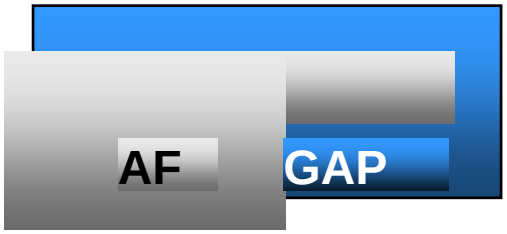


Corporate’s Liquidity

All observations are based on information and opinions provided by corporates through written responses to a survey.
The following review focusses on 10 to 12 large corporates.

Summary

PART I : Day to day liquidity management

- The optimization of Cash Management
- The improvement of cash forecasts

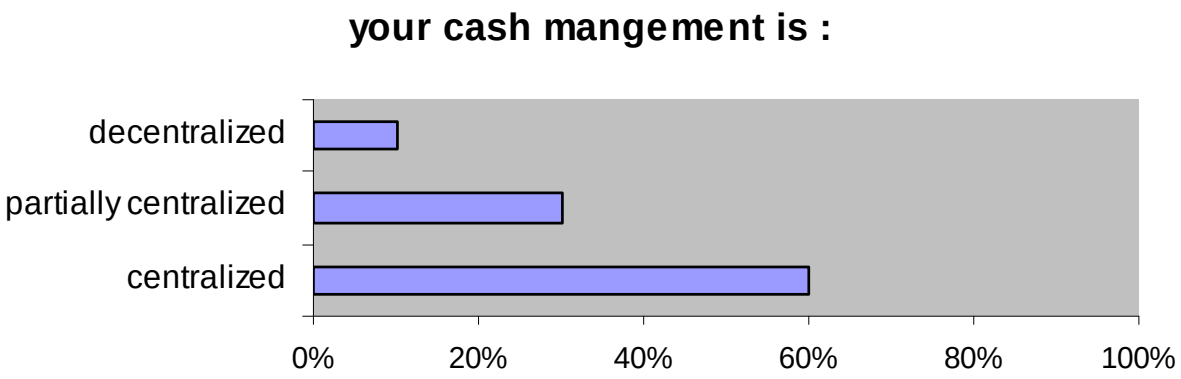
PART II : Measure of liquidity risk

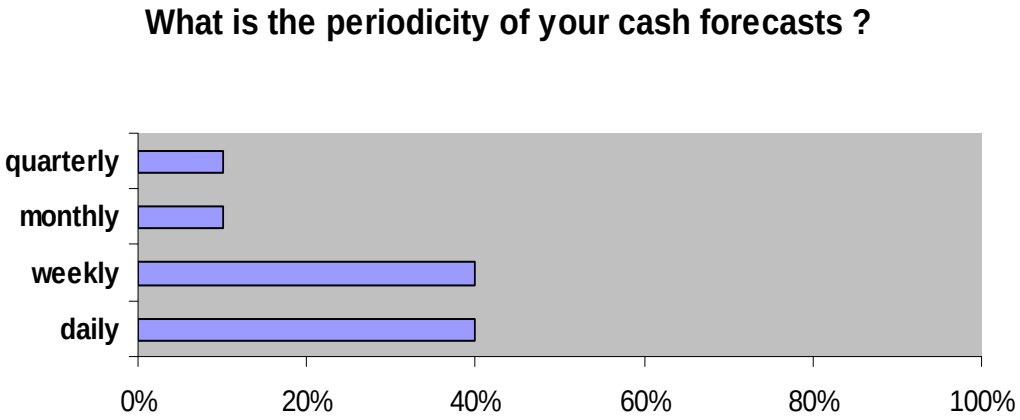
- Control entities
- Analysis measures

PART III : Liquidity crisis

- scénarios tested
- contingency plan

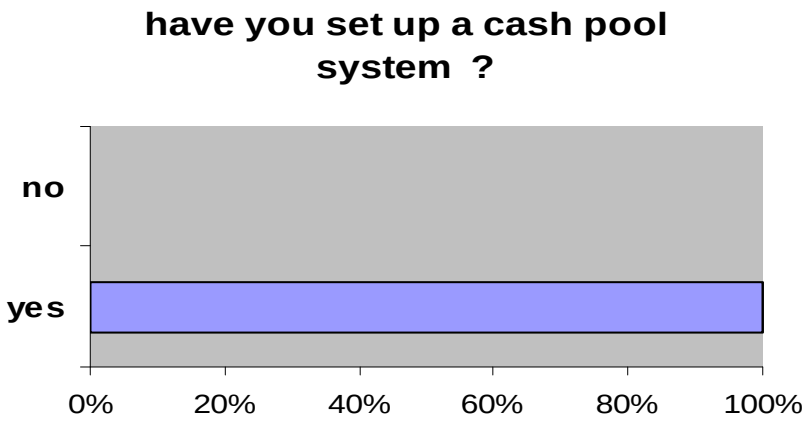
Part I : Day to day cash management : cash optimization

