

*Société Anonyme de Gestion de Stocks de Sécurité*

**Presentation to Investors**

*June 2006*

# Agenda

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- I- SAGESS's Mission at the heart of the France oil reserve system
- II- Company Operational Profile
- III- Financials
- IV- Conclusions and Key Considerations
- V- Summary Terms and Conditions

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**I- SAGESS's Mission at the heart of the France  
oil reserve system**

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## SAGESS' Strategic Mission

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*SAGESS's entrusted with the mission of holding and controlling a major part of France's Strategic Oil Reserves*

- ➔ SAGESS purpose set at its creation (1988) and unchanged by the 1992 Oil Law:
  - ⇒ Tighter control over oil reserves obligation / Availability of supply in case of crisis
  - ⇒ Fair competition in the market / Reduced burden of strategic reserves on operators' balance sheets
- ➔ SAGESS' unique mission consists of stockpiling and managing strategic stocks of crude oil and oil products, the latter being at the disposal of the Government
- ➔ SAGESS' strategic role is at the heart of France' strategic oil reserve system, integrated into a stable and committed International framework for strategic stockpiling (IEA and EU), and set up to minimize oil supply dependency
- ➔ SAGESS is a private corporation (“Société Anonyme”), with private shareholders and management, fulfilling a public duty within an extensive regulatory and State-controlled environment. Three government representatives and a Government Commissioner sit at the Board and Shareholders meetings
- ➔ SAGESS is rated “AAA” (long term) and “A-1+” with stable outlook by S&P
- ➔ SAGESS manages 10.5 MT of oil products - 53 % of the France National reserve obligation – or 2.1 bn€(acquisition cost)

# Strategic Oil Reserves Are Critical for Governments

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## *Ensuring Ongoing State Support for SAGESS*

### International Framework

- 1974 International Energy Agency (IEA) Treaty (OECD agency) with 26 industrialized countries
  - ⇒ Reserves set at 90 days of net imports
- EU directives (December 1968 and amended) and associated controls/reports
  - ⇒ Reserves set at 90 days of domestic consumption

### France Legislation

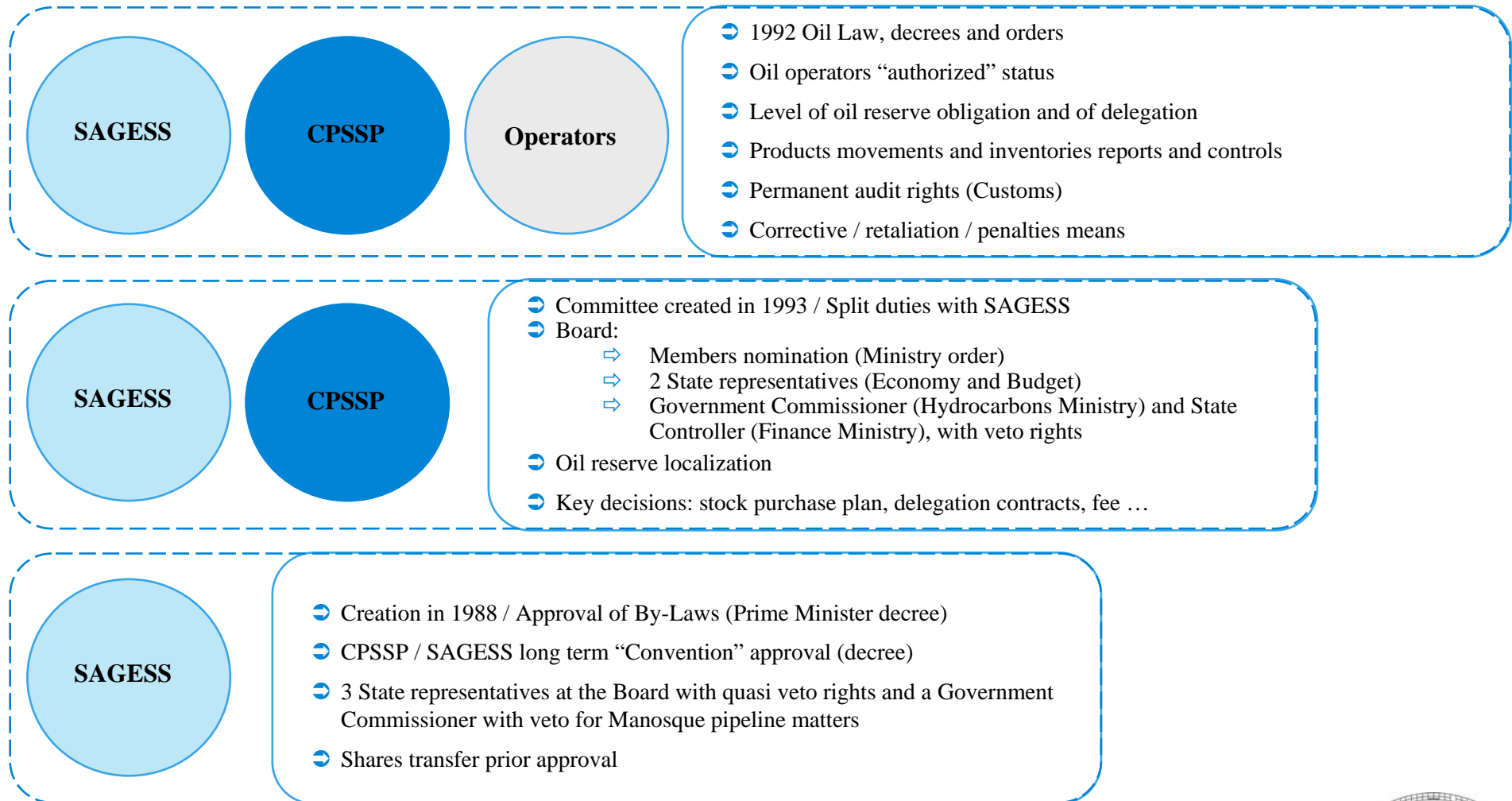
- Strategic oil reserves obligation since 1925
- December 1992 Oil Law, subsequent 1993 decrees and orders
- Reserves set at 27 % (i.e. 98.6 days) of inland consumption, since September 2003

