

Societe Anonyme de Gestion de Stocks de Securite

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Major Rating Factors

Strengths:

- "Critical" role in fulfilling France's international oil stockpiling obligations.
- Strong regulatory framework, which ensures close state supervision and control and integration into French energy policy.
- Supportive legal framework, ensuring full cost recovery and limiting solvency and liquidity risk.

Issuer Credit Rating
AAA/Stable/A-1+

Weaknesses:

- Lack of a special public status formalizing direct state support.

Rationale

We equalize the ratings on SAGESS, a not-for-profit company which maintains and manages a substantial part of France's strategic oil reserves, with the ratings on the Republic of France (AAA/Stable/A-1+). This reflects our view that there is an "almost certain" likelihood that the French government would provide timely extraordinary support to SAGESS in the event of financial distress.

We consider SAGESS as a government-related entity (GRE). Under our GRE criteria, we base our ratings approach on SAGESS':

- "Critical" role in fulfilling France's legal obligation to stockpile oil under EU and International Energy Agency (IEA) requirements. In our opinion, the company's mission ensures that it receives strong state support; and
- "Integral" link with the French state. SAGESS is integrated into the government's energy policy and subject to close state supervision and control.

SAGESS' role is intertwined with that of the Comité Professionnel des Stocks Stratégiques Pétroliers (CPSSP; not rated). SAGESS' role is to stockpile oil, including related operating and administrative management tasks, on behalf of CPSSP. CPSSP levies fees to oil operators for SAGESS' services. These fees are SAGESS' sole revenue source.

In our view, SAGESS' financial profile is sound and stable. Net income has typically been marginally positive for nearly a decade and we expect it to remain so. We believe the company's financial record demonstrates the effectiveness of its legal framework in ensuring full cost recovery and liquidity, which underpins its extremely strong ability for timely payment.

The 2009 EU directive on oil stockpiling obligations--to be implemented by year-end 2012--imposes an increase in stockpiling in France. However, we expect declining oil consumption to partly offset this increase. Consequently, we do not expect SAGESS to face large new financial needs to purchase additional oil stocks. We understand that SAGESS will likely be recognized as France's single central stockholding entity (CSE) under the directive. In the event the state does not designate SAGESS as France's CSE, which could in turn lead to a change in its mission, we

would review the ratings on SAGESS.

Liquidity

We view SAGESS' liquidity as adequate. Its €1.25 billion commercial paper program is supported by €250 million of confirmed dedicated backup lines and €290 million of bilateral backup lines with banks.

Outlook

The stable outlook reflects our expectation that SAGESS will retain its critical role to and integral link with the French state. We base our view on France's dependence on imported oil, its international obligations with regard to strategic stockpiling, and the increasing concentration of global oil reserves in politically volatile regions. We therefore expect the ratings on SAGESS to move in line with those on France.

Mission: A Critical Role In Fulfilling France's Oil Stockpiling Obligations

We view SAGESS' role as critical for the French state in fulfilling France's legal obligation to stockpile oil under EU and IEA requirements.

France's oil stockpiling obligations

France is about 99% dependent on imports for its oil supply. Oil shocks in the past and recent oil market volatility have made import-dependent countries sensitive to the economic havoc that market instabilities can cause, particularly because most proven oil reserves are concentrated in politically volatile regions of the world. Over the past two decades, the stocks that oil companies hold has declined as a result of mergers, cost cutting, and leaner "just-in-time" inventories. This has further increased the vulnerability to oil shocks of countries such as France.

France has had laws on oil stockpiling since 1925. An EU directive, dating from 1968, requires each member country to maintain a minimum of the equivalent of 90 days of the previous year's domestic consumption, broken down by various product categories. Oil operators are responsible for stockpiling oil products according to their own revenues in the preceding year.

The 2009 EU directive on oil stockpiling obligations--to be implemented by year-end 2012--imposes an increase in stockpiling in France, set to reach 90 days of anticipated net imports by July 2012. However, this increase is small and we also expect it to be partly offset by declining oil consumption volumes given recent trends. Potential future additional oil stock needs would more likely stem from a decision by oil companies to further increase their delegation of stockpiling obligations to SAGESS.

