

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.
- Integration into French energy policy and strong regulatory framework, which ensures close state supervision and control.
- Very stable financial profile.

Weaknesses:

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

Issuer Credit Rating
AAA/Stable/A-1+

Rationale

The ratings on Société Anonyme de Gestion des Stocks de Sécurité (SAGESS), a nonprofit company that maintains and manages a substantial part of France's strategic oil reserves, are equalized with the ratings on the Republic of France (AAA/Stable/A-1+), reflecting Standard & Poor's Ratings Services' view that there is an "almost certain" likelihood that the French government will provide timely extraordinary support to SAGESS in the event of financial distress.

We therefore consider SAGESS as a government-related entity (GRE). Under our GRE criteria, our ratings approach is based on SAGESS' critical role in fulfilling France's legal obligation for stockpiling oil under EU and International Energy Agency (IEA) requirements. It is our opinion that SAGESS' mission ensures that it receives strong state support, through SAGESS' arrangement with the quasi-governmental entity, Comité Professionnel des Stocks Stratégiques Pétroliers (CPSSP).

The ratings on SAGESS also reflect our view that it has an integral place in the framework of the state. SAGESS is integrated into the government's energy policy and is under close state supervision and control. It can only release oil stocks at the request of the government, or CPSSP with approval from the government.

The French government established SAGESS by ministerial decree in 1988. The roles of CPSSP and SAGESS are intertwined: CPSSP relies on SAGESS for oil stockpiling and other operating and administrative management, while CPSSP ensures SAGESS' revenues by levying fees on oil operators.

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. SAGESS' financial record demonstrates the effectiveness of its legal framework in ensuring full cost recovery and liquidity, thereby underpinning its extremely strong capacity for timely payment.

Liquidity

We view SAGESS' liquidity policy as adequate. Its €1.25 billion commercial paper (CP) program is supported by €250 million of confirmed dedicated backup lines and €340 million of bilateral backup lines with banks.

Outlook

The stable outlook reflects our expectation that SAGESS will retain its strategic role for the French economy due to France's dependence on imported oil, the country's international obligations regarding strategic stockpiling, and the increasing concentration of global reserves in politically volatile regions.

Background And Business Description

France is about 99% dependent on imported oil. Oil shocks in the past and more recent oil market volatility have made import-dependent countries sensitive to the economic havoc that market instabilities can cause, all the more so because most proven oil reserves are concentrated in politically volatile regions of the world. Structural changes in the oil industry in consumer countries such as France (mergers, cost cutting, and leaner "just-in-time" inventories) have led to a fall in stocks held by oil companies in the past two decades, further increasing the country's vulnerability to oil shocks.

Since 1925, French law has required each oil operator supplying oil products for inland consumption to seek import authorization and to maintain oil stocks, leading to the country's compulsory oil stockpiling law in 1928. In 1968, the EU (at that time the EEC) issued a directive requiring 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 EU issued a new directive this year, which aims at aligning EU practice with that of the IEA, to which some EU member states do not belong. The new directive does not represent a significant change from the current 90-day practice. However, among others, it requires that at least 30 days' worth of the emergency stocks must be in the form of refined products, effectively forcing member states to vary their stocks according to national consumption patterns.

SAGESS and CPSSP: Overview

SAGESS was established in 1988 to maintain and manage 50% of the required national strategic oil reserves at any given time. The aim of its formation was to ensure better enforcement, safeguard a satisfactory geographic distribution of inventories, and ease the burden of the stockpiling requirement on company balance sheets, especially for smaller operators.

To strengthen the system further, the French Stockpiling Law (Law 92-1443 of Dec. 31, 1992) introduced CPSSP, a professional agency for economic development (as defined in Law 78-654 of June 22, 1978). According to the 1992 Stockpiling Law, CPSSP is entrusted with the mission previously devolved to SAGESS, namely to ensure that the strategic stock delegated to it by the national oil operators is actually in place. CPSSP is administered by a council, the members of which are nominated by a relevant minister, and subject to the economic and financial control of the state.