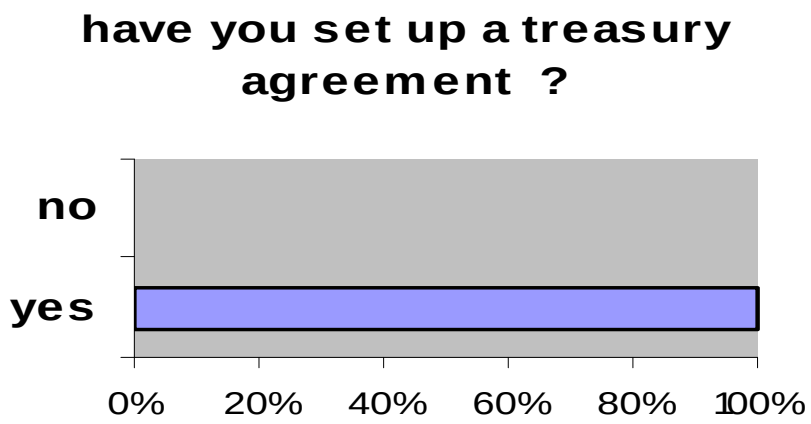


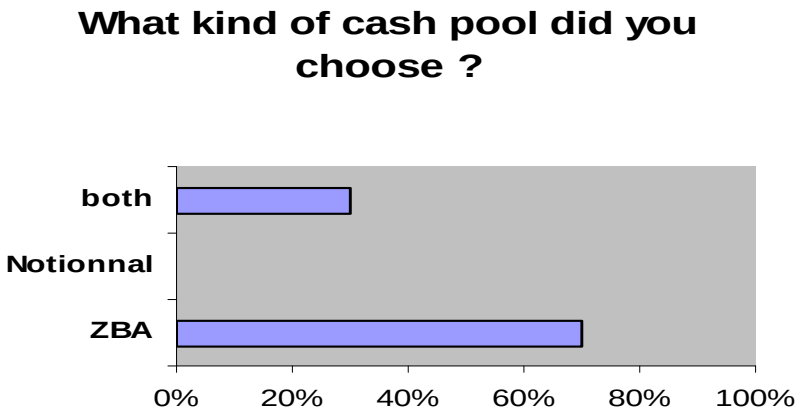


- The consulted corporates have a centralized management of their cash.
- Their forecasts are mainly on a daily or weekly basis.

Part I : Day to day cash management : cash optimization

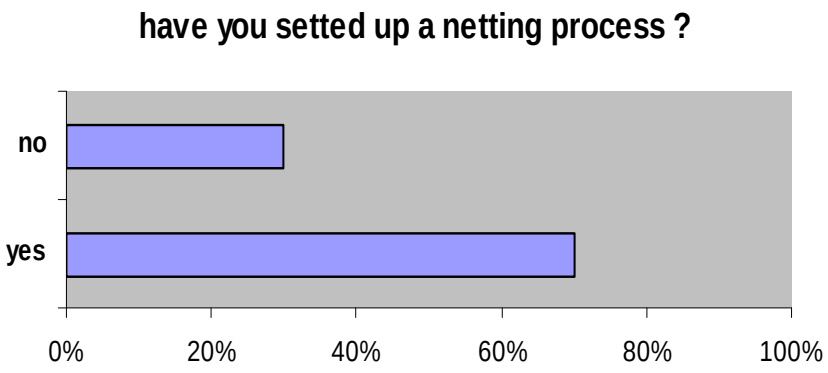


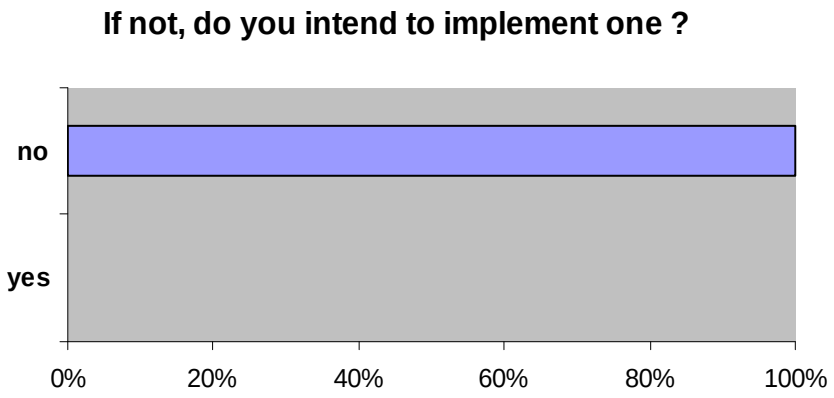


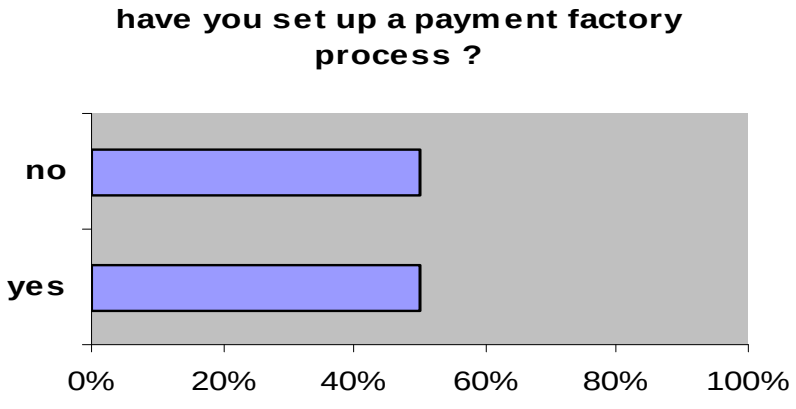


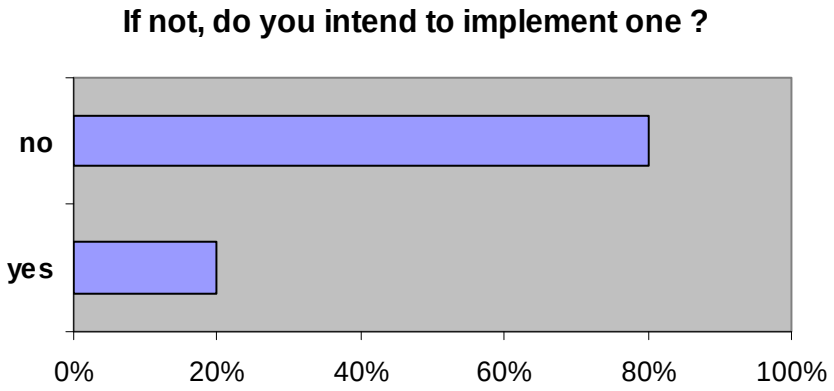
- The optimization of cash management is the main concern for corporates
- The most frequent cash pool used is the ZBA.