### Reserve Management Systems

- Differences in set up, but all under close State supervision
  - ⇒ Privately held stocks: UK, Italy
  - ⇒ Dedicated “agency”: Germany (EBV)
  - ⇒ Government: USA (DoE), Japan (JOGMEC)
  - ⇒ **Privately held stocks and dedicated “agency”**: Holland (COVA), Ireland (NORA), Denmark (FDO), Switzerland (CARBURA), France (SAGESS), Portugal since 2004

# Strong IEA, EU and France Regulatory Framework Creates Credit Stability

*All components of the system.....under a tight and permanent control of the State*



# Responsibility for France's Reserves Obligation...

...Rests primarily with the oil operators, with a significant and increasing delegation latitude to the central reserve system

## Operators

- ➔ Every oil operator must ensure oil reserve at 27% of the quantities released for inland consumption in the previous year
  - ⇒ Finished petroleum products reserve obligation (17.9 MT as of 1st July 2006)
  - ⇒ 4 product categories: gasoline, distillates, jet fuel, heavy fuel oil
- ➔ Partial delegation of this storage obligation, against fee, to the central reserve system structure (CPSSP / SAGESS)
- ➔ Delegation of 56% or 90 % of obligation and full responsibility on the remainder

### CPSSP

(“Comité Professionnel des Stocks Stratégiques Pétroliers”)

- ➔ Fulfillment of delegated obligation
- ➔ Coverage by additional stocks « lent » by oil operators (tickets) and by SAGESS stocks
- ➔ Key decisions: SAGESS purchase and sale plans, fees from operators to recover system costs
- ➔ Committee without assets or operational activities / Delegation of obligation management to SAGESS
- ➔ Bank guarantee against fee payment default

Long  
term  
“Convention”  
(1)



### SAGESS

(“Société Anonyme de Gestion de Stocks de Sécurité”)

- ➔ Oil reserve management as exclusive object
- ➔ Stocks acquisition, storage and maintenance
- ➔ Management of the whole system (“Convention”)
- ➔ All operating, administrative and debt-servicing costs covered by CPSSP
- ➔ Can only sell upon State formal request
- ➔ Cannot sell at loss

(1) Long term agreement with a 5-year cancellation notice / Convention part of the SAGESS By-Laws, approved by Prime Minister Decree

