

UNEDIC

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Major Rating Factors

Strengths:

- Integrated into the French state machinery and critically important for France's welfare system
- Track record of timely government support in periods of financial pressure, including through direct guarantees and subsidies
- Adequate liquidity policy

Weaknesses:

- Lack of special public status formalizing state support

Issuer Credit Rating

AAA/Stable/A-1+

Rationale

The equalization of the ratings on French government agency for unemployment benefits UNEDIC with those on the Republic of France (AAA/Stable/A-1+) reflects Standard & Poor's Ratings Services view that there is an "almost certain" likelihood that the government will provide timely extraordinary support to UNEDIC in the event of financial distress.

In application of our criteria for rating government-related entities (GREs), we base our ratings approach on UNEDIC's critical role to the French unemployment benefit system. The rating on UNEDIC also reflects our view that UNEDIC has an integral place in the machinery of the French state. Owned and managed in equal measure by social partners (employers' representatives and labor unions) since 1958, UNEDIC's policies are authorized and overseen by the French government.

Moreover, UNEDIC's budget and debt are consolidated with those of the French state. UNEDIC also has a track record of government support in times of financial pressure, most recently through the provision of a guarantee on the agency's 2005 bond issue.

Government support to UNEDIC and the specific framework within which the agency operates mitigate the fact that, as a private entity, UNEDIC is not part of the state or the public administration, and that no explicit mechanism is in place to ensure its liquidity from the French authorities.

The current economic recession and rising unemployment in France will weaken UNEDIC's balance sheet due to higher benefit disbursements. After three years of surpluses (most recently €5 billion in 2008), we expect UNEDIC to post a €1.3 billion deficit this year and remain in deficit through 2013. At that time, assuming constant current policies, Standard & Poor's projects that UNEDIC's accumulated deficit will reach about €17.8 billion, or 0.8% of France's 2013 GDP, and decline thereafter.

In recognition of its increased financing needs, UNEDIC is launching a €12 billion medium term note (EMTN) program and expanding its French commercial paper (CP) program ("Billet de Trésorerie") to €6 billion from €3 billion.

Liquidity

We view UNEDIC's liquidity as adequate. UNEDIC's CP program is notably supported by €3 billion of confirmed back-up lines from 10 banks and bilateral overdraft facilities.

Outlook

The stable outlook indicates Standard & Poor's opinion that UNEDIC will continue to benefit from strong implicit support from the state. It also reflects our expectation that UNEDIC will ensure sufficient liquidity to honor its debt obligation, regardless of economic conditions. In addition, we consider that social partners will continue to make appropriate decisions to enable UNEDIC to accomplish its mandate and to reduce its accumulated deficit over the medium term.

Comparative Analysis

Standard & Poor's does not rate any unemployment benefit agency other than UNEDIC. In most European countries, these benefit entities are generally public and/or government bodies.

UNEDIC is distinct from other rated French "établissements publics" acting as government agencies--such as Caisse d'Amortissement de la Dette Sociale and Agence Française de Développement, both rated AAA/Stable/A-1+, because these agencies derive protection from their respective status as Établissements Publics à Caractère Administratif (EPA) and Établissements Publics à Caractère Industriel et Commercial (EPIC), which ensures by law ultimate support from the French state.

That said, given UNEDIC's critical role to the French welfare system, we expect it to receive timely financial support from the French government, particularly in the context of the economic recession and rising unemployment in France.