Institutional framework of SAGESS and CPSSP

SAGESS' mission since it was established in 1988, has been to maintain and manage the required national strategic oil reserves at any given time. It aims to ensure better enforcement, safeguarding a satisfactory geographic distribution of inventories, and easing the burden of stockpiling requirements on companies' balance sheets, especially for smaller operators. To further strengthen the system, the government created CPSSP, a professional agency for economic development, in 1992.

CPSSP is administered by a council, the members of which are nominated by a relevant minister, and is subject to financial control by the state.

CPSSP relies on SAGESS for physical stockpiling and other operating and administrative management. SAGESS' sole client is CPSSP and it can only buy and sell stock with CPSSP's permission or on state demand. CPSSP's main responsibilities therefore include the definition of SAGESS' purchasing and sale programs and the determination of fees that oil operators pay to delegate strategic stock coverage to CPSSP. According to the 1992 stockpiling law, CPSSP must also ensure that the strategic stock delegated to SAGESS by the national oil operators is actually in place.

Under French legislation, every oil operator must currently keep 27% of the quantities released for inland consumption during the preceding year, equivalent to 98.6 days. These rules call for a permanent reserve of petroleum products at least equal to 90 days of the previous year's net imports. The storage requirement must be satisfied for four different categories (gasoline, diesel, jet fuel, and heavy fuel oil). The 2009 EU Directive will progressively increase the 27% threshold to 29.5% by July 2012, reflecting 90 days of anticipated net imports.

Private operators are increasingly delegating their stockpiling obligation

Each oil operator must choose to delegate either 56% or 90% of its required stock to CPSSP. This "CPSSP obligation," as defined by the French stockpiling law, is covered by both SAGESS' stocks and stocks lent to CPSSP by operators. As a result of an ongoing trend among operators to delegate 90% rather than 56% of their required stock, SAGESS' stocks will account for an increasing share of the national stockpiling obligation. Its stocks accounted for over 81% of the CPSSP obligation at year-end 2009 (table 1). This has further increased the strategic role of CPSSP and SAGESS, despite a continued reduction in oil consumption in France (table 1).

Table 1

SAGESS - Selected Operational Indicators								
(Mil. tons)	2009	2008	2007	2006	2005	2004	2003	2002
Net inland consumption	63.1	64.6	64.4	65.8	66.2	66.3	65.9	66
French stockholding obligation	17.4	17.4	17.8	17.9	17.9	17.9	17.8	17.4
CPSSP coverage*	12.7	12.3	12.6	12.5	12.1	11.9	11.4	10.7
SAGESS stocks*	10.3	9.8	9.9	9.7	9.3	9	8.6	7.6
Of which gasoline (%)	6.6	6.7	8.3	7.3	8.2	8.4	9.8	12
Of which diesel oil and gasoil (%)	57.0	56.1	59.2	58.1	57.7	57.3	53.7	54
Of which jet fuel (%)	6.7	6.9	6.7	6.6	6.9	6.7	6.4	7
Of which crude oil (%)	29.7	30.4	25.8	28	27.2	27.6	30.2	27
SAGESS share in CPSSP coverage (%)	81.1	79.7	77.8	77.6	76.9	75.7	75.4	71.3
SAGESS share in French stockholding obligation(%)	59.2	58.8	55.6	54.5	51.8	50.6	48.1	43.8
SAGESS inventory (historical cost) (mil. €)	2,568	2,508	2,329	2,263	2,083	1,918	1,753	1,477
Percent change in historical cost (%)	2.4	7.7	2.9	8.6	8.6	9.4	18.6	10.2
SAGESS inventory (market value) (mil. €)	4,321	3,367	5,977	4,378	4,427	2,793	2,060	2,108

Source: SAGESS; CPSSP. *As of July 1 for each year.

Likely recognition as France's central stockholding entity

The 2009 EU directive on oil stockpiling obligations requires that each EU member state creates a single central stockholding entity (CSE) with powers to "acquire, maintain, or sell oil stocks, including emergency stocks and specific stocks." The directive aims at ensuring the availability of oil stocks and safeguarding the EU's energy supply.