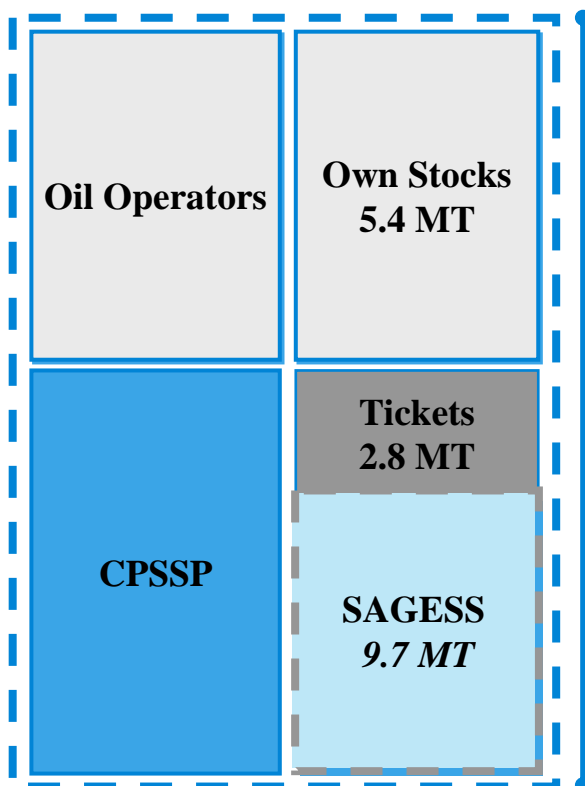
I- SAGESS's Mission at the heart of the France oil reserve system



# SAGESS at the heart of the France Reserve obligation...

...with a growing central coverage and an increasing recourse to SAGESS stocks

## France Obligation Coverage

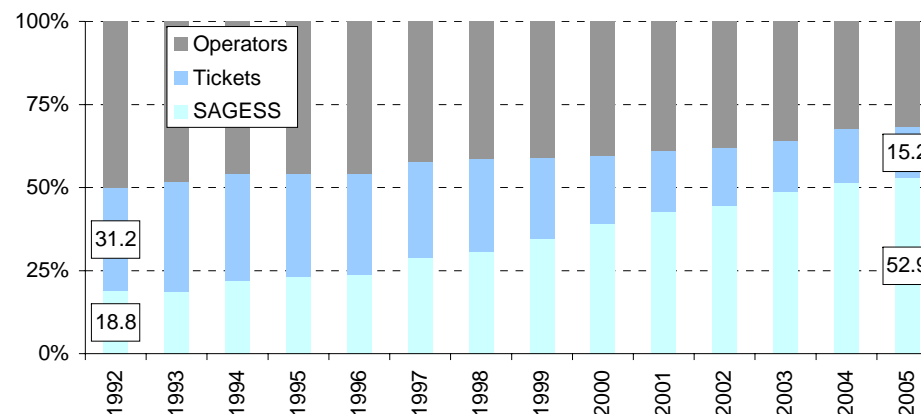


27% of the previous calendar year's volumes released for inland consumption

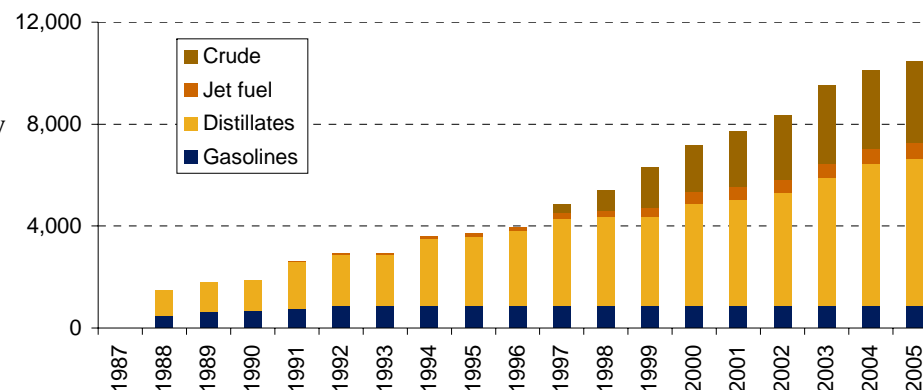
- For each product category
- Gasoline
  - Diesel oil / heating oil
  - Jet fuel
  - Heavy fuel oils