Part I : Day to day cash management : cash optimization



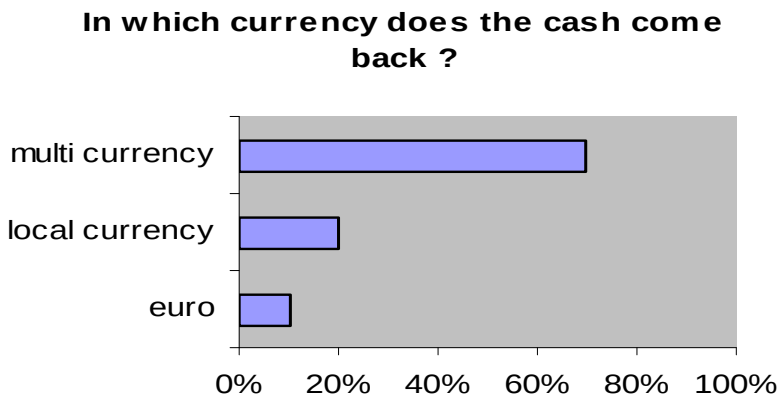


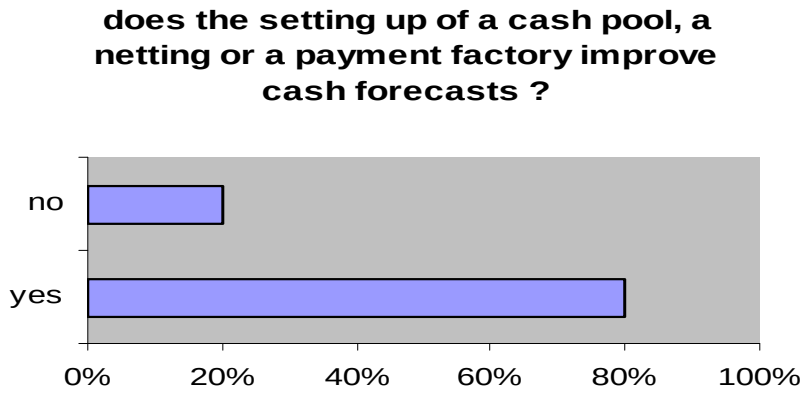


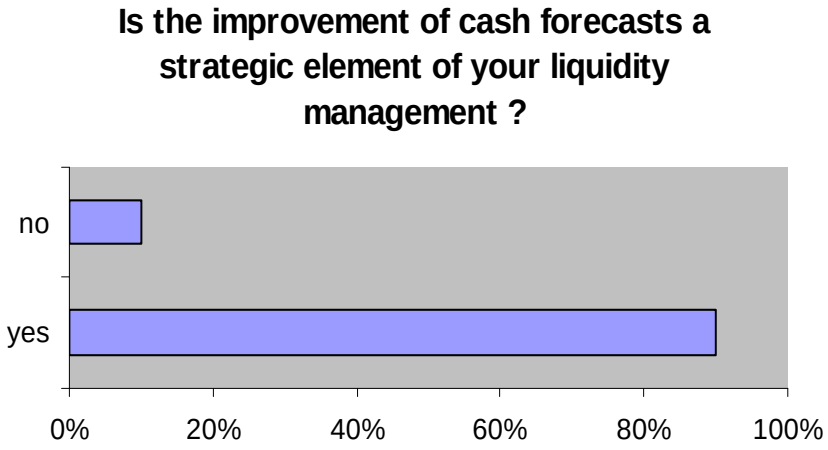


- Netting is henceforth a standard process.
- The payment factory is more recent and remains to be developped.

Part I : Day to day cash management : The improvement of cash forecasts







- The improvement of cash forecasts is a strategic element for corporates.
- The centralization and the set up of a cash pool, a netting…. Improve the forecasts quality.

Part I : Day to Day Cash Management : A sum-up

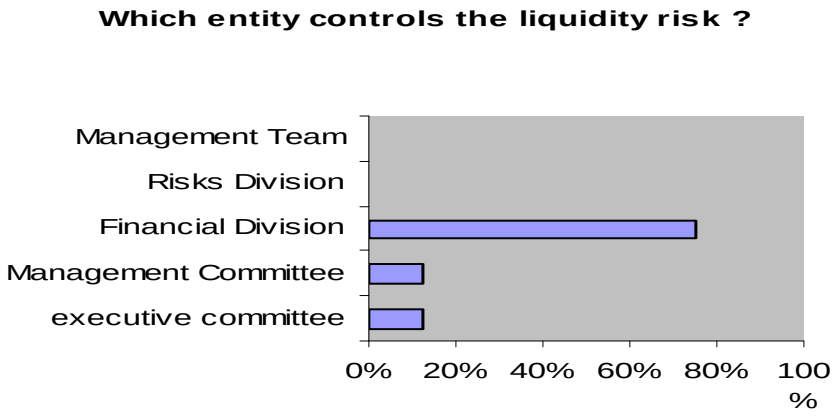
Conclusions Section I :

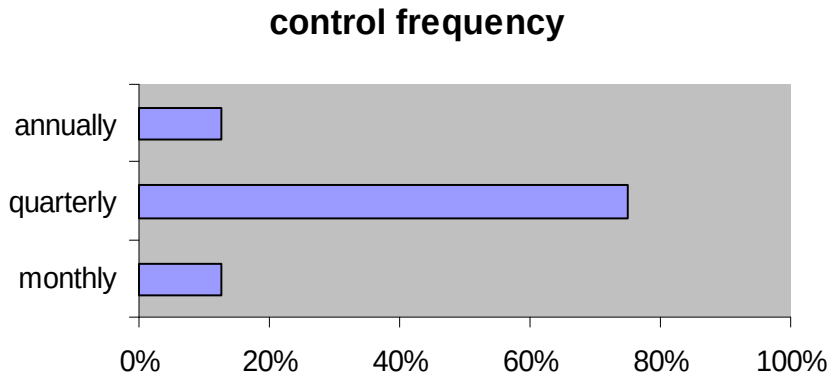
- The first step of the modernization of the treasury management tools concerned the setting up of the treasury agreement between the parent company and their subsidiaries and the cash pool process.
- Secondly the corporates have looked for the rationalization of their organisation. The survey shows that corporates which have wanted to implement a netting process have already done it.
- The implementation of a payment factory is in progress among the largest companies.
- Those technical cash management tools have enable them to improve cash forecasts, strategical element for 90% of consulted corporates.