The roles of CPSSP and SAGESS are intertwined. CPSSP relies on SAGESS for physical stockpiling and other operating and administrative management. SAGESS has only one client, CPSSP, and 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.

Every oil operator must 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).

Each 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 SAGESS stocks and stocks lent to CPSSP by operators. In order not to increase the burden on the operators through the extension of the stockpiling obligation to 27% of net inland consumption, the share delegated to CPSSP was increased from 54% and 80% in two stages in 2003-2004. As a result of these adjustments, and the ongoing trend among operators to delegate 90% rather than 56% of their required stock, an increasing share of the national stockpiling obligation will continue to be satisfied by SAGESS stock, which accounted for almost 80% of the CPSSP obligation at year-end 2008 (see table 1). The modifications mentioned above have further increased the strategic role of CPSSP and SAGESS.

Table 1

SAGESS Operational Indicators									
('000 tons)	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net inland consumption	64.6	64.4	65.8	66.2	66.3	65.9	66.0	67.0	65.5
French stockholding obligation	17.4	17.8	17.9	17.9	17.9	17.8	17.4	17.0	17.3
CPSSP coverage*	12.3	12.6	12.5	12.1	11.9	11.4	10.7	10.4	10.3
SAGESS stocks*	9.8	9.9	9.7	9.3	9.0	8.6	7.6	7.3	6.8
SAGESS share in CPSSP coverage (%)	79.7	77.8	77.6	76.9	75.7	75.4	71.3	70.3	66.0
SAGESS share in French stockholding obligation(%)	58.8	55.6	54.5	51.8	50.6	48.1	43.8	42.8	39.2
SAGESS inventory (historical cost) (mil. €)	2,507.9	2,329.0	2,263.1	2,083.4	1,917.9	1,752.5	1,477.2	1,340.0	1,202.0
Percent change in historical cost (%)	7.7	2.9	8.6	8.6	9.4	18.6	10.2	11.5	26.9
Of which gasoline (%)	6.7	8.3	7.3	8.2	8.4	9.8	12.0	13.0	14.0
Of which diesel oil and gasoil (%)	56.1	59.2	58.1	57.7	57.3	53.7	54.0	54.0	57.0
Of which jet fuel (%)	6.9	6.7	6.6	6.9	6.7	6.4	7.0	8.0	7.0
Of which crude oil (%)	30.4	25.8	28.0	27.2	27.6	30.2	27.0	25.0	21.0
SAGESS inventory (market value)	3,367	5,977	4,378	4,427	2,793	2,060	2,108	1,501	1,760

SAGESS--Société Anonyme de Gestion des Stocks de Sécurité. CPSSP--Comité Professionnel des Stocks Stratégiques Pétroliers. *As of July 1st for each year.

Before the shift to a 27% storage obligation, SAGESS was required by the Direction des Ressources Energétiques et Minérales (DIREM)--a section of the Ministry of Economy, Finances, and Industry--to build up additional stocks of 500 kilotons (Kt) of crude, as a buffer against temporary periods of technical noncompliance with IEA stockholding rules. Including this surplus stock, which reached the required 500 Kt during 2005, France de facto keeps 27%-28% of net inland consumption.

Legal Status And Ownership Structure

The decisive factors underpinning SAGESS' extremely strong creditworthiness are its critical importance to and strong links with CPSSP as well as its integration into the French government energy policy. Although SAGESS has no access to either public funds or direct state guarantees, the legal basis governing its business and its financial integration with CPSSP, combined with its unquestioned public policy mandate, provide substantial protection. The

sovereign has demonstrated its solid support of SAGESS through a very favorable tax and operational regime, and its close engagement in supervisory activities.

CPSSP Charges fees to all oil operators...

SAGESS recovers monthly from CPSSP all its operating costs (overhead, storage, insurance, administrative costs) and financial costs.