## SAGESS's Increasing Importance

National Obligation Coverage



SAGESS Stocks Evolution (KT)



**France's Obligation Fulfilment: 17.9 MT as of 1st July 2006**

I- SAGESS's Mission at the heart of the France oil reserve system



## Regulatory Stability

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*No foreseeable changes to the oil stockpiling laws that would affect SAGESS's creditworthiness*

- ➔ No known plans to modify the current strategic reserve system
  - ⇒ Stability and criticality of International, EU and National frameworks
  - ⇒ No such change included in the Energy Law, passed by Parliament in 2004
  - ⇒ SAGESS and CPSSP' public service role
  - ⇒ Mission effectively fulfilled at the satisfaction of all stakeholders
  
- ➔ SAGESS' stocks are likely to further increase
  - ⇒ Slight increase in oil products consumption
  - ⇒ Increasing proportion of the operators opting for a 90% delegation
  - ⇒ Decrease in tickets provided by the oil operators as a result of inventory streamlining

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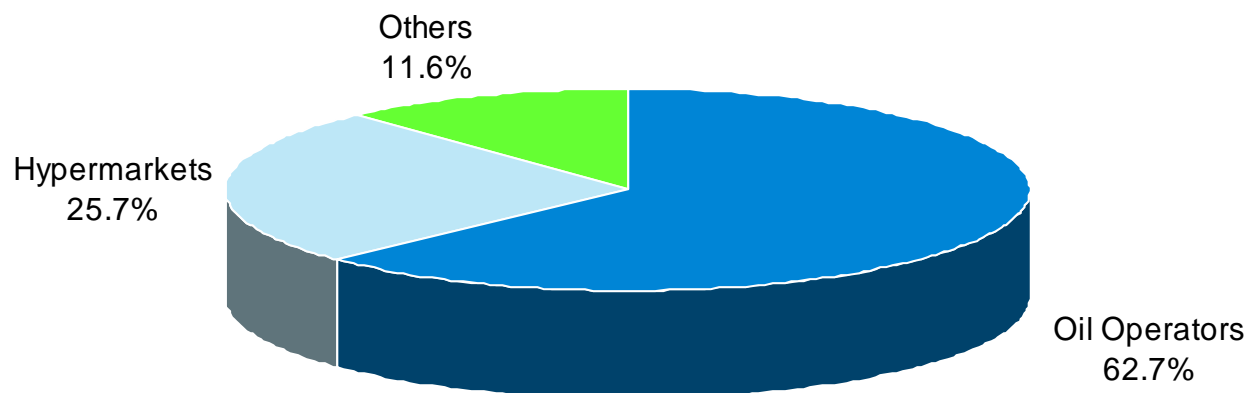
## **II- Company Operating Profile**

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## A Stable and Oil Industry Representative Shareholding Structure

*SAGESS is a private company owned by most of the players in the oil sector*

- ➔ SAGESS is a private corporation (“Société Anonyme”) and has private shareholders and management
- ➔ All SAGESS shareholders must be “customs authorized” oil operators:
  - ➔ International oil companies (TOTAL, ExxonMobil, Shell, BP, AGIP) and their subsidiaries
  - ➔ Hypermarkets (Carrefour, Auchan, Intermarché, Leclerc,..)
  - ➔ Other importers/distributors
  - ➔ 30 shareholders at year-end 2005
  - ➔ Share in capital adjusted annually in proportion of shareholders previous year releases for inland consumption
- ➔ Reserves requirement of SAGESS shareholders at about 95% of France’s obligation at end 2005
- ➔ Shares can be transferred only with the government’s prior approval