The only other rated French government agency that does not have public status is Société Anonyme de Gestion de Stocks de Sécurité (SAGESS; AAA/Stable/A-1+). SAGESS is a joint-stock company with the sole purpose of maintaining and managing a substantial part of France's national strategic oil stock reserves. The 'AAA' rating on SAGESS is supported by its strategic importance and close state control. Like SAGESS, UNEDIC is of key social and economic importance to French citizens and politicians. Political backing is absolute, and despite the absence of specific and well-articulated support mechanisms, there are numerous examples of support for UNEDIC in times when it was affected by economic downturns and its deficit was growing. These signal the state's readiness to take action to avoid any interruption to the payment of either unemployment benefits or UNEDIC's financial debt. Political support for UNEDIC may, in practice, be stronger than for certain EPICs with public missions that are gradually fading or changing, as it is the case for utilities or postal operators that are becoming exposed to European deregulation and competition. Following the 2007 presidential and legislative elections, improving labor market conditions has become one of the main priorities on the new government's political agenda. This has been further affirmed by the government's decision and subsequent approval by parliament (February 2008) to merge Association pour l'emploi dans l'industrie et le commerce (ASSEDIC), the unemployment insurance network, and Agence Nationale pour l'Emploi (ANPE), into Pôle Emploi, the state job agency, as of Jan. 1, 2009. UNEDIC preserves its role as supervisor of the unemployment insurance regime. Furthermore, the government's plan to support the economy against the background of recession has reinforced UNEDIC's political importance.

Critical Role In France's Unemployment Benefit System

UNEDIC takes on a key role on behalf of the French state as it is the sole institution in charge of the management and definition of unemployment benefits in France, as well as relevant policy formulation. It therefore decides unemployment benefits and policies at the national level. Those decisions can be implemented as soon as the state formally approves them.

Unemployment benefits have existed in France since 1958. They now cover all private sector employees. UNEDIC is the sole institution in charge of the management and definition of unemployment benefits in France, as well as relevant policy formulation.

Since its operational creation in December 2008 (following the February 2008 law), Pôle Emploi branches carry out unemployment measures at the regional level on behalf of UNEDIC. These branches collect employers' contributions and distribute unemployment benefits.

UNEDIC is also responsible for a number of activities related to unemployment, such as analyzing unemployment patterns in France and internationally.

Before the 2008 reform, two important entities were in charge of the unemployed in France: the ANPE and the ASSEDIC. The ANPE, an Établissement Public National, acted as an intermediary between employers (who submit work offers to ANPE) and the unemployed (who consult the work offers). The ASSEDIC, which was not financially independent, carried out unemployment measures on behalf of UNEDIC at the regional level.

The Association Nationale pour la Formation Professionnelle des Adultes (Afp) agency still exists under the ministry of labor's supervision. Afpa is in charge of training and career management for adults.

The government voted the Public Employment Service Organisation Reform Act on Feb. 13, 2008, to merge ANPE with ASSEDIC to provide job seekers with a single correspondent, the new Pôle Emploi, for registration, placement, benefits, and support services.

This reform aimed to:

- Facilitate procedures for users--businesses and job seekers--who now have access to a national multi-purpose network providing a complete array of recruitment and placement services; and
- Broaden the range of services provided to all users of the public employment service and improve operations in the labor market.

French authorities considered that pooling the resources of both networks should help the new Pôle Emploi to achieve these objectives. Pôle Emploi missions include strengthening local teams by developing a service catalogue drawing on the expertise and skills of both networks.

UNEDIC's social partners remain in charge of unemployment insurance and continue to set its rules. The unemployment insurance regime also remains under UNEDIC supervision.

The intensity of the global economic recession has led to difficulties in achieving some of the reform's initial objectives. For example, Pôle Emploi has a limited number of advisers for the rising number of job seekers.

Integral Place In French State Machinery

Status and ownership

Management of UNEDIC, which has not changed since its creation in 1958, is split equally between labor unions and employers, in accordance with the French concept of "paritarisme." The state is not a direct partner because the social partners officially manage the association. The state, however, has a very strong indirect say in UNEDIC's ownership and functioning because it can take over UNEDIC management if labor unions and employee representatives cannot agree on contribution rates, as it happened in the past (see management and responsibility section below).

In line with its public policy mandate, UNEDIC is a not-for-profit entity. In this respect, UNEDIC is more like a government management agency than an operational company. In addition, the government has sole authority to approve or reject UNEDIC's policies and to authorize their implementation (see Policies section below).

