STANDARD & POOR'S SOVEREIGNS

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Societe Anonyme de Gestion de Stocks de Securite

Credit Ratings AAA/Stable/A-1+

Rating History Long-term issuer credit rating of 'AAA' and short-term issuer credit rating of 'A-1+' assigned......Jan. 10, 2001.

Purpose Maintaining and managing the Republic of France's national strategic oil stock reserves.

Major Rating Factors

Strengths:

- Key strategic role in fulfilling France's international oil stockpiling obligations.
- Strong regulatory framework, which ensures close State supervision and control.
- Very stable financial profile, and full cost recovery through fees levied on oil operators.

Weaknesses:

- Lack of a special public status formalizing State support.

Rationale

The ratings on Société Anonyme de Gestion des Stocks de Sécurité (SAGESS), which maintains and manages a substantial part of the Republic of France's (AAA/Stable/A-1+) strategic oil reserves, reflect its strategic importance 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.

SAGESS was established by ministerial decree in 1988 as a joint stock company for the sole purpose of maintaining and managing a substantial part of France's national strategic oil stock reserves. In 1992, this role was taken over by the Comité Professionnel des Stocks Stratégiques Pétroliers (CPSSP), a quasi-state entity. The roles of CPSSP and SAGESS are intertwined: CPSSP relies on SAGESS for physical stockpiling and other operating and administrative management, while SAGESS has only one client, CPSSP, and can only buy and sell stock with CPSSP's permission or on State demand.

Fees levied by CPSSP on French oil operators finance SAGESS' operating expenses. These fees are set to cover all operating, administrative, and debt-servicing costs. CPSSP has experienced a negligible default rate on its fee payments since its creation, and all associated costs have been covered by additional levies. SAGESS' financial profile is stable, predictable, and flexible. Its financial record demonstrates the effectiveness of its legal framework in ensuring full cost recovery and liquidity, underpinning its extremely strong capacity for timely payment.

SAGESS has always conformed to the stipulated volume and required quality of oil reserves. Its stock release procedures have repeatedly been tested in times of domestic energy supply disruption. On each occasion, SAGESS operated seamlessly.

Outlook

SAGESS will retain its strategic role for the French economy due to: France's dependency on imported oil; the country's international obligations with regard to strategic stockpiling; and the increasing concentration of global reserves in politically volatile regions. Moreover, SAGESS' role is increasing as more operators delegate their stockpiling obligations to CPSSP. The French government recently considered a reorganization of the institutional set-up for national strategic stockpiling, but the idea has not been pursued further. SAGESS is expected to continue to operate as a private entity supported by CPSSP and private oil operators.

Background and Business Description

France is about 99% dependent on imported oil, which is the most important source of energy in the country, providing 35% of total requirements and 100% of requirements for road transportation. The oil shocks of the 1970s, as well as the more recent volatility in the world oil markets, have made import-dependent societies more sensitive to the possible economic havoc that market instabilities could cause. This is all the more so as proven oil reserves tend to be concentrated in politically volatile regions of the world. The non-OPEC fields discovered in the 1960s and 1970s are entering a phase of rapid decline, reducing the competition to the cartel. 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 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. Each oil operator is responsible for the stockpiling of oil products according to its own turnover in the preceding year. SAGESS was established in 1988 for the sole purpose of maintaining and managing 50% of the required national strategic oil reserve at any given time. This was done with a view to ensuring better enforcement, safeguarding a satisfactory geographical distribution of inventories, and easing the burden of the stockpiling requirement on company balance sheets, especially for smaller operators.

In order to strengthen the system further, the French Stockpiling Law (Law 92-1443 of Dec. 31, 1992) introduced CPSSP, a professional committee 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 build up and manage the strategic stock that is delegated to it by the national oil operators subject to the stockpiling obligation. 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. On the one hand, CPSSP relies on SAGESS for physical stockpiling and other operating and administrative management. On the other, 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 a fee structure to which oil operators are subjected for delegation of the coverage of strategic stock to CPSSP.

Every oil operator must keep 27% of the quantities released for inland consumption during the preceding year (equivalent to 98.6 days). This was increased from 26% and 95 days, respectively, effective from Sept. 1, 2003. The increase was carried out to introduce more flexibility with regard to the fulfillment of France's stockpiling obligations under the rules of the International Energy Agency (IEA). These rules call for a permanent reserve of petroleum products at least equal to 90 days of the previous year's net imports (rather than relating the obligation to net inland consumption, as stipulated by the EU requirement).