## SAGESS' Activities: Oil Stocks

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<b>Stock Acquisition Policy</b>	<ul style="list-style-type: none"><li>➤ Purchases of oil products systematically carried out through a tendering process</li><li>➤ Most oil industry players are invited (refiners, traders, French and International)</li></ul>
<b>Products in Stock</b>	<ul style="list-style-type: none"><li>➤ Stocks are made up of gasolines, diesel oil/heating oil, jet fuel and of crude oil</li><li>➤ Heavy fuel oil tickets cover the CPSSP heavy fuel oil requirements, avoiding recourse to SAGESS</li><li>➤ Crude oil is allowed as a substitute for finished products, up to a maximum substitution allowance, with one ton of crude being considered the equivalent of 0.8 ton of finished product</li></ul>
<b>Storage Policy</b>	<ul style="list-style-type: none"><li>➤ SAGESS is responsible for its storage management</li><li>➤ Localization plan is endorsed by Administration</li><li>➤ Stocks must be kept in France and, subject to the Administration's agreement, abroad</li><li>➤ SAGESS stocks are spread in about 130 third party sites (refineries, depots, Manosque underground salt caverns storage)</li><li>➤ SAGESS only owns one small storage plant of 36 Km<sup>3</sup> in Chasseneuil du Poitou (nearby Poitiers)</li></ul>
<b>Quantity/ Quality Controls</b>	<ul style="list-style-type: none"><li>➤ Product quantities and qualities are regularly checked and stocks are periodically rotated</li><li>➤ Gasoline and diesel oil upgraded in 2003 / 2004 to comply with 1st January 2005 specifications change (reduced sulfur content at 50 ppm maximum)</li><li>➤ Gasoline, Heating oil and Diesel oil upgrade program underway in view of the 2008 (2009 for gasoline and diesel) change in specifications (reduced sulfur content at 10 ppm maximum)</li></ul>

# The “Pipeline SAGESS Manosque” Project

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- ➔ Due to past and projected growth of SAGESS stocks and limited availability of additional above-ground storages, an increasing proportion of products is stored in the salt caverns of Manosque (South East of France)
- ➔ Following State request, all quantities at this site need to be released within 6 months maximum:
  - ⇒ New pipeline needed: Pipeline SAGESS Manosque (124 M€)
  - ⇒ Doubling of the transportation capacity in place between Manosque and Fos-sur-Mer
- ➔ Calendar:
  - ⇒ Council of State approval on March 31st, 2006 / Relevant decrees published
  - ⇒ EPC contractors selected / Detailed engineering completed / Permitting under way / Most construction companies contracted
  - ⇒ Construction to begin mid 2006 / Transfer into operation planned for 2 S 2007
- ➔ The pipeline will be owned by SAGESS. However, the pipeline (and associated facilities) can, if Administration so requests, be sold to CPSSP at net book value.
- ➔ Long term agreements have been signed in 2003 with the owner and operator of the currently existing Manosque storage site and pipeline network, to:
  - ⇒ Have the new pipeline operated within the same logistic organization.
  - ⇒ Secure SAGESS long term storage needs at the Manosque site

# SAGESS is Run by an Experienced Management

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*Long experience in the oil industry*

## Board of Directors and “Comités”

- ➔ The Board of Directors is composed of 12 members from the Oil Industry. Three State representatives attend with consulting and quasi veto rights. One State Commissioner introduced in 2006 with veto right on Manosque pipeline matters
- ➔ A “Comité de Gestion” and a “Comité Financier” assist SAGESS management and the Board in operational and key financial matters respectively
- ➔ SAGESS is periodically audited by auditors of the shareholders

## Experienced Management

- ➔ **CEO Didier Gaffet**, joined SAGESS in April 2006. He was previously responsible of Management Reporting, Information Systems and Internal Control for the refining Division of the TOTAL Group. He spent 23 years working in refineries, and 4 years as head of TOTAL group refining strategy department
- ➔ **General Secretary and CFO Philippe Crevant** joined SAGESS early 2004. He was previously in charge of the ExxonMobil France Controllers Department. He spent more than 30 years with ExxonMobil
- ➔ **Logistics Director Jean-Maurice Léouffre** worked for 22 years for the “Fuel Supply Joint Service of the French Ministry of Defense” before joining SAGESS early 2004. He was previously in charge of logistics and supply of the Med area
- ➔ **Project Manager Jean Thomas** joined SAGESS early 2005. He spent 25 years in the oil industry. He worked for the “Fuel Supply Joint Service of the French Ministry of Defense”, and then for the Hydrocarbons ministry. His previous position was General Manager of Carfuel (the Carrefour group oil subsidiary)