We understand that SAGESS will likely be recognized as France's sole CSE. In the event the state does not designate SAGESS as France's CSE, which could in turn lead to a change in its mission and in our view of SAGESS' role for

the French state, we would review our ratings on SAGESS.

An Integral Link With The French State

We view SAGESS as having an integral link with the French state because of its strong regulatory framework, which ensures close state supervision and control, and because of SAGESS' integration into French energy policy.

Private legal status and ownership are not impediments to extraordinary state support

SAGESS is a joint-stock company ("société anonyme") with specific features:

- Only oil companies authorized as warehouse keepers subject to the strategic storage obligation can become SAGESS shareholders. SAGESS' shareholding structure is stable and representative of the sector's operators. On June 30, 2010, SAGESS had 31 shareholders, comprising almost all of the oil companies that operate in France. SAGESS' shareholders represent the overwhelming majority of the country's stockpiling obligation (96%). The number of shares of each operator is calculated yearly in proportion to its stockpiling obligations, which in turn are determined by its sales.
- SAGESS' shares can only be bought and sold with the French government's explicit approval.
- In addition, while SAGESS, like any private company, is subject to French bankruptcy law, in the event of SAGESS' liquidation, the ministers in charge of oil, the economy, and the budget must approve the liquidators.

SAGESS is distinct from other French rated entities acting as government agencies -- such as Caisse d'Amortissement de la Dette Sociale (CADES) and Agence Française de Développement (AFD), both rated AAA/Stable/A-1+, because these national 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.

SAGESS has no access to either public funds or direct state guarantees and there is no formalized state support mechanism for private companies. However, in view of our assessment of SAGESS' role as "critical" to the French state and its link as "integral" with the French state, we consider there is an "almost certain" likelihood that the French government will provide timely extraordinary support to SAGESS in the highly unlikely event of financial distress, as it would to the abovementioned state agencies. In our view, this state intervention would likely be indirect, through transfers from CPSSP or a special authorization allowing SAGESS to divest parts of its oil stocks.

The state supervises SAGESS' and CPSSP's activities

SAGESS and CPSSP are under the legal supervision of the Ministries of the Economy, the Budget, and Energy. As a result, the government has significant control over operations and finances, which sharply restricts the independence of CPSSP's and SAGESS' management.

Three state representatives retain consulting and quasi veto powers over any decision made by SAGESS' board of directors. These quasi veto rights mean that the government can require SAGESS' board of directors and shareholders to reexamine any decision within eight days of it being taken; this situation has yet to occur. In addition, since 2006, a state commissioner ("commissaire du gouvernement") has had veto rights over all decisions related to SAGESS' new pipeline (see "Operations" below). The state also maintains very strong supervision over CPSSP, with veto rights over CPSSP's board decisions.

In addition, SAGESS can only release its oil stocks either at the request of the Minister of Energy (in the event of an

international or local crisis), or at the request of CPSSP, with approval from the Minister of Energy. It must be noted that if SAGESS was required to release part of its reserves onto the market, the law explicitly forbids it from selling at a loss. If the market price was lower than the weighted average cost of the products sold, CPSSP would therefore have to compensate SAGESS for the difference by imposing an extra fee on the operators.

In virtually all circumstances, these checks and balances should ensure that SAGESS and CPSSP keep to their legally defined and restricted areas of activity, which support our opinion that both entities will maintain sound finances. Nevertheless, even if an unanticipated shock were to lead to the deterioration of SAGESS' financial health, its bilateral convention with CPSSP obliges the latter to fully reimburse SAGESS for any costs incurred. CPSSP in turn has the right and obligation to set the fees of its members so as to cover the transfers it made to SAGESS.

SAGESS enjoys a preferential tax regime

SAGESS is not subject to corporate income or trade taxes. This special fiscal status is dependent on SAGESS' fulfillment of its compulsory stockpiling obligation. Moreover, as an authorized "warehouse keeper," SAGESS is allowed to import, sell (under CPSSP or ministerial approval), and store oil in France without paying customs duties.

