

Unedic

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Unedic

Major Rating Factors

Strengths:

- Extraordinary financial support of the Republic of France "almost certain" in our opinion.
- Critical role for France as the sole entity responsible for management of the unemployment insurance scheme.
- Integral link with the central government.
- Adequate liquidity policy.
- Explicit state guarantees expected in 2011 as authorized in the amended financial bill for 2010 to mitigate unclear legal framework on Unedic's bond issuances.

Issuer Credit Rating

AAA/Stable/A-1+

Weaknesses:

- Absence of any formal and explicit emergency state mechanism to ensure liquidity in case of need.
- High sensitivity to economic cycles.

Rationale

The equalization of the ratings on Unedic with those on the Republic of France (AAA/Stable/A-1+) reflects Standard & Poor's Ratings Services' view that extraordinary financial support from the state is "almost certain".

Standard & Poor's rates Unedic in accordance with its criteria on government-related entities.

We consider Unedic's role as "critical" to the Republic of France in the distribution of unemployment insurance benefits on a timely basis to about 2.15 million eligible jobseekers on Oct. 31, 2010. Unedic was established in 1958 as the special entity solely responsible for the management of the unemployment insurance scheme (UIS) in France, and relevant policy formulation. Affiliation to the UIS is mandatory for all private employees (16.4 million people at mid-year 2010) and contributions are compulsory for all employers and employees.

In addition, we consider that there is an "integral" link between Unedic and the central government. Unedic's governance is split equally between labor unions and employers' representatives, in accordance with the French concept of "paritarisme." However, the state has the last word in Unedic's functioning and funding and is responsible for the continuity of the UIS. Indeed, although Unedic is governed by multiyear agreement contracts signed by the labor unions and employers, these agreements must be ultimately approved by the state. In the case of no agreement being reached, the central government is entitled to take over the governance of the UIS, through a state public agency ("Etablissement public administrative d'Etat"). On an ongoing basis, Unedic is under strong and broad supervision of the state. A state controlling agent attends every meeting of Unedic's committee.

We expect the state to continue to provide for extraordinary support to Unedic in case of need. As the cornerstone of the UIS, Unedic has benefited from strong state support in the past, notably through explicit guarantees on its bond issues. In our view, the track record of government support to Unedic and the specific framework within which it operates mitigate the fact that, as a private entity, Unedic does not benefit in law from an implicit state

guarantee on its solvency and liquidity contrary to entities benefiting from the status of state public agency.

The unclear legal framework on bond issuances for associations could potentially prompt a legal matter preventing Unedic to issue long-term bonds. While we expect this legal issue to be solved within 2011, we also expect the state to explicitly guarantee Unedic's bond issuances in 2011, which should thereby secure Unedic's funding throughout the year. The amended finance bill for 2010 includes the ability for the Minister of Economy to explicitly guarantee Unedic's bond issuances in 2011 up to €7.5 billion. Until then, in order to cover its supplementary financing needs from November 2010 to the end of April 2011, Unedic has contracted a €3 billion revolving bridge loan extended until the end of April 2011, which it will use on top of its €6 billion French CP program.

Unedic's financial results are highly sensitive to economic cycles with both contributions and benefits disbursements being correlated to employment levels. In 2009, the economic slowdown translated into an annual deficit of €1.2 billion in 2009 after three years of surpluses, including an annual peak at €5 billion in 2008. Net debt amounted to €5.9 billion on Dec. 31, 2009, and is expected to reach €10 billion on Dec. 31, 2010. Assuming no major change occurs in the next agreement contract to be renewed in 2011, Unedic's negative net debt could reach about €12.5 billion by year-end 2012. In 2009, in recognition of its increased medium-term financing needs, Unedic has launched a €12 billion Euro Medium-Term Note (EMTN) program and expanded its French commercial paper (CP) program to €6 billion from €3 billion.

Short-term credit factors

We view Unedic's liquidity policy as adequate. Its €6 billion French CP program is notably supported by €3 billion of confirmed back-up lines, by bilateral overdraft facilities, and by a marketable securities cushion. If outstanding CPs exceed €3 billion, we understand that Unedic is committed under a gentlemen's agreement to maintain a cushion of marketable securities representing at least one-third of the surplus.

The state has not put in place any formal and explicit mechanism to ensure liquidity in case of need, given Unedic's private status as a common law association. However, we consider that, in the very last resort, the state's public debt fund ("Caisse de la Dette Publique") would intervene in a timely manner in case of liquidity distress.

Outlook

The stable outlook reflects our expectation that Unedic will retain its critical role to and integral link with the French state. We therefore expect the ratings to move in line with those on the Republic of France.