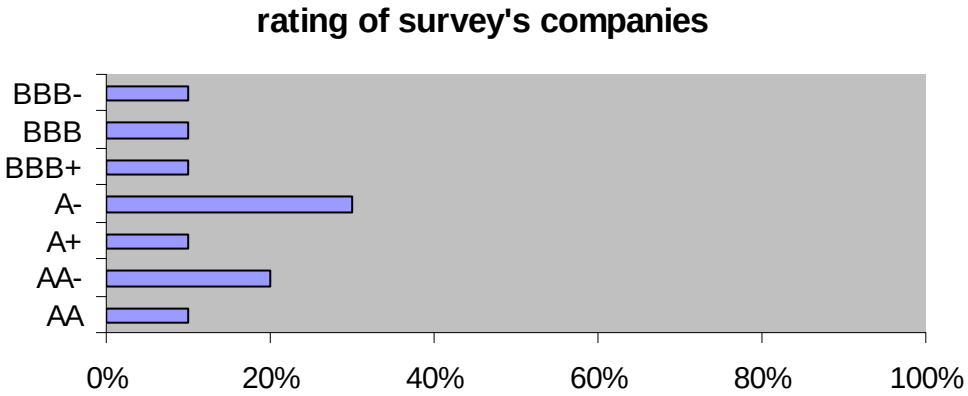
Définitions :

- The central Treasury often plays the role of an internal bank. The netting enables both the dematerialization of internal payment and avoids the intra-group reconciliation. It contributes to the improvement of cash forecasts and cash management.
- The payment factory is the system which enables the Central Treasury to pay for all the subsidiaries of the group (at least a common payment platform) is a further step of centralization of the cash management.

Part II : Measure of liquidity risk : control framework

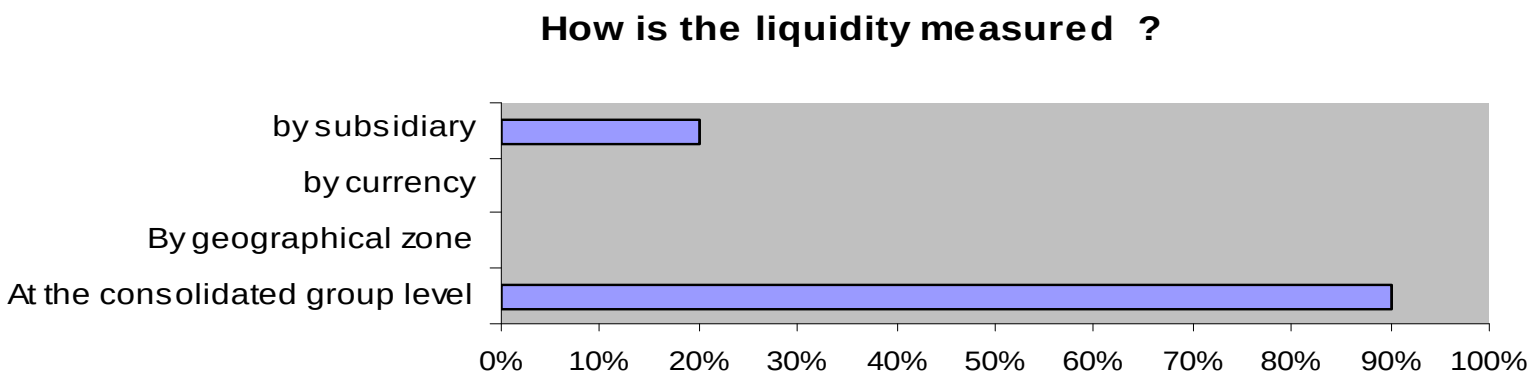


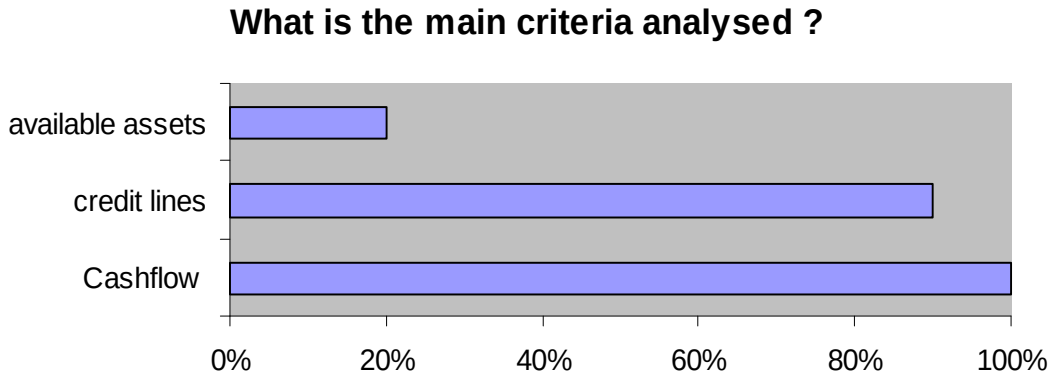




- The Financial division is the entity the most often involved in the liquidity risk control, the frequency of meetings is mostly quarterly.

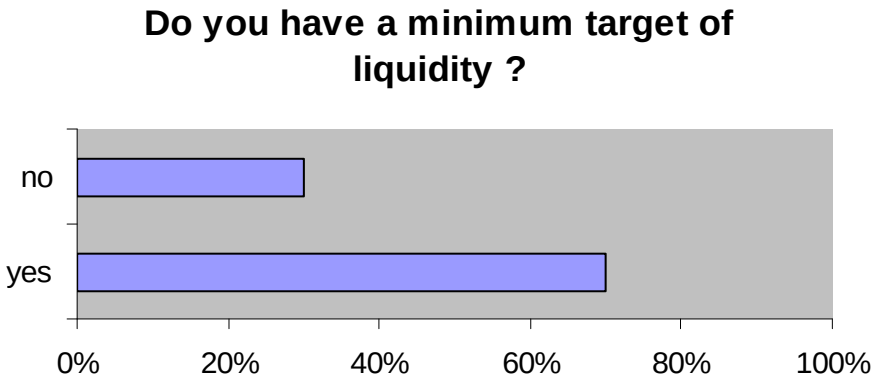
Part II : Measure of liquidity risk : the criteria of analysis