Comparative Analysis: A Unique Entity In Europe

SAGESS is distinct from most European oil stockpiling peers. In most other European countries, the entities in charge of stockpiling oil reserves combine the profiles of both SAGESS and CPSSP in a single body. For examples of other European oil stockpiling entities, please refer to our analyses on Erdoelbevorratungsverband (EBV; AAA/Stable/A-1+) in the Federal Republic of Germany (AAA/Stable/A-1+) and Corporación de Reservas Estrategicas de Productos Petroliferos (CORES; AA/Negative/A-1+) in the Kingdom of Spain (AA/Negative/A-1+).

In November 2003, the French government published a white paper on energy that addressed the possibility of merging SAGESS with CPSSP, aligning French practice with that elsewhere in Europe. The French government decided to maintain the status quo and we expect SAGESS to continue to operate as a private entity supported by CPSSP and private oil operators. Similar to peers, though, SAGESS' revenues stem from fees paid by operators (via transfers from CPSSP, in SAGESS' case).

Operations: A Stable Business

Organizational structure and management ensure a good level of corporate governance

The good quality of SAGESS' senior management, its tight supervision by the government, and its organizational structure ensure a good level of corporate governance, in our opinion. All members of senior management have very solid experience in the oil industry. SAGESS' board of directors comprises 13 members, including eight representatives from refiners and five from oil distributors. The chairman is chosen from among the refiners' representatives. In addition, there are three state officials who attend board meetings. Each representative has consulting and quasi-veto rights subject to confirmation by their respective ministers; each decision taken by the board automatically comes into force within eight days, unless a minister asks for a revision. In that case, any new decision would come into force immediately and in full. In addition, there is a state commissioner who is in charge of questions related to the Manosque pipeline in Southern France. The term of office for each member of the board is five years and is renewable. In exceptional circumstances, an extraordinary board meeting can be held to

nominate a provisional member to replace a member of the board before the end of his term of office.

Operations are restricted and therefore very stable

SAGESS' operations are exceptionally stable, given its status as a special-purpose entity, with its activities restricted to constituting, maintaining, and managing emergency oil reserves for CPSSP. The stockpiling law and tax legislation specifically stipulate all SAGESS' stockholding and storage obligations, the circumstances in which its stocks may be released, and the requirement that its stocks be properly insured. Strict reporting and auditing requirements ensure that SAGESS fulfils its obligations, and its operational record is very good.

SAGESS is required to hold an emergency reserve of three oil product groups (gasoline, diesel, and jet fuel). Although heavy fuel oils are also included in the operators' stockpiling obligations, SAGESS does not store these. The Ministry of Energy estimates stockpiling obligations each year in February, and these obligations apply from June 30. SAGESS is currently allowed to stockpile crude oil as a substitute, up to the equivalent of 4,200 thousand tons of finished product; one ton of crude oil is valued at 0.8 tons of any of the refined products mentioned above. Crude storage is cost efficient, as storage costs are usually lower than for finished product equivalents and, unlike finished products, crude does not age.

Almost all SAGESS' stocks are held on national territory, and wide geographic coverage must be ensured at all times. The Ministry of Energy reviews and approves the localization of stocks every year. Operators other than SAGESS may store up to 10% of their obligation in EU member states, subject to bilateral agreements.

SAGESS holds almost 100% of its reserves in third parties' oil storage facilities and it does not currently plan to further develop its own facilities. In the recent past, a scarcity of above-ground tank facilities led to a substantial increase in storage fees paid by SAGESS to third parties. SAGESS decided to store increasing quantities in caverns near Manosque in Southern France. While storage in caverns is generally more economical, the lack of such storage facilities in most regions limits their use if satisfactory geographic coverage is to be maintained. The Direction Générale de l'Energie et du Climat has therefore required that SAGESS be able to release all the stocks it holds in Manosque within six months in the event of a crisis. SAGESS built a pipeline to ensure this, which became fully operational in 2007 and was used during strikes in the fall of 2010.

In the long term, further increases in SAGESS' coverage of the national stockpiling obligation, if combined with a dearth of third-party storage facilities, may require additional storage solutions. Regardless of SAGESS' future storage strategy, however, the fees that CPSSP levies on operators will continue to cover all SAGESS' costs.