CPSSP in turn charges a membership fee to all operators, covering these and all other costs it incurs (Law 92-1443). Fees are adjusted quarterly to ensure CPSSP's accounts remain broadly balanced at the end of the year. As all oil operators (most of which are SAGESS 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. The convention governing the financial and operational relationship between SAGESS and CPSSP is for 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 will remain secure.

...and SAGESS is chiefly dependant on revenues from CPSSP

Ultimately, SAGESS' 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 able 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 the state controller (who is in charge of CPSSP's financial soundness) and through the director of the Direction des Ressources Energétiques et Minérales (DIREM)--a section of the Ministry of Economy, Industry and Employment, both of whom have seats on the CPSSP board of directors. No decision can become effective without their approval. As a result, we consider that in a situation of financial distress, the likelihood that the government would provide timely support to SAGESS is "almost certain," owing to CPSSP's specific public service activities and strong links with the state.

Both SAGESS and CPSSP are under state supervision

SAGESS and CPSSP are under the legal supervision of the Ministry of Economy, Industry and Employment. As a result, the government has significant control over operations and finances, which restricts the independence of CPSSP's and SAGESS' management. SAGESS can only release required 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. Three state representatives retain consulting and quasi veto powers over any decision made by the SAGESS board of directors. These quasi veto rights imply that the government can require SAGESS' board of directors and shareholders to re-examine any decision within eight days of it being taken. This situation has yet to occur. In addition, from 2006, a state commissioner ("commissaire du gouvernement") has 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. SAGESS, like any private company, is subject to French bankruptcy law, but in the event of SAGESS' liquidation, the ministers in charge of oil, the economy, and the budget must approve the liquidators.

In virtually all circumstances, these checks and balances should ensure that the two entities 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, the

bilateral convention with CPSSP obliges the latter to 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 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. Finally, in the event of an imminent or existing crisis in which SAGESS is required to release part of its reserves onto the market, the law explicitly forbids it from selling at a loss. If the market price is lower than the weighted average cost of the products sold, CPSSP will have to compensate SAGESS for the difference by imposing an extra fee on the operators.

Shareholder structure

Only oil companies authorized as warehouses keepers subject to the strategic storage obligation can become SAGESS shareholders. SAGESS' shareholding structure is stable and representative of the sector's operators. At year-end 2008, SAGESS had 28 shareholders. SAGESS' shareholders represent the overwhelming majority of the country's stockpiling obligation. The number of shares of each operator is calculated yearly in proportion to its stockpiling obligations, which in turn are determined by its sales. Shares can only be bought and sold with the government's explicit approval.

In 2008, SAGESS' shareholders continued to comprise almost all of the oil companies that operate in France.

Comparative Analysis

SAGESS is almost unique among 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.

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

That said, despite the absence of an explicitly formalized state support mechanism, we consider there is an "almost certain" likelihood that the French government will provide timely extraordinary support to SAGESS in the event of financial distress, as it would to the abovementioned state agencies. Our view stems from SAGESS' critical role in fulfilling France's international oil stockpiling obligation, its total integration into the French state energy policy, and its strong regulatory framework, which ensures it close state supervision and control.

In November 2003, the French government published a white paper on energy that addressed the possibility of merging SAGESS with CPSSP. This would have put French practice in line with that elsewhere in Europe. For examples of other European oil stockpiling entities, see the full analyses on Erdoelbevorratungsverband (EBV; AAA/Stable/A-1+) in the Federal Republic of Germany (AAA/Stable/A-1+) and Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES; AA+/Stable/A-1+) in the Kingdom of Spain (AA+/Stable/A-1+), published on

Dec. 15, 2008, and Nov. 18, 2008, respectively. The French government decided to maintain the status quo, however, 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).