Consequently, the state regulates UNEDIC's principal source of recurrent revenues--unemployment contributions from both employees and employers--its financial balance, and its debt. UNEDIC is 0% risk weighted under Basel II criteria, and its budget and debt are incorporated in those of the Republic of France.

Management and responsibility

UNEDIC's administrative board comprises employer and employee representatives in equal numbers. The board is responsible for UNEDIC's internal regulation and the rules regulating unemployment benefits.

Every two years, the administrative board nominates a committee comprising 10 members, also comprising employer and employee representatives in equal numbers. The committee is responsible for UNEDIC's overall functioning. In particular, it nominates the agency's director. The presidency of the committee rotates every two years between employers and employees representatives.

A state-appointed controlling agent ("contrôleur d'Etat") participates in UNEDIC's management meetings and reports to the finance ministry. Although it does not participate directly in UNEDIC's management, the state has significant scope to intervene in the agency's affairs, and is, in practice, very present.

French law allows the state, under certain circumstances, to transfer the management of unemployment benefits to another public entity. This is because French law guarantees unemployment benefits (although not their amount) to all eligible citizens, without per se protecting the entity in charge of managing unemployment benefits. From a procedural viewpoint, the state can take control of UNEDIC when:

- Employer and employee representatives cannot agree on a new convention determining unemployment benefits and contributions; or
- The state disagrees with the social partners.

The state then proposes a new strategy, as it did in 1992, for example, when it disagreed with a proposed increase in contribution rates. If UNEDIC's board decides not to implement the state's alternative strategy, it resigns, and the state can take over and give the mandate to another entity, public or private. This, however, has never happened. UNEDIC has handled its functions without interruption since 1958. Nevertheless, the fact that suspension or mandate withdrawal is possible acts as an additional incentive for UNEDIC to provide appropriate service and to find solutions to avoid unmanageable financial deterioration.

State support framework

There is no formal framework predetermining state support toward UNEDIC. The law does not guarantee that, in the event of UNEDIC's dismissal, its obligations will be paid on time either by the new unemployment benefit manager or by the state. As an association under France's "1901 Law," UNEDIC can, in principle, be declared bankrupt, and is easier to dissolve than a public entity.

If UNEDIC's financing requirements are higher than expected, due to the very cyclical nature of its revenue and expenditure trends, it and its social partners must take additional corrective measures (such as increasing unemployment contribution rates, tightening eligibility criteria, or reducing unemployment benefits). These decisions can be politically challenging, but they have always been taken when necessary.

In addition, notwithstanding the absence of a formal framework to that end, the state has historically lent its support to UNEDIC whenever necessary. We therefore consider that there is an "almost certain" likelihood that the government will provide timely extraordinary support to UNEDIC in the event of financial distress.

As a recent example, the state agreed to take two measures in order to shore up UNEDIC's finances in the wake of deterioration in its accounts. First, in December 2003, it agreed to postpone the repayment of a €1.2 billion debt UNEDIC owed to the state until the agency's financial position had improved sufficiently, without charging overdue interest and guaranteed UNEDIC's \$4 billion bond issuance. Second, in December 2004, it agreed to guarantee a new €2.2 billion five-year UNEDIC bond. The bond was aimed at financing the unexpected expenditure faced by UNEDIC in 2004-2005 as a result of the reversal of tightened eligibility criteria for certain unemployment claimants.

For all the abovementioned reasons, and given the critical role that UNEDIC plays in the French government welfare system policy, we expect the state to provide timely support to UNEDIC if it encounters a period of severe financial distress.

Policies

French state has the final say on UNEDIC's conventions...

Through a convention, labor unions and employers determine unemployment benefits and contributions at the national level and for all branches. To become effective, the state needs to agree to the convention (which has no judicial value on its own). UNEDIC and the state ensure that unemployment benefits and contributions are applied evenly in France. The convention covers a limited period and is modified whenever required by the financial situation of the unemployment fund.