The government has the final say on SAGESS' decisions to sell oil stocks

SAGESS purchases oil through tenders, with about 30 main suppliers, corresponding to the purchasing limits CPSSP defines. SAGESS can only release required stocks at the request of either the Minister of Energy or CPSSP (with the approval of the Minister of Energy). The sale of stock is generally confined to cases of international or local crisis, namely:

- A local oil supply crisis leading to a scarcity or risk of scarcity of oil products. In this case, the oil stock released to an operator would have to be returned by the same operator to the same location within one month. In order not to alter the quantity of SAGESS' stocks, the operator must keep the same quantity at SAGESS' and CPSSP's disposal (a procedure called "exchange").
- An international oil supply crisis. In this case, market prices would very likely be higher than the historical cost of SAGESS' stocks and the crisis in France would be managed directly by the Ministry of Industry, which is

responsible for international coordination. The ministry, liaising with CPSSP, would give instructions to SAGESS to provide products to the operators on specific request. The release would be made at market price (by tender) or by exchange.

The law prohibits SAGESS from selling at a loss, so SAGESS is immune from changes in market prices, and speculative purchasing and selling are expressly forbidden. SAGESS must use net proceeds from sales of surplus stocks to repay debts, which are contracted for the exclusive purpose of purchasing oil stocks.

Under certain circumstances, CPSSP has authorized SAGESS to lend products to oil operators for a maximum of one year, to overcome logistical constraints. Such loans, however, cannot cumulatively exceed 200 thousand tons. A revision and tightening of security standards throughout the sector increased SAGESS' storage costs in recent years, but this had not put the entity's financial standing at risk, as CPSSP has to reimburse these costs.

In the fall of 2010, massive strikes in France involving blockades at refineries and at oil storage facilities caused major disruptions in oil delivery, with a majority of petrol stations experiencing shortages. As an exceptional procedure at the request of the Ministry of Energy, SAGESS lent oil stocks to operators. We understand SAGESS lent about 8% of its stocks to operators and that it did not sell strategic oil stocks in this period. The process involved about 260 one-month, interest-bearing loan contracts being signed between SAGESS and operators. We understand that some loans have been extended by up to an additional month due to logistical and operational constraints for operators. The Ministry of Energy has endorsed these extensions. While this procedure has existed since 2001, it had never been used before.

An excellent operational track record

SAGESS has an excellent operational record. Several times in the past few years and again in the fall of 2010, supply disruptions have tested its stock release procedures. On each of these occasions, we understand that the government considered SAGESS' services to be very efficient, and confirmed the good coordination between DGEC, which supervises the stockpiling system, and SAGESS.

SAGESS insures its oil stocks extensively

SAGESS insures its stocks against risks including fire, explosion, earthquake, attacks, strikes, riots, and acts of vandalism. Insurance costs have been well below 1% of total annual expenditures recently. However higher insurance costs would not be problematic for SAGESS, as it is guaranteed full cost recovery through CPSSP.

In addition, storage contracts signed with third-parties include an explicit clause specifying that SAGESS' oil stocks cannot be seized by a contractor in financial distress.

Finances: Legal Framework Limits Solvency And Liquidity Risks

A "full cost recovery" system through CPSSP

Under the convention that governs SAGESS and CPSSP's financial and operational relationship, SAGESS recovers from CPSSP all its operating costs (overhead, storage, insurance, administrative costs) and financial costs on a monthly basis. The convention has an unlimited term and can only be dismantled with a five-year cancellation notice. Along with state regulation of the stockpiling system, this convention ensures that SAGESS' cost reimbursement from CPSSP remains secure.

CPSSP charges a membership fee to all operators, covering SAGESS' costs and all other costs CPSSP incurs (Law

92-1443). It adjusts the fees quarterly to ensure that its accounts remain broadly balanced at the end of the year. As all oil operators (most of which are SAGESSE shareholders) are beneficiaries of the publicly mandated stockpiling system, there is virtually no prospect of resistance against even a significant fee adjustment if this were ever to become necessary. Furthermore, every oil operator has to provide a guarantee equal to three months of fee payments, which protects CPSSP effectively from defaulting members.

Ultimately, SAGESSE' revenues depend on CPSSP's status as a quasi state entity. Owing to CPSSP's status as a public-policy entity and its provision of a public service, CPSSP is legally entitled to receive advances and subsidies from the state, although this has not yet occurred in practice. CPSSP is under the strict control of the French government through a government representative who is in charge of CPSSP's financial soundness and through the director of the DGEC, a division of the Ministry of Energy. Both of these people have seats on CPSSP's board of directors. No decision can become effective without their approval.