SAGESS Operations: A Stable Business

Organizational structure and management

The good quality of SAGESS' senior management, its tight supervision by the government, and its organizational structure ensure a good level of corporate governance. 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 is automatically in force within eight days, unless a minister asks for a revision. In that case, any new decision would be in force immediately and in full. In addition, there is a state commissioner who is in charge of questions related to the Manosque pipeline (in Provence 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

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). SAGESS does not hold heavy fuel oils included in the operators' stockpiling obligations. Stockpiling obligations are estimated each year in February, and are applicable from June 30. SAGESS is allowed to stockpile crude oil as a substitute, up to the equivalent of 3,300 Kt of finished product (increased from the previous limit of 2,800 Kt in June 2005). 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. 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.

A scarcity of above-ground tank facilities has had two effects in recent years. First, storage fees paid by SAGESS to third parties have increased substantially. Second, SAGESS is storing increasing quantities in caverns in Manosque, and will continue to expand its storage capacity in the medium term. These two trends have resolved potential storage shortages for the foreseeable future.

Storage in caverns is generally more economical, but the lack of such storage facilities in most regions limits their use

if satisfactory geographic coverage is to be maintained. The DIREM 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.

In the long term, further increases in SAGESS' coverage of the national stockpiling obligation, combined with a dearth of third-party storage facilities, could require additional storage solutions.

Regardless of SAGESS' future storage strategy, however, fees levied on operators by CPSSP will continue to cover all its costs. 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 Kt. A revision and tightening of security standards throughout the sector has increased SAGESS' storage costs in recent years, but this has not put the entity's financial standing at risk, as CPSSP reimburses these costs.

Purchases and sales: 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 crises, 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 (equivalent to a crude oil price of less than \$18-\$20 per barrel), 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 (see "Legal Status And Ownership Structure" above). SAGESS must use net proceeds from sales of surplus stocks to repay debts, which are contracted for the exclusive purpose of purchasing oil stocks.

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. Higher insurance costs would not be problematic for SAGESS, as it is guaranteed full cost recovery through CPSSP.

Operational track record

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

Profit And Loss

The legal framework defining SAGESS' operations reduces risks to both liquidity and solvency, as it prevents SAGESS from engaging in risky financial operations. Moreover, SAGESS' financial policy is transparent, subject to board approval and, as such, also subject to state control. As a joint-stock company, SAGESS is by law a private and self-sustaining entity, but exempt from corporate taxes. Its funding system ensures full cost recovery through CPSSP.

Cash flow protection

SAGESS' stable financial performance reflects its privileges under the SAGESS-CPSSP bilateral convention. Because it relies on a single stable and predictable source of revenues that covers all its expenses (CPSSP's reimbursements), SAGESS does not maintain a cushion of retained earnings. It distributes all profits in dividends to shareholders.

SAGESS customary swaps the yearly fixed-interest payments on its bonds against floating-rate quarterly payments (three-month Euro Interbank Offered Rate, EURIBOR). No mismatch of currency denominations between revenues and expenditures exists, eliminating all currency risk. SAGESS has never used interest rate derivatives or futures.

Given SAGESS' total dependence on transfers from CPSSP, the latter's financial soundness is pivotal for SAGESS' creditworthiness. CPSSP's costs consist of the services invoiced by SAGESS, 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 commitments.

Since 1992, CPSSP has experienced just 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. Standard & Poor's is of the opinion that, in the absence of material legal changes, SAGESS' recovery of costs through CPSSP transfers is secure.

Income statement and profitability

CPSSP makes a monthly transfer to SAGESS to cover all its costs for the preceding month, including interest payments on financial borrowings necessary to fulfill SAGESS' stockpiling obligations. SAGESS has no other significant revenue sources (see table 2). 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.