Historically, contributions have increased when UNEDIC's financial balance deteriorated and decreased when it improved. Unemployment benefits depend on the unemployed person's previous salary.

...and UNEDIC is part of the French government policy to contain unemployment

In light of the economic downturn, UNEDIC decided in October 2008 to postpone payment of unemployment contributions for small and midsize enterprises (SMEs) for one or two months, depending on their size. UNEDIC introduced the measure as a support to SMEs, while keeping the agency's financial situation unaffected.

UNEDIC is part of the December 2008 French government plans to support the economy during recession (see Profit and Losses section below). Moreover, the government allocated an additional €500 million to accelerate the set-up of Pôle Emploi and for measures aiming to improving the effectiveness of active labor market policies.

UNEDIC provides other services outside its core mission

UNEDIC carries out a number of activities on behalf of the state and other public entities. For instance, it manages the solidarity fund--financed through the state budget and covering the unemployed who are not eligible for unemployment benefits--on behalf of the state.

UNEDIC, being a not-for-profit entity, does not charge any margin above its own costs when it performs services for third parties. The state pays the fees it owes to UNEDIC on time.

UNEDIC's financial policies in general

UNEDIC's financial policies are conservative and restrictive. It can only invest in French state bonds or special funds composed only of state bonds. There are no plans to change these rules.

Profits And Losses

UNEDIC's budgetary performances vary according to France's real GDP growth cycles...

UNEDIC's budgetary performance reflects the economic and unemployment conditions prevailing in France, and therefore tends to run up deficits when France's economic growth slackens.

Reflecting UNEDIC's public mandate, the large majority of revenues come from unemployment contributions payable by employers and employees. Similarly, benefits payable to the unemployed constitute the lion's share of UNEDIC's expenditures.

In general, nine contributor's payments are necessary to ensure unemployment benefits to a single job seeker. As a consequence, when an employee loses his or her job, there is a double negative impact to UNEDIC's finances. The job loss means one contributor less, together with the necessity to mobilize nine contributors to finance this job seeker's unemployment benefit.

...and the current economic recession in France will consequently negatively affect UNEDIC's finances

We expect UNEDIC's expenditures to rise in 2009 and 2010, because of the economic recession and mounting unemployment in France.

The number of eligible unemployed receiving benefits stands to increase this year, to an estimated 2.2 million according to UNEDIC, from 1.8 million in 2008. This projected rise, creating the need to increase benefit payments, is the main driver behind expected deterioration in UNEDIC's financial position in the coming years, under current policies. We expect UNEDIC to post an estimated deficit of €1.3 billion in 2009, versus the reported surplus of €4.9 billion in 2008.

As Standard & Poor's estimates that France will not start a strong recovery from the global economic recession before 2011, UNEDIC is likely to continue to feel the negative repercussions of the economic downturn's knock-on effects on the labor market. UNEDIC is therefore unlikely in our view to regain a positive financial position before 2014, assuming current policies remain in effect.

Standard & Poor's expects that UNEDIC's accumulated deficit in 2013 will hit about €17.8 billion, representing 0.8% of France's forecast 2013 GDP, and decline thereafter. We consider though that social partners will continue to make appropriate decisions to enable UNEDIC to accomplish its mandate and therefore strive to bring UNEDIC's finances back on balance.