SAGESSE is managed as a non-for-profit entity

SAGESSE' financial performance has been stable over the recent years (table 2) reflecting its privileges under the bilateral convention. Net operating income is typically marginally positive (€5,293 in 2009) as SAGESSE principally fulfills a public policy role without any profit motive. Net income is therefore not meaningful when measuring its performance.

As mentioned above, SAGESSE relies on a single stable and predictable source of revenues--CPSSP's reimbursements--which covers all its expenses and has no other significant revenue sources. The largest expenditure items on the income statement are interest and storage costs. Almost all storage costs consist of rentals of third-party storage facilities. SAGESSE does not maintain a cushion of retained earnings. It distributes all profits in dividends to shareholders, but profits are very limited as SAGESSE is managed as a not-for-profit entity.

Table 2

SAGESSE Profit And Loss Account - Selected Indicators									
(Mil. €)	H1 2010*	2009	2008	2007	2006	2005	2004	2003	2002
Revenues	116.5	244.3	333.3	280.4	219.8	179.7	185.2	155.2	133.9
Revenues from CPSSP	115.4	241.7	333.3	280.4	219.8	179.7	185.2	155.2	133.9
Expenditures	(116.5)	(244.3)	(333.3)	(280.2)	(219.4)	(179.5)	(184.1)	(153.6)	(131.8)
Products bought	(0.4)	(60.4)	(178.4)	(66.3)	(179.7)	(165.6)	(186.3)	(275.4)	(137.5)
Changes in inventory	0.4	60.4	178.4	66.3	179.7	165.6	186.3	275.4	137.5
Storage costs	(96)	(183.4)	(197.8)	(180.4)	(148.9)	(130.8)	(137.6)	(106.6)	(82.6)
Interest and similar expenditures	(14.2)	(47.8)	(117.9)	(99)	(67.4)	(46.2)	(42.4)	(42)	(46.5)
Personnel	(0.4)	(0.9)	(0.8)	(0.9)	(0.5)	(0.6)	(0.7)	(0.4)	(0.4)
Net income	0	0	0	0.2	0.6	0.7	1.2	1.7	2.6

*Six months ended June 30, 2010. Source: SAGESSE

Cash Flow Protection Mechanisms Reduce Solvency And Liquidity Risks

Given SAGESSE' total dependence on transfers from CPSSP, the latter's financial soundness is pivotal for SAGESSE' creditworthiness. CPSSP's costs consist of the services invoiced by SAGESSE, plus fees paid to the oil operators that lend stocks to CPSSP, and a very small amount of its own operating costs.

CPSSP covers its costs through mandatory monthly membership fees paid by operators. CPSSP calculates these fees according to the oil volumes released for inland consumption, with the objective of maintaining a balanced budget. CPSSP has always achieved this objective. Most of CPSSP's fee-paying members are also SAGESS shareholders. Major international oil companies and the larger French hypermarket chains are the principal contributors. The creditworthiness of CPSSP's members appears strong on average.

Three kinds of safety mechanisms cover CPSSP (and consequently SAGESS) against the risk of losses following possible late payment or nonpayment by one or several of the operators:

- Penalties for delinquent operators--late payments incur an interest penalty, with no grace period.
- A three-month guarantee--according to the French stockpiling law, each operator must provide a guarantee amounting to three months' fee payment (as defined in a CPSSP internal agreement).
- Discontinued service--if nonpayment continues beyond three months, CPSSP, and therefore SAGESS, would cease holding stocks for the delinquent operator; the offender would still have to fulfill its stockpiling obligation from its own stocks, and if it didn't could be fined, and might ultimately lose its authorized "warehouse keeper" status.

Given this safety net, a default by a CPSSP member does not affect SAGESS' financial situation. Since 1992, CPSSP has experienced one fee payment default, due to an operator's bankruptcy in 2003. CPSSP canceled the operator's guarantee, and higher fees levied on other operators covered all related costs. The default had no impact on SAGESS' receipts from CPSSP, demonstrating the effectiveness of the safety net protecting SAGESS. CPSSP's capacity to pay SAGESS for its services in a timely manner has never been jeopardized. In the absence of material legal changes, we view SAGESS' full recovery of costs through CPSSP transfers as secure.