Table 2

SAGESS Profit And Loss Account - Selected Indicators									
(Mil. €)	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenues	333.3	280.4	219.8	179.7	185.2	155.2	133.9	139.2	118.7
Receipts for services rendered to CPSSP	333.3	280.4	219.8	179.7	185.2	155.2	133.9	139.2	118.7
Expenditures	(316.5)	(280.2)	(219.4)	(179.5)	(184.1)	(153.6)	(131.8)	(135.9)	(115.6)
Products bought	(178.4)	(66.3)	(179.7)	(165.6)	(186.3)	(275.4)	(137.5)	(137.6)	(255.2)
Changes in inventory	178.4	66.3	179.7	165.6	186.3	275.4	137.5	137.6	255.2
Storage costs	(197.8)	(180.4)	(148.9)	(130.8)	(137.6)	(106.6)	(82.6)	(75.5)	(69.3)
Interest and similar expenditures	(117.9)	(99.0)	(67.4)	(46.2)	(42.4)	(42.0)	(46.5)	(57.1)	(44.1)
Personnel	(0.8)	(0.9)	(0.5)	(0.6)	(0.7)	(0.4)	(0.4)	(0.5)	(0.4)
Net income	0.0	0.2	0.6	0.7	1.2	1.7	2.6	3.3	3.1

SAGESS--Société Anonyme de Gestion des Stocks de Sécurité. CPSSP--Comité Professionnel des Stocks Stratégiques Pétroliers.

Net operating income is typically marginally positive (€19,450 in 2008). However, given that SAGESS is principally fulfilling a public policy role without any profit motive, net income is not a very useful indicator for measuring performance.

Asset Liability Management

Assets

Inventories account for almost all assets (see table 3). On the balance sheet, SAGESS values oil stocks at historical cost. This practice yields a certain amount of "hidden reserves" (€0.8 billion at year-end 2008) 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

Table 3

SAGESS Balance Sheet - Selected Indicators									
(Mil. €)	2008	2007	2006	2005	2004	2003	2002	2001	2000
Assets	2,715.9	2,539.7	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4	1,361.8	1,227.0
Net fixed assets	112.6	121.4	61.4	10.0	5.2	5.7	4.4	2.4	2.0
Inventory*	2,507.9	2,329.4	2,263.1	2,083.4	1,917.9	1,752.5	1,477.2	1,339.7	1,202.0
Net receivables	62.6	74.7	62.4	30.2	56.8	14.2	13.1	11.5	12.0
Liquid assets (securities and cash)	14.0	3.7	1.0	1.3	0.1	2.1	0.8	3.6	7.0
Liabilities	2,715.9	2,539.7	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4	1,361.8	1,227.0
Equity (including retained profits)	0.3	0.5	0.8	1.0	1.4	1.9	2.9	3.5	3.0
Provisions for risk	0.1	0.0	0.0	0.0	3.4	3.4	3.4	3.4	3.0
Total liabilities to banks/other creditors	2,715.9	2,539.2	2,396.4	2,132.5	1,990.5	1,772.1	1,492.8	1,342.8	1,218.0
Of which bonds	1,739.0	1600	1,600.0	1,250.0	1,250.0	900.0	600.0	600.0	0.0

Table 3

SAGESS Balance Sheet - Selected Indicators (cont.)									
Of which commercial paper	835.0	750.0	580.0	656.0	500.0	302.5	99.0	0.0	0.0
Of which bank loans	23.1	66.2	116.5	110.6	134.9	438.3	696.7	732.0	1,171.0
Of which trade payables	36.6	41.2	24.5	49.9	34.1	61.3	32.2	10.8	47.0

*Oil products stock. SAGESS--Société Anonyme de Gestion des Stocks de Sécurité.

Liabilities

SAGESS has share capital of €240,000. Its total borrowings of €2.7 billion at year-end 2008, rose exclusively to finance oil stocks, account for almost all its liabilities. (see table 3).