The stable outlook also incorporates our anticipation that the state will guarantee Unedic's debt issuances in 2011 to avoid any legal matter that could potentially prevent Unedic from issuing long-term bonds, given the current legal framework on bond issuances for associations. Besides, we expect that the central government will clarify this framework in 2011. In the unlikely event that Unedic was unable to secure state guarantees or find an alternative source of funding, the ratings would likely come under pressure.

A Critical Role To The Republic Of France: Unedic Is The Cornerstone Of The UIS

One institution, one mission: Unedic is the sole entity responsible for the management of the UIS

Unedic and the French UIS were both created at the same time in 1958. From the start, Unedic's unique mission has been to manage the UIS and the UIS's sole manager has been Unedic. In our opinion, Unedic, as an institution, and the UIS, which represents a key social and economic public mission for the central government, are interdependent. We consider Unedic's role as being a key part of the French welfare system, distributing the unemployment insurance benefits on a timely basis to about 2.1 million eligible jobseekers at mid-year 2010.

The governance of the UIS distinguishes it from the French social security scheme, which is managed by Agence centrale des organismes de sécurité sociale Agence Centrale des Organismes de Sécurité Sociale (ACOSS) (---/A-1+). It is not directly managed by the state but governed by labor unions and employers' representatives. However, it retains some key characteristics in terms of affiliation and funding, which are common to the French social security scheme. Affiliation to the UIS is mandatory for all private employees (16.3 million people as of June 30, 2010) and contributions, mainly based on private payrolls, are compulsory for all employers and employees. In addition, under the European System of Integrated Economic Accounts (ESA95), Unedic is recorded under the social security funds category.

Following the 2008 reform, Unedic lost the operational part of its mission but remains responsible for the policy formulation and financial situation of the UIS

Before the 2008 reform, the public employment service in France was split between two entities:

- The National Employment Agency (ANPE), a public agency, which acted as an intermediary between employers (who submitted job offers) and the unemployed (who consulted the job offers); and
- Unedic, which was in charge of the UIS, which notably encompassed the payment of benefits and the collection of contributions through a network of operating local entities, Association pour l'emploi dans l'industrie et le commerce (Assedic).

The reform organized the merging of ANPE and Assedic and created a national public institution, Pôle Emploi. Pôle Emploi provides, on behalf of Unedic, the payment of the unemployment insurance benefits and temporarily ensures the collection of contributions. Indeed, from Jan. 1, 2011, collection of contributions should be transferred to ACOSS. Standard & Poor's views these changes positively, as they could enhance the efficiency of collection of contributions. As Pôle Emploi acts on behalf of Unedic on some missions, Unedic contributes to Pôle Emploi's budget for an amount representing a fixed 10% of the contributions collected the previous year (€3 billion in 2010).

Following the 2008 reform, Unedic remains in charge of the definition of the key characteristics of the UIS including contributions rates, eligibility criteria, and benefits levels. Unedic remains also responsible for the UIS' financial situation and its cash flow management.

Integral Link With France: The State Is Ultimately Responsible For Unedic's Functioning And Funding And The Continuity Of The UIS

Strong state supervision despite a private status

Unedic was created in 1958 as a common law association. Its governance has not changed since 1958 and remains split equally between labor unions and employers' representatives, in accordance with the French concept of "paritarisme". Practically, Unedic's committee comprises employees and employers' representatives in equal numbers. The committee is responsible for Unedic's internal regulation and the rules related to benefits. Every two

years, the committee nominates a board of 10 members, which appoints Unedic's director. By practice, the presidency of the committee rotates every two years between employers and employees' representatives.

Despite this governance by employers' and employees' representatives, Unedic is on an ongoing basis under strong and broad supervision by the state. A state controlling agent attends every meeting of Unedic's committee. Moreover, the state has the last word in Unedic's functioning and funding. Indeed, although Unedic is governed by multiyear agreement contracts signed by the labor unions and employers' representatives, these agreements must be ultimately approved by the state. Though this never happened from 1958, the state can also take control of Unedic when:

- Employers and employees' representatives cannot agree on a new multiyear agreement contract; or
- The state disagrees with the social partners. The state then proposes a new strategy, as it did in 1992, when it disagreed with a proposed increase in contributions rates. If Unedic's committee decides not to implement the state's alternative strategy, it resigns, and the state takes control of Unedic.

If the state was to take control of Unedic, it would do it through a state public agency, *Etablissement public administratif d'Etat* (EPA), and would consequently implicitly guarantee the solvency and liquidity of the EPA.

A track record of state support that we expect to be reiterated in 2011 due to the unclear legal framework on bond issuances for associations

There is no formal framework predetermining state support toward Unedic. As a private entity, Unedic does not benefit in law from the implicit state guarantee on its solvency and liquidity that state public agencies enjoy such as ACOSS and *Caisse d'Amortissement de la Dette Sociale* (AAA/Stable/A-1+). In principle, it could be declared bankrupt and it would be easier to dissolve than a public entity.