The legal framework defining SAGESS' operations also reduces liquidity risks as CPSSP makes monthly transfers to SAGESS to cover all its costs for the preceding month, including interest payments on financial borrowings necessary to fulfill SAGESS' stockpiling obligations.

Assets consist of oil stocks valued at historical cost

Inventories account for almost all assets (table 3). On the balance sheet, SAGESS values oil stocks at historical cost. This practice yields "hidden reserves" (€1.75 billion at year-end 2009) as long as actual oil prices are higher than the historical purchase cost. Due to the constraints on SAGESS' stock-release process, it cannot call on these hidden reserves to prop up its balance sheet unless it is allowed to by the state.

Table 3

SAGESS Balance Sheet - Selected Indicators								
(Mil. €)	2009	2008	2007	2006	2005	2004	2003	2002
Assets	2,710.1	2,715.9	2,539.7	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4
Net fixed assets	104.5	112.6	121.4	61.4	10.0	5.2	5.7	4.4
Inventory*	2,568.3	2,507.9	2,329.4	2,263.1	2,083.4	1,917.9	1,752.5	1,477.2
Net receivables	21.2	62.6	74.7	62.4	30.2	56.8	14.2	13.1
Liquid assets (securities and cash)	1.4	14.0	3.7	1.0	1.3	0.1	2.1	0.8
Liabilities	2,710.1	2,715.9	2,539.7	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4
Equity (including retained profits)	0.3	0.3	0.5	0.8	1.0	1.4	1.9	2.9
Provisions for risk	0.2	0.1	0.0	0.0	0.0	3.4	3.4	3.4
Total liabilities to banks/other creditors	2,709.7	2,715.5	2,539.2	2,396.4	2,132.5	1,990.5	1,772.1	1,492.8
Of which bonds	1,739.5	1,739.5	1,600.0	1,600.0	1,250.0	1,250.0	900.0	600.0

Table 3

SAGESS Balance Sheet - Selected Indicators (cont.)								
Of which commercial paper	860.0	835.0	750.0	580.0	656.0	500.0	302.5	99.0
Of which bank loans	0.0	23.1	66.2	116.5	110.6	134.9	438.3	696.7
Of which trade payables	20.3	36.6	41.2	24.5	49.9	34.1	61.3	32.2

***Oil products stock. Source: SAGESS.**

As regards its liabilities, SAGESS has limited share capital of €240,000 and no reserves. Almost all its liabilities consist of its borrowings (€2.7 billion at year-end 2009), which are used exclusively to finance oil stocks (table 3).