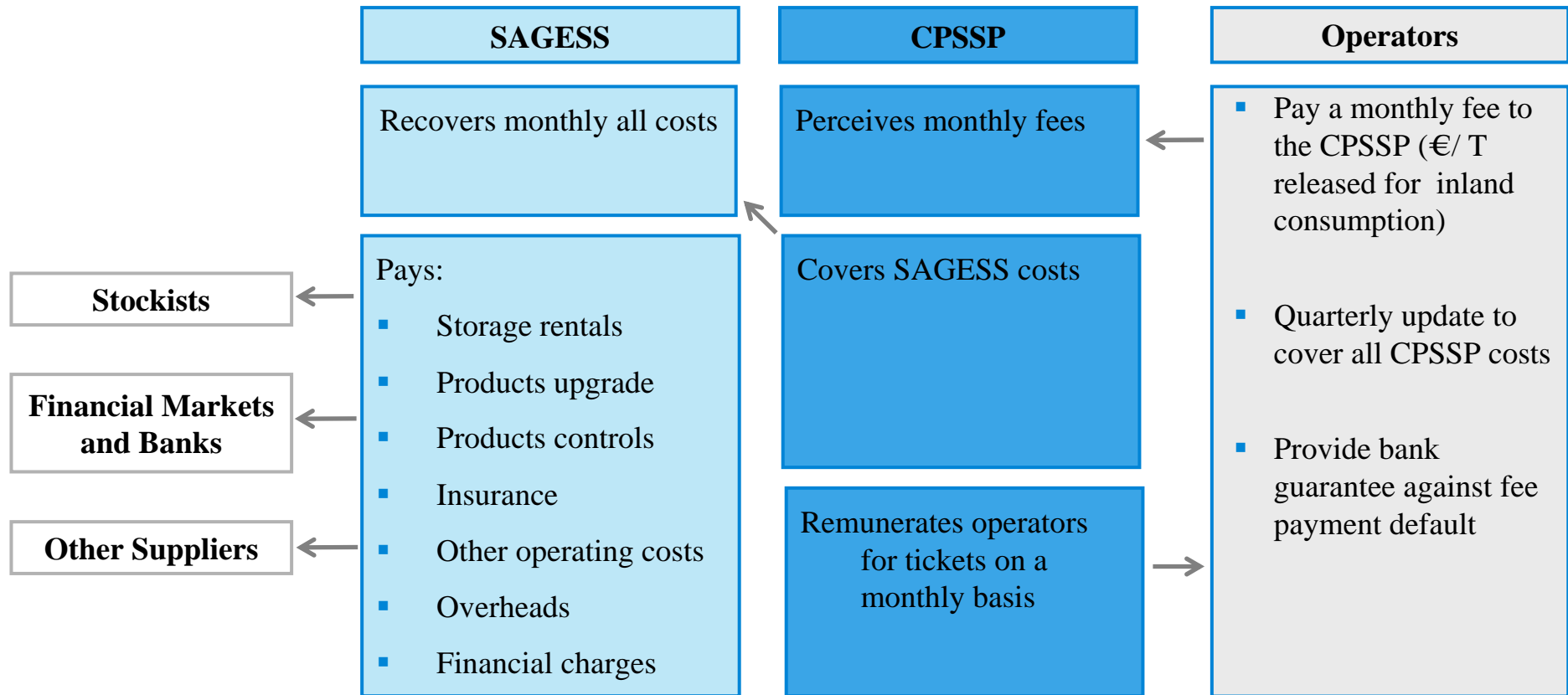
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## **III- Financials**

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# Full Cost Recovery

*SAGESS and CPSSP are by Law self sustaining entities, which set aside any liquidity issue*



## SAGESS Profit & Loss Account

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*SAGESS cannot make a loss and is exempt from corporate taxes*

- ➔ Full cost recovery from CPSSP (Law and CPSSP / SAGESS “Convention”)
- ➔ Stocks booked at acquisition cost and not sold, hence no inventory effect
- ➔ If stocks requested to be sold by government:
  - ⇒ Market price transaction
  - ⇒ SAGESS guaranteed to receive at least the stock weighted average cost
  - ⇒ If market price lower, CPSSP will compensate SAGESS by raising an extra fee from the operators
- ➔ All transactions in €– No derivatives
- ➔ Preferential tax regime – No corporate income tax