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 (referred to as "tickets"). 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, an increasing share of the national stockpiling obligation will continue to be satisfied by SAGESS stock, which accounted for 77% of the CPSSP obligation at year-end 2003 (see Table 1).

Table 1 SAGESS Operational Indicators

	2003	2002	2001	2000	1999
(Mil. tons)*					
Net inland consumption	65.9	66.0	67.0	65.5	66.6
French stockholding obligation	17.8	17.4	17.0	17.3	17.3
Of which CPSSP storage obligation	11.6	10.9	10.4	10.3	10.2
Of which SAGESS stocks	8.9	7.8	7.3	6.8	6.0
SAGESS share in CPSSP obligation (%)	77.0	71.9	70.3	66.0	58.6
SAGESS share in French stockholding obligation (%)	50.1	45.0	42.8	39.2	34.6
(Mil. €)					
SAGESS inventory (historical cost)	1,752.0	1,477.2	1,340.0	1,202.0	947.0
(% change)	18.6	10.2	11.5	26.9	16.0
Of which gasoline (%)	9.8	12.0	13.0	14.0	18.0
Of which diesel oil and gasoil (%)	53.7	54.0	54.0	57.0	55.0
Of which jet fuel (%)	6.4	7.0	8.0	7.0	6.0
Of which crude oil (%)	30.2	27.0	25.0	21.0	21.0
Depreciation/appreciation of stocks	307.5	630.0	161.0	558.0	488.0
SAGESS inventory (market value)	2,060.1	2,107.0	1,501.0	1,760.0	1,435.0
*In finished-product equivalent.					

The modifications mentioned above have further increased the strategic role of CPSSP and SAGESS. Prior to the shift to a 27% storage obligation, SAGESS was required by the DIREM (Direction des Ressources Energétiques et Minérales, a section of the Ministry of Economy, Finances, and Industry) to build up additional stocks of 500 Kt (thousand tons) of crude, as a buffer against temporary periods of technical noncompliance with IEA stockholding rules. Including this surplus stock, which remains in place, France de facto keeps 27.6% (101 days) of net inland consumption.

Legal Status and Ownership Structure

The decisive factors underpinning SAGESS' extremely strong creditworthiness are its strategic importance and its strong links with CPSSP and the French government. Although SAGESS has no access to either public funds or direct state guarantees, the legal bases 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 to SAGESS through a very favorable tax and operational regime, as well as its close engagement in supervisory activities.

Relations with CPSSP.
SAGESS invoices monthly to CPSSP all its operating costs (overheads, storage, insurance, and 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 of unlimited term and can only be dismantled with a five-year cancellation notice. Along with state regulation on the stockpiling system, this convention ensures that SAGESS' cost reimbursement from CPSSP will remain secure.

Supervision.
SAGESS and CPSSP are under the legal supervision of the Ministry of Economy, Finance, and Industry, providing the government with significant control over operations and finances, and restricting the independence of CPSSP's and SAGESS' management. SAGESS can only release required 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 on 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 reexamine 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") will have veto rights over all decisions related to SAGESS' new pipeline (see section headed "Operations" below). The State also maintains very strong supervision over CPSSP, with veto rights on CPSSP's board decisions. SAGESS, as for any other 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 ought to ensure that the two companies keep to their legally defined and restricted areas of activity, which should maintain them on a sound financial footing. 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 cost incurred. CPSSP in turn has the right, and indeed the obligation, to set the fees of its members so as to cover the transfers made to SAGESS.

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 authorized warehouse-keepers subject to the strategic storage obligation can become SAGESS shareholders. Although the obligation for such entities to become shareholders was scrapped in 1992, all relevant operators have remained shareholders. SAGESS' shareholders represented about 95% of the country's stockpiling obligation at the end of 2003. 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 2003, SAGESS' shareholders comprised almost all the oil companies that operate in France, with 65% of shares held by major international oil companies, down from 70% in 2001. The remainder is made up of supermarket chains (23% in 2003, up from 21% in 2001) and other importers and distributors. Predictably, the stability of shareholders has been strong in the past few years. At year-end 2003, SAGESS had 33 shareholders (down from 37 three years earlier, due to merger activity and one bankruptcy).