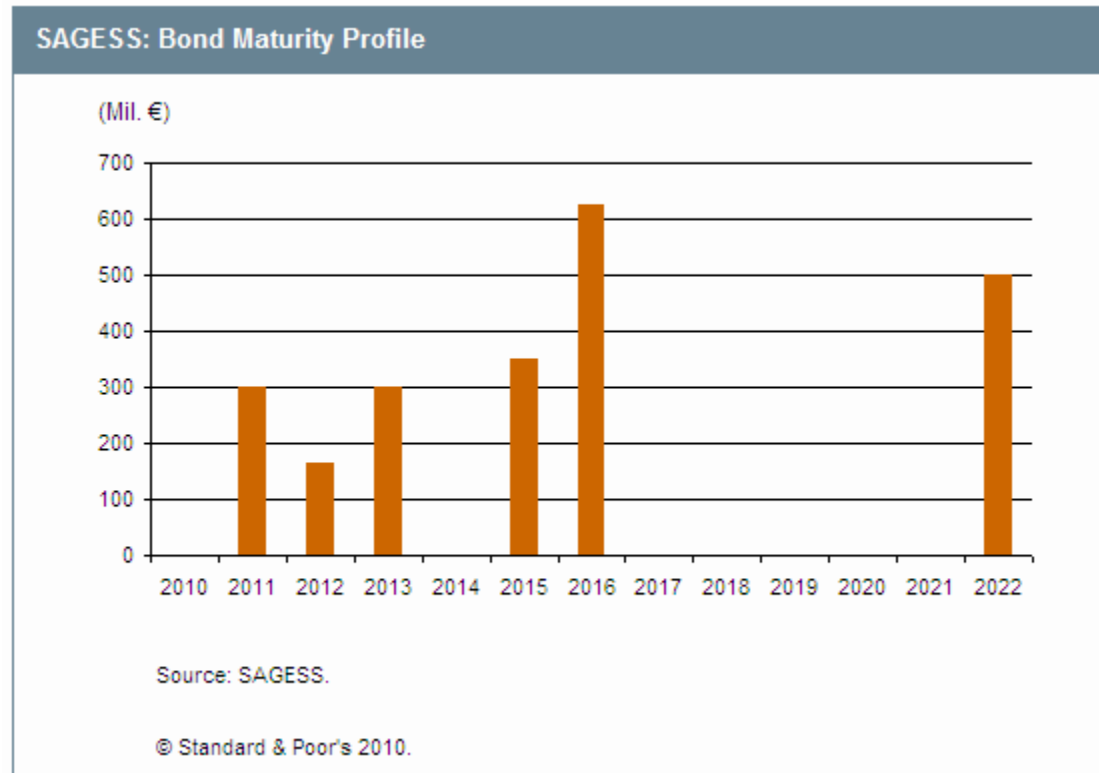
Debt And Liquidity Management

Excellent access to bond markets limits rollover risk

SAGESS' financial policy consists of constant arbitraging between long-term and short-term debt; debt being used solely for the purchase of oil stocks. Until 2001, SAGESS' borrowing consisted solely of bank loans. It switched to bond issuance from 2002.

Reflecting its recourse to bullet bonds, SAGESS' debt profile is uneven (chart 1), but this is mitigated by a track record of excellent access to the bond market. Even in periods of severe market stress SAGESS has successfully issued bonds: In 2008 it issued a €275 million bond maturing in 2016 and a CHF250 million bond maturing in 2012. In addition, SAGESS may use its €1.25 billion CP program (see below) to pre-fund bond redemption.

Chart 1



SAGESS issued a 12-year €500 million in October 2010, the proceeds of which it will partly use to cover a €300 million bullet bond redemption (due April 2011) and to fund additional oil stock purchasing needs resulting from anticipated reduction in oil stocks lent to CPSSP by operators, which must be compensated by higher stocks at SAGESS.

Future financing needs will depend on the evolution of the national stockpiling obligation and on operational changes in the stockpiling regime and delegation levels. Despite higher future stockpiling requirements resulting from the 2009 EU directive, we do not expect SAGESS to face large new financial needs to purchase additional oil stocks, in view of recent declines in oil consumption in France.

Reflecting voluntary exposure to floating rates, SAGESS systematically swaps the yearly fixed-interest payments on its bonds against floating-rate quarterly payments (three-month EURIBOR). SAGESS also swapped its Swiss franc exposure from its 2008 Swiss franc bond issue at issuance, eliminating currency risk. SAGESS has never used interest rate derivatives or futures.

Liquidity management

Given SAGESS' operational framework, it faces only limited liquidity mismatches.

SAGESS has a €1.25 billion French commercial paper (CP) program ("billets de trésorerie") used as a financing source together with long-term bond issuances, arbitraging based on relative costs. As of Nov. 24, 2010, SAGESS had €865 million CP outstanding. Backup lines with banks support the CP program. As of Nov. 24, 2010, SAGESS had €250 million in five confirmed, dedicated backup lines and €290 million in four confirmed bilateral backup lines. Three backup lines totaling €150 million are to be renewed before end-March 2011 and we understand that SAGESS is committed to retain these amounts of backup lines. As regards bilateral lines already renewed in 2009-2010, SAGESS has secured longer maturities (two to three years, versus one year beforehand).

Ratings Detail (As Of November 26, 2010)*	
Societe Anonyme de Gestion de Stocks de Securite	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Unsecured (6 Issues)	AAA
Issuer Credit Ratings History	
10-Jan-2001	AAA/Stable/A-1+
Default History	
None	

*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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