(M€)	Year End 2005	Year End 2004
Cost recovery from CPSSP	179.7	185.1
Products storage costs	(130.8)	(137.6)
Other charges	(1.8)	(4.1)
Financial charges	(46.4)	(42.3)
Net Result	0.7	1.1

## SAGESS Summary Balance Sheet

*98% of the total balance sheet are made of stocks financed by borrowings. Stocks are protected against a fall in oil price and are insured*

Assets			Liabilities		
M€	Year End 2005	Year End 2004	M€	Year End 2005	Year End 2004
Total Fixed Assets	10	5	Net Worth and Provisions	1	5
Oil Stocks	2,083	1,918	Borrowings	2,079	1,946
Receivables and others	40	68	Payables and Others	53	40
<b>Total Assets</b>	<b>2,133</b>	<b>1,991</b>	<b>Total Liabilities</b>	<b>2,133</b>	<b>1,991</b>

# SAGESS' Financial Strategy is Highly Transparent and Accountable

*SAGESS' financial strategy is reassessed and reviewed by the Board on an annual basis*

## Objectives

- Raise funds at competitive cost when needed to finance the stocks and the assets
- No risk taking with a majority of funds from medium and long term borrowings
- Staggered maturities
- Diversification of funding sources
- Flexibility

## Current Debt Structure

- Bonds, banks loans, commercial paper (in addition to shareholders' and CPSSP's loans amounting to 61M€)
- Majority of long term debt
- No liquidity issues: €750 m commercial paper program, CP back-up lines with five banks equivalent to one month's CP redemptions

## Stock Evolution

- Borrowings follow the evolution of the stocks

## Risk Management

- Short term floating rate debt policy
- No exposure to dollar or oil price
- SAGESS does not use derivatives except for swaps of new bond issues (Board prior approval)
- Periodic insurance risk assessment, insurance contracts in place (property products, environment, third party), high limits and limited deductibles. Dedicated PSM project insurance scheme

# Standard & Poor's Ratings

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## *Sustainable “AAA” Rating in the Long Term*

- ➔ Mid 2005, Standard and Poor's confirmed its **“AAA” long-term issuer credit** and its **“A-1+” short-term issuer credit** ratings for SAGESS, with a stable outlook
  - ⇒ The €750 million Commercial Paper program was rated confirmed **“A-1+”** in summer 2005, on the occasion of the renewal and enlargement of the program from €500 million
  
- ➔ *“The ratings reflect the strategic importance of SAGESS to France and its key role in fulfilling France’s legal obligation for stockpiling under EU and International Energy Agency requirements, both of which ensure strong state support. The ratings are also underpinned by SAGESS’ very stable financial performance and strong regulatory framework, which ensures close State supervision and control” – S&P*

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## **IV- Conclusions and Key Considerations**

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# Conclusions and Key Considerations

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- ➔ SAGESS, Société Anonyme de Gestion de Stocks de Sécurité, is a private company in charge of the management of the French strategic oil stock reserves. It is 100%-BIS weighted
- ➔ SAGESS has a “AAA” (long term) and a “A-1+” (short term) rating with stable outlook by S&P
  - ⇒ Renewed each year since January 2001
  - ⇒ Last updated in 2005
- ➔ SAGESS is at the heart of France’s strategic oil reserves system:
  - ⇒ Oil supply and associated oil reserves critical for France
  - ⇒ Legal obligation to stockpile reserves (IEA and EU)
  - ⇒ Tight legislation, support and control of the French State
  - ⇒ No anticipated change in system
- ➔ Stable shareholding structure with most of the oil sector players
- ➔ Company run by an oil business experienced management team
- ➔ Highly transparent financial policy
- ➔ Highly stable and secure cash flows with full recovery of all operating and financial costs, as well as minimal liquidity risk with borrowings financing stocks

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## **V- Summary Terms and Conditions**

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# Summary Terms and Conditions

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*Expected pricing by next week*

<b>Issuer:</b>	SAGESS
<b>Rating:</b>	AAA (S&P)
<b>Size:</b>	€300 million
<b>Maturity:</b>	October 2016
<b>Use of Proceeds:</b>	Debt refinancing and general corporate purposes
<b>Listing:</b>	Luxembourg Stock Exchange
<b>Bookrunners:</b>	Merrill Lynch & Natexis Banques Populaires

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[www.sagess.fr](http://www.sagess.fr)

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