Table 1

UNEDIC Profits And Losses							
(Mil. €)	2008	2007	2006	2005	2004	2003	2002
Technical result	6,293.9	5,541.4	2,840.2	(817.0)	(2,732.9)	(2,430.4)	(2,093.3)
Revenues	30,636.3	29,843.2	28,733.9	27,229.7	26,282.0	25,733.1	23,270.0
Of which contributions	30,339.4	29,536.3	28,351.1	26,708.4	25,678.7	24,870.9	21,805.2
Expenditures	24,342.4	24,301.8	25,893.7	28,046.7	29,014.9	28,163.5	25,363.3
Administrative result	(1,058.7)	(1,390.7)	(1,350.2)	(1,315.6)	(1,301.2)	(1,265.5)	(1,246.1)
Revenues	424.4	192.1	196.6	203.8	196.9	178.0	207.6
Expenditures	1,483.1	1,582.8	1,546.8	1,519.4	1,498.1	1,443.5	1,453.7
Of which external services	543.6	528.4	499.6	496.2	479.9	471.7	495.4
Of which wages	757.7	848.4	825.3	808.8	776.6	753.4	738.2
Financial result	(264.3)	(424.0)	(417.2)	(346.3)	(236.4)	(112.5)	143.4
Financial revenues	13.5	0.0	0.0	0.0	0.2	9.2	247.3
Financial expenditures	277.8	424.0	417.2	346.3	236.6	121.7	103.9
Current result	4,970.8	3,726.7	1,072.8	(2,478.9)	(4,270.5)	(3,808.4)	(3,196.0)
Exceptional result	3.6	1.6	452.8	4.1	1.7	(1,272.7)	(12.4)
Result	4,974.4	3,728.3	1,525.6	(2,474.8)	(4,268.8)	(5,081.1)	(3,208.4)

Source: UNEDIC 2008 financial statement.

Improved conditions in the labor market in the coming years notably hinges on implementation of structural measures aimed at easing France's labor market challenges. These steps could act a buffer against the expected rise in unemployment.

Convention's impact on profits and losses

UNEDIC adopted a new convention covering the period 2009-2011 in early 2009, including a temporary drop in unemployment contributions to 0.08% of gross salaries, by both employers and employees for one year. This lowered the overall contribution rate to 6.40% of gross salaries. Historically, the highest contribution rate was 6.6% of gross salaries, in 1994-1996.

The main aspect of the new convention is the reduction in the required number of months worked to be eligible for unemployment benefits. An employee who involuntarily loses his or her job and can justify four months of employment under certain conditions, is eligible to receive unemployment benefits, against six months previously. Moreover, under the convention, UNEDIC has to dedicate 10% of its expenses to contribute to covering Pôle Emploi functioning costs.

The new convention also includes a number of incentives to encourage job seekers toward remunerated activities rather than simply collecting unemployment benefit. Illustrating this is the possibility for a job seeker to continue to receive benefits, under selected circumstances, if he or she becomes self employed.

Asset And Liability Management

UNEDIC's liabilities are chiefly benefits payable to the unemployed, borrowing, and the carry-over of UNEDIC's surplus or deficit each year. UNEDIC can borrow, but only with its board's authorization. Borrowings can be subject to a state guarantee, but so far only long-term debt has been formally guaranteed by the state, in 1994,

2003, and early 2005. The €4 billion bond issues in 2003 matured in September 2008.

At the end of 2008, €2.2 billion of UNEDIC's borrowing consisted of the guaranteed five-year €2.2 billion bond issued in February 2005, which matures in 2010. A further €3 billion consisted of UNEDIC's French CP (Billets de Trésorerie) program, and €0.9 billion stemmed from bank overdraft facilities (€0.8 billion) and other financial debt.

UNEDIC's assets are primarily contributions from employers and employees. UNEDIC maintains a small portfolio of assets. These are accounted for at their acquisition costs. Profits and losses are registered only when assets are sold.