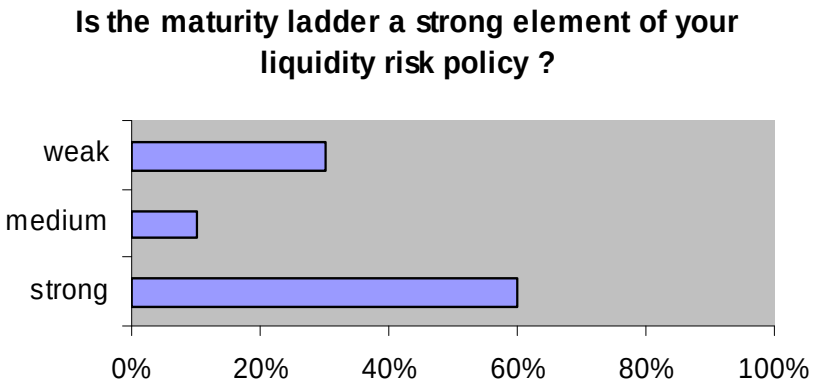


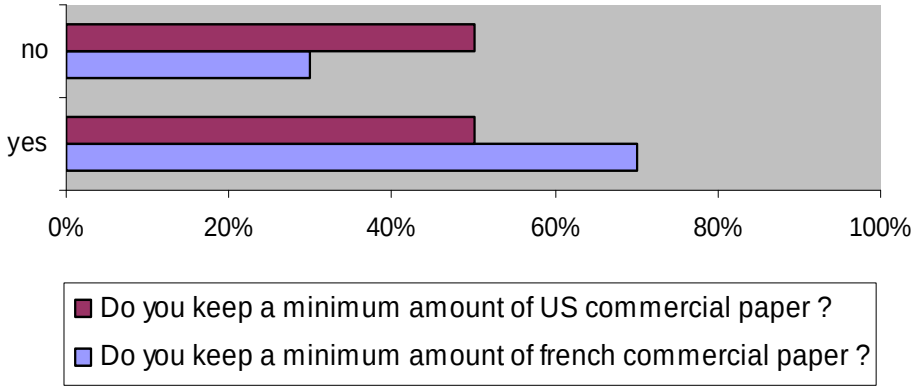


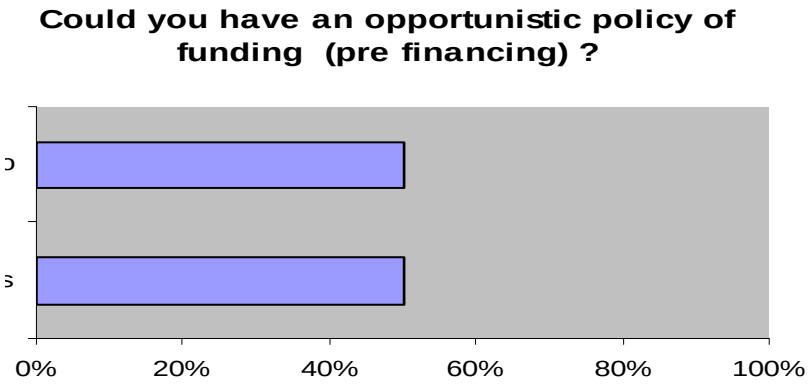
- The liquidity risk is analysed at the group level.
- Cash flow and credit lines are the main criteria followed.