However, as the cornerstone of the UIS, Unedic has historically benefited from strong state support in the past, notably through guarantees on its bond issues. As a recent example, the state agreed to take two measures in order to shore up Unedic's finances in the wake of the deterioration of 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. At that time, it also guaranteed Unedic's €4 billion bond issue. Second, in December 2004, it agreed to guarantee a new €2.2 billion five-year Unedic bond aimed at financing the unexpected expenditure faced by Unedic in 2004-2005.

In our view, this track record of government support to Unedic and the specific framework within which it operates mitigate the fact that, as a private entity, Unedic does not benefit by law from the implicit state guarantee on its solvency and liquidity deriving from the status of state public agency.

Because of the unclear legal framework on bond issuances for associations, we expect the state to explicitly guarantee Unedic's bond issuances in 2011, which would thereby secure Unedic's funding throughout the year. The potential legal impediment stems from the article L 213-15 of the Financial and Monetary Code, which could prevent Unedic from issuing bonds or prompt a risk of early redemptions for the bonds to be issued from 2010 (article L 213-15 does not affect the bond issued in 2009). The amended finance bill for 2010 includes the ability for the Minister of Economy to explicitly guarantee Unedic's bond issuances in 2011 up to €7.5 billion. As for Unedic's bond issuances in 2003 and 2004, we expect the guaranteed bonds to be explicitly exempt by law from the article L 231-15 of the Financial and monetary Code. In addition, we expect that in 2011 the central government will clarify the legal framework on bond issuances for associations.

Financial Performance Is Closely Correlated To Employment And The UIS' Policies

The economic slowdown highly affected budgetary performance

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 (97% of revenues). Similarly, the main unemployment benefit ("Allocation de retour à l'emploi") payable to the unemployed constitute the lion's share of Unedic's expenditures (about 77% of total paid benefits).

When an employee loses his or her job, there is a double negative impact for Unedic's finances as additional benefits are paid and contributions decrease. In general, and supposing the main characteristics of the current multiyear agreement do not change, about nine contributor's payments are necessary to ensure unemployment benefits for a single job seeker.

Following the economic slowdown, the number of eligible unemployed receiving benefits rose to 2.15 million on Dec. 31, 2009, from 1.8 million on Dec. 31, 2008. As a consequence, unemployment insurance benefits paid rose by 23% in 2009 while contributions remained almost stable. This translated into an annual deficit of €1.2 billion in 2009 after three years of surpluses (including an annual peak at €5 billion in 2008).

Net debt amounted to €5.9 billion at the end of 2009 and we expect it to reach about €8.5 billion on Dec. 31, 2010. Assuming no major change occurs in the next agreement contract to be renewed in 2011, Unedic's net debt could reach €12.5 billion by Dec. 31, 2012.

Multiyear agreements contracts affect profits and losses

The evolution of the financial performance of the UIS depends also on the eligibility criteria, the contributions rates, and the level of benefits.

Unedic adopted a new convention covering the period 2009-2011 in early 2009 with a stabilization of the contribution rate to 6.4% of gross salaries (4% paid by employers and 2.4% by employees). 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. Each day worked allows for one day of benefits.

The recent reform of pensions that was passed in November 2010 could in the medium term negatively affect Unedic's accounts. As the legal age of retirement will progressively increase, we understand this will bear on Unedic in both its revenues (workers contributing for a longer period) and its expenditure (people could remain unemployed for a longer period of time before retiring). According to Unedic, the net negative impact is expected to reach €200 million in 2015 and then increase to an annual negative gap between €400 million and €500 million.

Debt And Liquidity

In 2009, in recognition of its increased medium-term financing needs, Unedic has launched a €12 billion EMTN program and expanded its French CP program to €6 billion from €3 billion.

We view Unedic's liquidity policy as adequate. Its back-up liquidity for the CP program includes:

- Dedicated bank back-up credit lines for €3 billion;
- A marketable securities cushion. If outstanding CP is above €3 billion, Unedic is committed by a gentlemen's agreement to maintain a cushion of marketable securities (rated 'AAA' or equivalent by a rating agency) representing one-third of the surplus. For example, in June 2010, outstanding CP amounted to €4.4 billion. Unedic's commitment was therefore to keep at least one-third of €1.4 billion in marketable securities, which was then the case as marketable securities amounted to €1 billion); and
- Uncommitted bank overdraft facilities that can reach up to €1.5 billion.

