,400.0	-100.0
Others	1.3	66.4	-2.8	-7.4	-39.5
Bonds	0.0	3,200.0	0.0	-1,000.0	-4,000.0
C. Cash flow from financing activities	3,401.3	3,866.4	-502.8	-2,537.4	-4,009.5
Change in cash and cash equivalents (A+B+C)	-925.1	583.9	-118.9	894.5	423.7

Source: Fitch, Unédic

Appendix D

Unédic Ratio Analysis

	Year end				
	2004	2005	2006	2007	2008
Revenue (%)					
Operating revenue growth	n.a.	3.6	5.5	3.9	2.7
Unemployment insurance contributions (UIC) growth	n.a.	4.0	6.2	4.2	2.7
UIC/operating revenue	97.7	98.1	98.7	99.0	99.0
UIC/total revenue ^a	97.0	97.4	98.0	98.3	97.6
Expenditure (%)					
Operating charges growth	n.a.	-3.3	-7.7	-6.1	0.2
Main unemployment insurance benefit (UIB) growth	n.a.	1.2	-9.2	-6.3	-0.3
UIB/operating charges	78.7	82.4	81.0	80.8	80.4
UIB/total expenditure	74.3	77.2	75.3	74.6	75.0
Administrative costs/total expenditure ^a	4.9	5.1	5.6	6.0	5.7
Performance (%)					
Operating result/operating revenue	-10.4	-3.0	9.9	18.6	20.5
Net result/total revenue	-16.1	-9.0	5.3	12.4	16.0
Operating revenue/operating charges	90.6	97.1	111.0	122.8	125.9
UIC/UIB	112.5	115.6	135.2	150.4	154.9
Debt ratios					
Financial debt growth (%)	n.a.	33.1	-2.8	-26.7	-43.2
Financial charges/operating revenue (%)	0.9	1.3	1.5	1.4	0.9
Operating result/financial charges (x)	-11.6	-2.4	6.8	13.1	22.6
Financial debt/operating revenue (%)	37.8	48.6	44.7	31.6	17.5
CFO/financial charges (x)	-18.0	-9.4	1.1	8.3	16.1

^a Excluding exceptional items

n.a. - Not available

Source: Fitch, Unédic

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