Part II : Measure of liquidity risk : the criteria of analysis



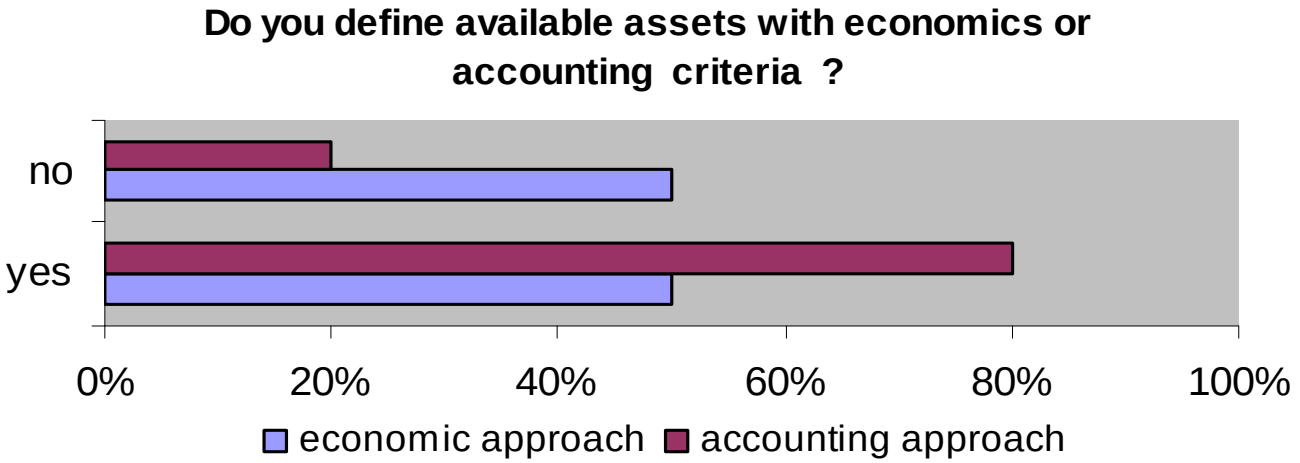


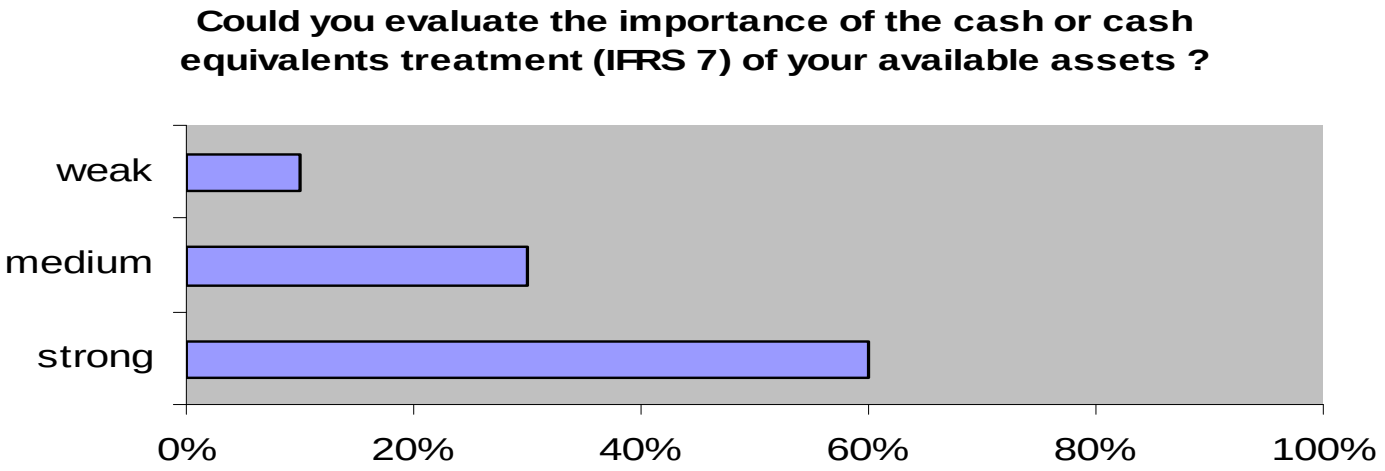




- 70% of consulted corporates have a minimum liquidity target.
- 60% consider important the fact that debt maturities must be spread consistently (those which answered no to this question are rather cash rich)
- A majority assumes a minimum presence in the commercial paper market
- Half of panel can have an opportunistic policy of funding (more if cash rich corporates were excluded of the panel)

Part II : Measure of liquidity risk : the criteria of analysis

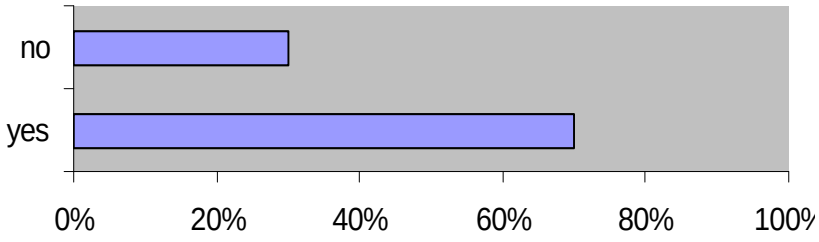




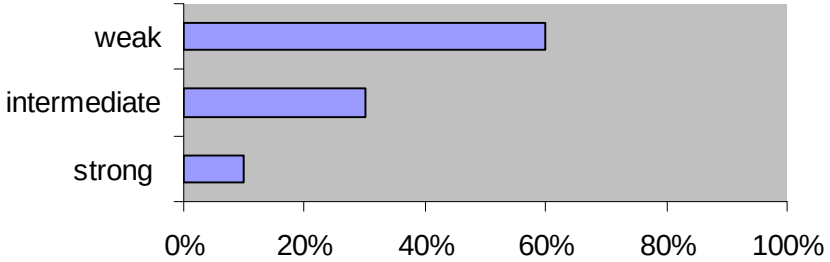
- The corporates have an accounting approach of their cash
- The corporates take IFRS 7 into consideration for the definition of available cash

Part II : Measure of liquidity risk : the criteria of analysis

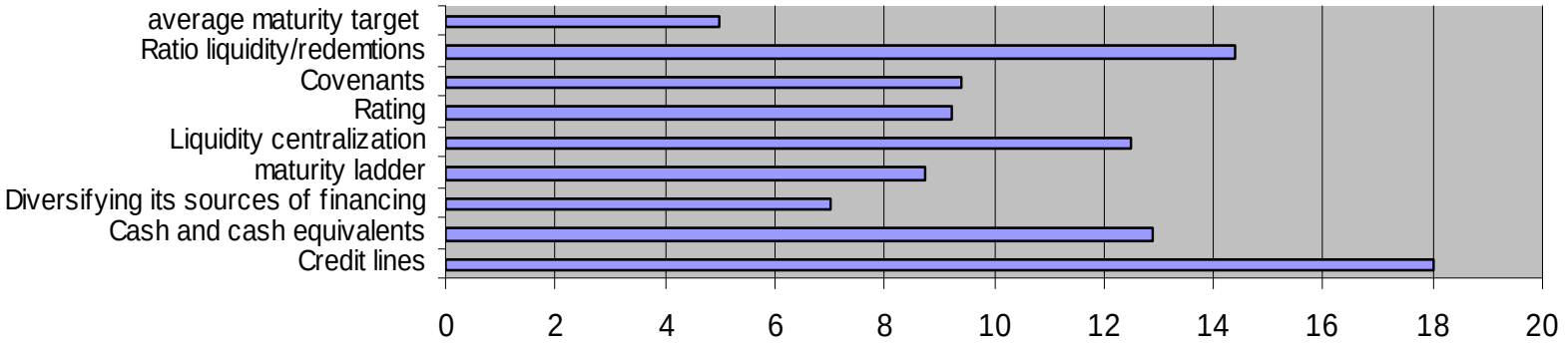
Do you intend to develop your liquidity risk management in your consolidated financial statements ?



Do you think that Basle II could influence your liquidity risk ?



Could you evaluate between 0 and 20 these criteria ?



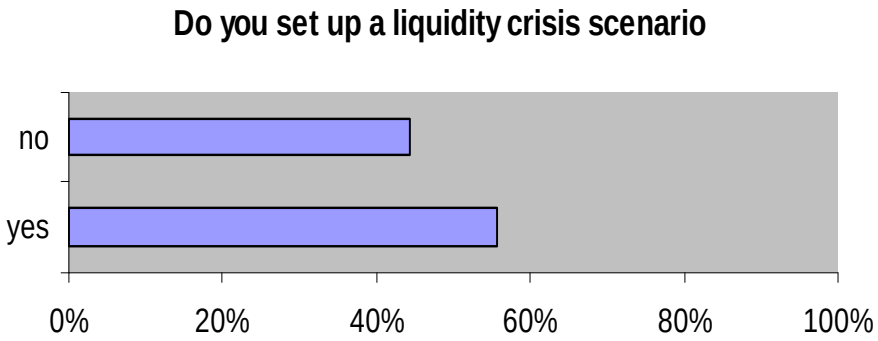
- Corporates wish to break down in their consolidated financial statements their liquidity risk
- They don’t think Basle II Will influence their liquidity risk
- Credit lines and cash are the main criteria taken into consideration.