At the end of 2009, €8.9 billion of Unedic's financial debt (net debt of €5.9 billion) consisted of the guaranteed five-year €2.2 billion bond issued in February 2005, which matured in February 2010 and the €4 billion bond issued in December 2009, under its EMTN program. A further €2.6 billion consisted of Unedic's French CP (Billets de Trésorerie) program, and €0.1 billion stemmed from bank overdraft facilities and accrued interest.

Given the legal issue on bond issuances for associations, Unedic will not issue a bond, as planned, in the last months of 2010. We expect the state to explicitly guarantee a first bond issuance at the beginning of 2011. The amended finance bill for 2010 includes the ability for the Minister of Economy to explicitly guarantee Unedic's bond issuances in 2011 up to €7.5 billion. In between, in order to cover its financing needs from November 2010 to end of April 2011, Unedic will use its CP program up to its ceiling and has contracted a €3 billion short-term revolving bridge loan that is extended until April 30, 2011.

At year-end 2011, we expect Unedic's financial liabilities to amount to about €11 billion.

Table 1

Unedic Profits And Losses					
(Mil. €)	2009	2008	2007	2006	2005
Technical revenues	30,886.4	30,636.3	29,843.2	28,733.9	27,229.7
Of which contributions	30,562.3	30,339.4	29,536.3	28,351.1	26,708.4
Technical expenditures	31,884.2	24,342.4	24,301.8	25,893.7	28,046.7
A. Technical result	(997.8)	6,293.9	5,541.4	2,840.2	(817.0)
Administrative revenues	121.5	424.4	192.1	196.6	203.8
Administrative expenditures	167.9	1,483.1	1,582.8	1,546.8	1,519.4
Of which external services	52.0	543.6	528.4	499.6	496.2
Of which wages	27.3	757.7	848.4	825.3	808.8
B. Administrative result	(46.3)	(1,058.7)	(1,390.7)	(1,350.2)	(1,315.6)
Financial revenues	2.4	13.5	0.0	0.0	0.0
Financial expenditures	118.0	277.8	424.0	417.2	346.3
C. Financial result	(115.6)	(264.3)	(424.0)	(417.2)	(346.3)
D. Current result (A+B+C)	(1,192.9)	4,970.8	3,726.7	1,072.8	(2,478.9)
E. Exceptional result	27.4	3.6	1.6	452.8	4.1

Table 1

Unedic Profits And Losses (cont.)					
F. Net result (D+E)	(1,165.4)	4,974.4	3,728.3	1,525.6	(2,474.8)
Accumulated earnings	(5,903.4)	(4,737.9)	(9,712.3)	(13,440.6)	(14,966.2)

Source: Unedic's financial statements.

Table 2

Unedic Balance Sheet					
(Mil. €)	2009	2008	2007	2006	2005
Fixed assets	464.0	554.9	588.2	608.8	632.8
Operating receivables	4,551.6	4,322.5	4,240.5	4,181.2	4,154.2
Marketable securities	3,265.2	357.2	0.0	0.0	0.0
Cash	12.7	37.4	25.3	23.9	14.7
Accruals	3.3	25.8	35.7	29.2	28.1
Other	16.6	0.9	4.8	11.2	19.0
A. Total assets	8,313.4	5,298.7	4,894.5	4,854.3	4,848.8
Provisions	33.0	43.9	237.7	249.1	253.8
Borrowings	8,942.5	5,352.7	9,416.9	12,847.6	13,222.5
Of which bonds	6,266.6	2,260.2	6,300.5	7,311.0	7,309.4
Of which commercial paper	2,625.0	3,000.0	2,870.0	3,000.0	2,500.0
Other payables	5,220.2	4,618.9	4,928.8	5,175.0	6,335.5
Accruals	21.1	21.1	23.4	23.2	3.2
B. Liabilities (excluding net worth)	14,216.8	10,036.6	14,606.8	18,294.9	19,815.0
C. Net worth	(5,903.4)	(4,737.9)	(9,712.3)	(13,440.6)	(14,966.2)
Retained earnings	(4,738.0)	(9,712.3)	(13,440.6)	(14,966.2)	(12,491.4)
Net result (profit and loss)	(1,165.4)	4,974.4	3,728.3	1,525.6	(2,474.8)
Total liabilities (B+C)	8,313.4	5,298.7	4,894.5	4,854.3	4,848.8

Source: Unedic's financial statements.

Related Criteria And Research

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of December 28, 2010)*

Unedic

Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured (2 Issues)	AAA

Issuer Credit Ratings History

07-Aug-2009	Foreign Currency	AAA/Stable/A-1+
07-Aug-2009		--/--/A-1+
07-Aug-2009	Local Currency	AAA/Stable/A-1+
06-Jan-2004		--/--/A-1+

Ratings Detail (As Of December 28, 2010)* (cont.)

*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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