Table 2

UNEDIC Balance Sheet							
(Mil. €)	2008	2007	2006	2005	2004	2003	2002
Assets	5,298.7	4,894.5	4,854.3	4,848.8	4,380.7	4,373.9	5,849.0
Fixed assets	554.8	588.2	608.8	632.8	664.0	690.8	710.0
Current assets	4,742.9	4,301.5	4,234.3	4,197.0	3,697.8	3,658.1	5,120.3
Of which receivables from employed and employers	4,113.6	4,097.4	3,779.7	3,594.9	3,347.4	3,273.0	3,138.0
Of which cash	37.4	25.3	23.9	14.7	19.7	40.3	1,662.6
Liabilities	5,928.7	4,894.5	4,854.3	4,848.8	4,380.7	4,373.9	5,849.0
Accumulated earnings	(4,737.9)	(9,712.3)	(13,440.6)	(14,966.2)	(12,491.3)	(8,118.1)	(3,011.0)
Provisions	43.9	237.7	249.1	253.8	324.3	409.8	868.8
Borrowing	9,992.8	9,416.9	12,847.6	13,222.5	9,935.2	5,629.2	2,992.5
Of which bonds	2,260.2	6,300.5	7,311.0	7,309.4	4,040.3	4,040.3	0.0
Of which other bonds and debts	3,092.4	3,116.4	5,537.0	5,913.1	5,894.9	1,588.9	2,992.5
Other payables	4,618.9	4,928.8	5,175.0	6,335.5	6,595.9	6,434.5	4,978.8
Of which to unemployed	1,943.7	1,792.4	1,863.6	2,014.7	2,249.3	2,273.1	2,099.7
Of which to state	0.0	118.4	909.1	1,443.4	1,455.1	1,458.7	245.5
Of which to others	2,288.7	2,471.9	2,402.3	2,877.4	2,891.5	2,702.7	2,633.6

Source: UNEDIC 2008 financial statement.

Liquidity Management

Policies

In January 2004, UNEDIC diversified its short-term financing instruments with the launch of its €1.2 billion French CP program. A legislative change was required to authorize a not-for-profit entity such as UNEDIC to issue CP. UNEDIC increased the program to €2.0 billion in January 2005, €2.5 billion in May 2005, €3.0 billion in September 2006, and to €6 billion in 2009.

The program is part of UNEDIC's general liquidity policy, which aims to anticipate hikes in infra-monthly financing needs.

Given the current economic recession and rising unemployment in France, UNEDIC's treasury plan for 2010-2012, under a worst-case scenario, takes into account some peaks in unemployment allocations disbursed that would significantly increase the agency's long term financial needs.

Consequently, the board agreed to launch UNEDIC's EMTN program for a maximum of €12 billion. Apart from

addressing anticipated increased financing needs, the program will also offset other sources of financing that are set to mature, including the €2.2 million bond issue in 2005, due in 2010. UNEDIC doesn't currently plan to ask for a government guarantee for its EMTN program, given its excellent access to the market.

Short-term rating and CP back-up lines

As part of the liquidity analysis, Standard & Poor's monitors that sufficient liquidity is maintained, to refinance maturing obligations, including CP, bank obligations, and long-term debt obligations.

Liquidity sources to provide this back-up support can include own-source funds and external available credit facilities.

In 2009, according to UNEDIC's budgetary plans and assuming a worst-case scenario, the agency anticipates the highest amount of CP maturing in a given month at about €5 billion. Moreover, UNEDIC plans to gradually extend the maturity of its CP issues to an average of 3.5 months to subdue potential rollover risk.

UNEDIC's back-up liquidity for the CP program include:

- A dedicated bank back-up credit line for €3 billion; and
- A bank overdraft facility that can reach up to €1.5 billion.

During its more than four decades of existence, UNEDIC has never experienced a loss of investor confidence in its credit quality. Investors confirmed their interest in UNEDIC's issuance even during the period of market stress following the Lehman Brother's bankruptcy in September 2008. UNEDIC's CP benefited indeed from these strong appetites, representing 8% of the total French market for CP issues at that time, according to Bank of France data. This level was unprecedented.

Off-balance-sheet liabilities

UNEDIC provisions retirement obligations toward its employees. At year-end 2008, the provisioned amount was about €44 million.

Related Research

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Ratings Detail (As Of September 30, 2009)*	
UNEDIC	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Issuer Credit Ratings History	
07-Aug-2009	AAA/Stable/A-1+
06-Jan-2004	--/--/A-1+
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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