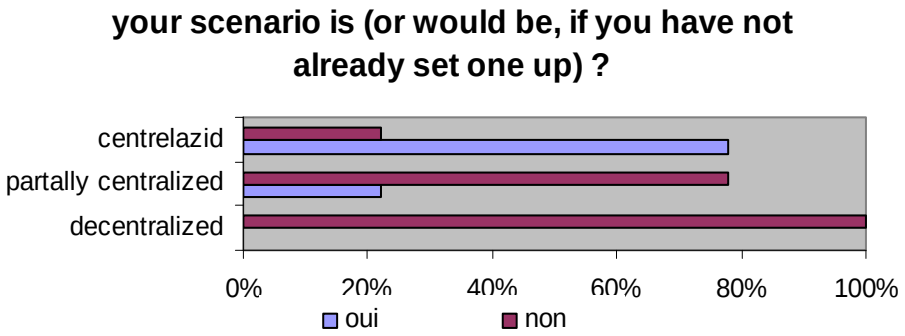
Part II : Measure of liquidity risk : a sum up

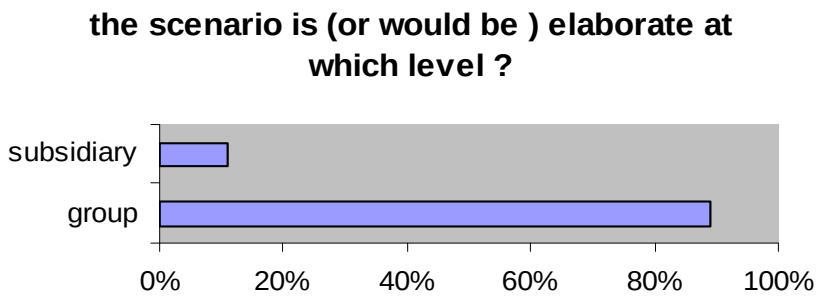
Conclusions Part II :

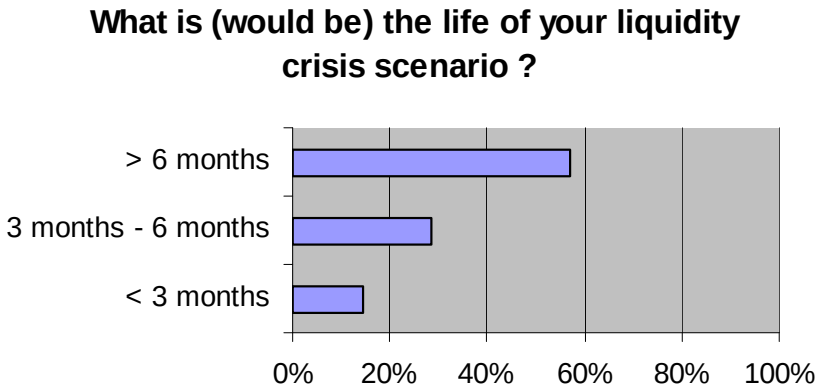
- The liquidity risk is, most of the time, measured quarterly by financial divisions at the group level.
- Corporates focused their analysis on the following two elements : cash and credit lines
  - The cash flow is a strategic element of corporate's policy
  - Corporates often have a target of a minimum amount of cash
  - Credit lines is an essential element of the liquidity risk mangement.
- Influence of IFRS on the liquidity analysis is very important
- Corporates think that Basle II will not change their liquidity risk.

Part III : Liquidity crisis





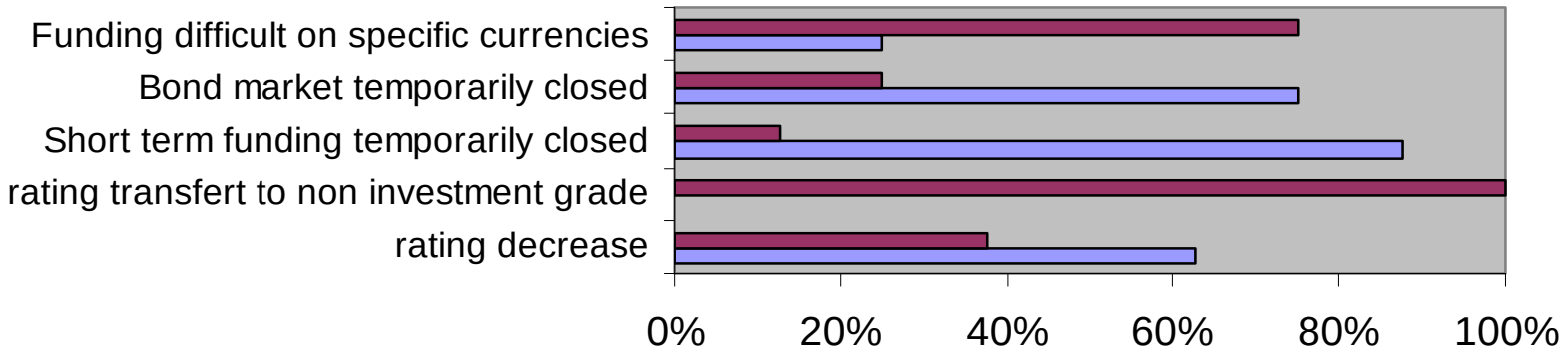




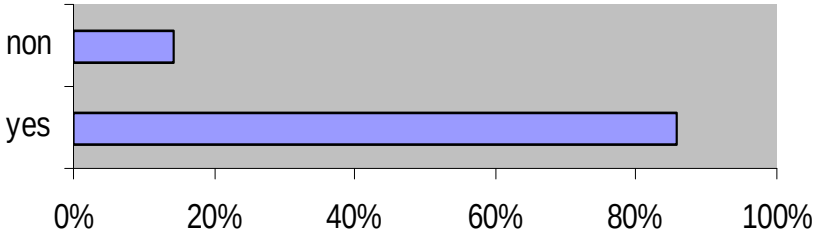
- Liquidity crisis scenarios are built at the group level, it proves the centralization of corporates treasuries during the past ten years.

Part III : The liquidity crisis

What kind of scenarios would you test ?



Do you set up any contingency plan ?



Classify by order of importance actions planed in case of a liquidity crisis

1 - to draw the back-up lines
2 - cross border transfers
3 - action on the working capital
4 - securitization
5 - sell of assets
6 - Capital increase

- Downgrading, short and long term markets temporarily closed are the main scenarios.
- The corporates don't consider the worst (going to non investment grade) in their scenarios
- The contingency plan set up is focused on the use of back-up credit lines and internal ressources liquidation.