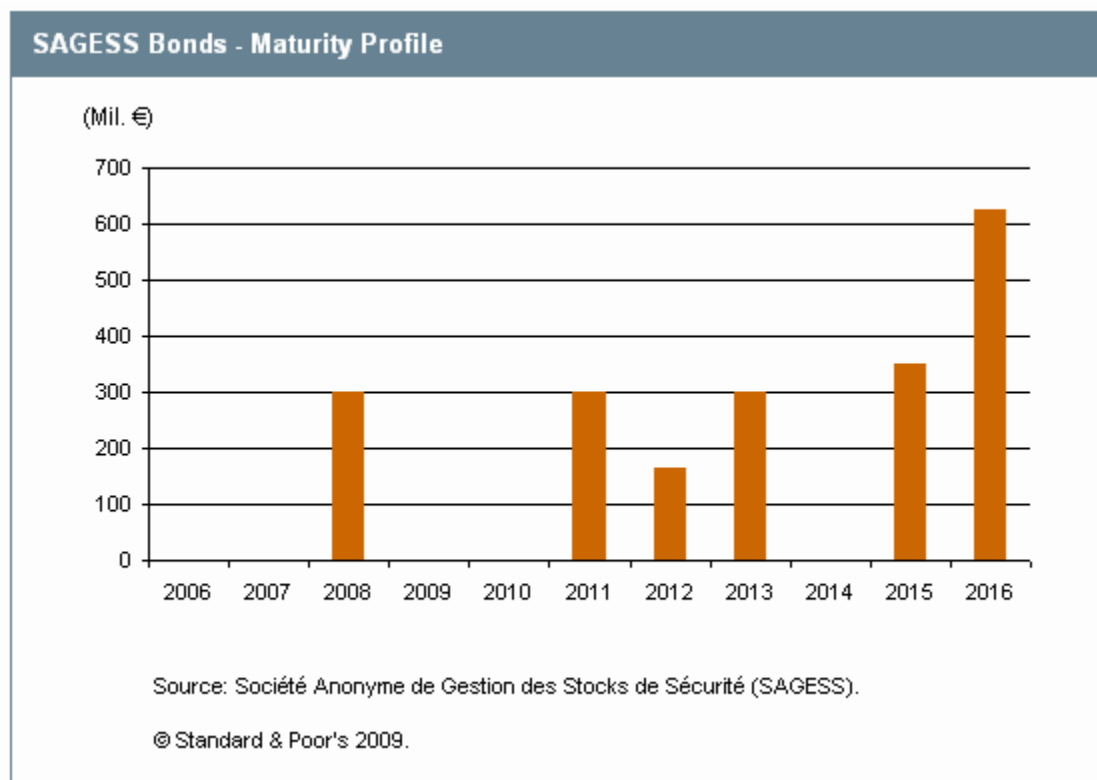
Liquidity Management

In 2002, SAGESS launched a €300 million French commercial paper (CP) program ("billets de trésorerie"), increased to €500 million in 2003, and €750 million in 2005. SAGESS further increased the program to €1.25 billion in 2008. The target is to renew one-third of the program every month (at three-month maturities).

Backup lines with banks support the program. SAGESS has €250 million in confirmed, dedicated backup lines and €340 million of bilateral backup lines. We view SAGESS' liquidity policy as adequate.

Until 2001, SAGESS' borrowing consisted mainly of bank loans. Following the issuance of SAGESS' first four long-term bonds, the share of bank loans in total indebtedness fell to less than 1% of all borrowing at year-end 2008, from more than 50% in 2001.

Thanks to its excellent access to the market despite the period of severe market stress last year, SAGESS successfully issued two long-term bonds in 2008, of €275 million and €164 million, which will respectively mature in 2016 and 2012(see chart).



Future financing needs will depend on the evolution of the national stockpiling obligation and operational changes in the stockpiling regime and/or delegation levels (see "Background And Business Description" above), but the recent directive does not imply major changes.

Ratings Detail (As Of November 2, 2009)*

Societe Anonyme de Gestion de Stocks de Securite

Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured (5 Issues)	AAA

Issuer Credit Ratings History

10-Jan-2001	AAA/Stable/A-1+
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*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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