Partie III : The liquidity crisis

Conclusions Part III :

- A majority of corporates set up liquidity crisis scenarios at the group level.
- The average life of the liquidity crisis is 6 months.
- The scenarios prefered are :
  - Short term markets (BT, USCP, ECP) and long term (bond market) temporarily closed.
  - Rating downgraded.
- The contingency plan is focused on credit facilities and the internal cash generation.

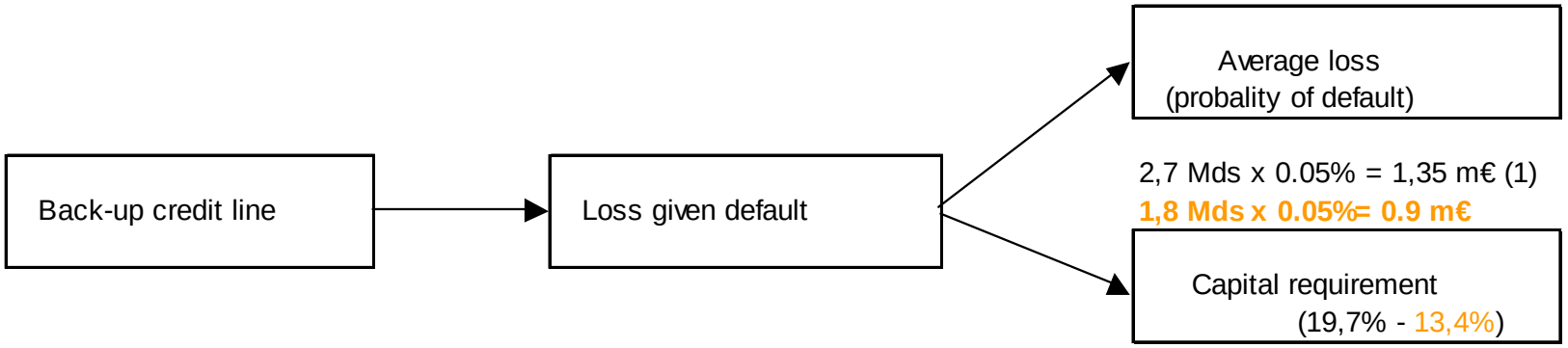
Apendix 1 : RAROC on the back-up syndicated credit line of France Télécom

- In June 2005, France Télécom negociated a € 8bn back-up syndicated credit line with a 7-year maturity and a level of commitment fees of 4,25bp (rating = A-).
- These fees are very similar to those FT obtained in June 1997 on a $ 1,4bn 7-year sundicated credit line (4,50bp of commitment fees) but the company were rated AA+.
- Some companies draw on these lines instead of issuing on the bond market, thanks to the better condition on credit market compared to those on the bond market.

- In general, the corporates don't think that Basle II could change their market conditions.
- As most companies has refinanced their credit facilities in 2005 and 2006 with new facilities with a 7 year maturity, companies will have to be very cautious in 2011, when they discuss with banks about their credit facilities renegociation.

Appendix 1: RAROC on the back-up syndicated credit line of France Telecom

- With the « IRB » approach or « **advanced IRB** » we obtain the following results :



75% x 8 Mds € = 6 Mds €
(75% is given by Basle II
the line is defined as back-up line)

6 Mds x 45% = 2,7 Mds €

6 Mds x 30% = 1,8 Mds €

2 700*8%*19,7% = 42.552 M €

1 800 x 8% x 13.4% = 19,296 M€

(1) 5 bp is the probability of a default of a company rated A- (S&P)

	advanced IRB	IRB
Yield (1)	3 400 000	3 400 000
Costs (2)	-1 360 000	-1 360 000
Gross margin	2 040 000	2 040 000
Losses (3)	-925 000	-1 350 000
Yield on capital requirement (4)	771 840	1 702 080
net margin before taxes	1 886 840	2 392 080
taxes	-641 526	-813 307
Net margin after taxes	1 245 314	1 578 773
Capitale requirement	19 296 000	42 552 000
RAROC	**6.45%**	**3.71%**
(1) 4,25 bp multiplied by euros 8 billions		
(2) costs : estimation of banks expenses		
(3) Losses : avearge losses : (-1.8 x 0.05%) ou (-2.7 x 0.05%)		
(4) yield on capital required : eonia (4%) x capital requirement		

Appendix 2 : Cac 40 companies (without financial companies), as at 31 décember 2005 (millions euros).

	Endettement brut	Trésorerie et équivalent	Endettement net
Accor	3 124	1 763	1 420
Air Liquide	4 396	598	3 740
Alcatel-Lucent	3 798	5 150	-1 352
Alstom (31-03-06)	2 571	1 323	1 248
Arcelor-Mittal	5 902	4 645	1 257
Bouygues	5 389	3 037	2 352
Cap Gemini	1 316	2 221	-905
Carrefour	10 523	3 733	6 790
EADS	5 097	9 575	-4 478
EDF	30 391	11 800	18 591
Essilor	605	658	-53
France Télécom	53 225	4 302	48 923
Gaz de France	5 127	2 119	3 008
Groupe Danone	6 561	2 989	3 572
L'Oréal	2 880	663	2 217
Lafarge	8 840	1 833	7 007
Lagardère	3 210	2 347	863
LVMH	6 389	1 470	4 919
Michelin	4 694	611	4 083
Pernod-Ricard (30-06-06)	6 799	447	6 351
Peugeot	9 124	9 505	-381
PPR	6 484	1 813	4 671
Renault	8 923	6 671	2 252
Saint-Gobain	14 930	2 080	12 850
Sanofi-Aventis	11 175	1 249	9 926
Schneider Electric	3 008	1 382	1 625
STMicroélectronics ($)	1 802	2 027	-225
Suez	25 700	11 900	13 800
Thomson	2 322	996	1 319
Total	17 746	4 652	13 094
Vallourec	510	305	205
Véolia environnement	16 367	2 497	13 870
Vinci	2 118	539	1 579
Vivendi	6 760	3 016	3 744
total	**297 806**	**109 917**	**187 883**

- Cac 40 companies are currently cash rich.
- Their net debt is relatively lowt.
- (from « la lettre du Trésorier march 2007 »)