CPSSP's links with the State.
Ultimately, SAGESS' revenues also depend on CPSSP's status as a quasi-state entity. In addition, because of its status as a public purpose 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 State through the state controller (who is in charge of CPSSP's financial soundness) and through the director of the DIREM, both of whom have seats on the CPSSP board of directors. No decision can become effective without their approval. As a result, in case of financial difficulties, financial support from the State is probable because of CPSSP's specific public service activities and strong links with the State. Standard & Poor's considers it highly implausible that the State, after having been directly responsible for all of CPSSP's important operational and financial decisions, would not assume the latter's obligations (including to SAGESS) if it were to become illiquid or insolvent.

In November 2003, the government published a white paper on energy that addressed the possibility of merging SAGESS with CPSSP. This would have been in line with the practice elsewhere in Europe (see Standard & Poor's analyses on Erdölbervorratungsverband and Corporación de Reservas Estrategicas de Productos Petroliferos , published on RatingsDirect, Standard & Poor's Web-based credit analysis system, on Nov. 23, 2004, and Nov. 21, 2004, respectively). It was decided to maintain the current arrangement, however, and SAGESS is expected to continue to operate as a private entity supported by CPSSP and private oil operators.

Operations

SAGESS' operations are exceptionally stable, given its status as a special-purpose entity, with its activities restricted to the objectives of constituting, maintaining, and managing emergency oil reserves for CPSSP. The Stockpiling Law and tax legislation stipulate specifically 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 exist to ensure that SAGESS fulfills its obligations, and its operational record is very good.

Storage.

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, currently up to the equivalent of 2,800 Kt of finished product (increased from the previous limit of 2,500 Kt in September 2003). A ton of crude oil is valued at 0.8 tons of any of the refined products mentioned above. The share of crude in SAGESS' stockpiling has increased substantially in recent years (see Table 1), within the legal limit. This trend is cost-efficient, as crude storage costs are usually lower than for finished product equivalents and, unlike finished products, crude does not age.

Almost all of SAGESS' stocks are held on national territory, and wide geographical coverage must be ensured at all times. The DIREM has allowed SAGESS to store a limited quantity of products (150 Kt) in Feluy (in the Kingdom of Belgium; AA+/Stable/A-1+), for a limited period of time. 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 increased substantially in 2002-2003. Second, SAGESS is storing increasing quantities in caverns in Manosque (Provence), and is likely to continue doing so 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 geographical coverage is to be upheld. Thus, the DIREM has required that SAGESS be in a position to release the totality of the stocks it holds in Manosque within six months in the event of a crisis. A pipeline construction project to ensure this is underway. The cost of the pipeline (€100 million) will be entirely transferred to the fees levied on operators by CPSSP. Construction work is expected to proceed from 2006, with the pipeline becoming operational in 2007.

Under certain circumstances, the CPSSP has authorized SAGESS to lend products to oil operators for a maximum of one year, in order to overcome logistical constraints. Such loans, however, cannot cumulatively exceed 2% of SAGESS stocks. A first loan, amounting to 12 Kt, occurred in 2002 due to a temporary storage shortfall with a given operator. The loan was compensated by a corresponding buildup of spare stocks by SAGESS in Manosque.

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 any perceivable risk, as these costs are reimbursed by CPSSP.

Purchases and sales.
SAGESS oil purchases are made through tenders, with about 10 main suppliers, and correspond to the purchasing limits defined by CPSSP. SAGESS can only release required stocks at the request of either the Minister of Energy on the one hand, or CPSSP (with the approval of the Minister of Energy) on the other hand. The sale of stock is generally confined to cases of international or local crises, namely:

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 in 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'/CPSSP's disposal (a procedure called "exchange").

International crisis.
In the case of an international crisis, market prices would very likely be higher than the historic cost of SAGESS' stocks (currently 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 section headed "Legal Status and Ownership Structure" above). Net proceeds from sales of surplus stocks must be used to repay debts, which are contracted for the exclusive purpose of purchasing oil stocks.

Insurance.
SAGESS is legally obliged to insure its stocks properly, particularly against the risk of product losses. This compulsory insurance covers risks of fire, explosion, earthquake, attacks, strikes, riots, and acts of vandalism. Insurance costs have been well below 1% of total annual expenditures in the recent past and are expected to remain near the 1% mark. A higher financial cost would be unproblematic 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, its stock release procedures were tested in response to the blockade of supply depots during strikes by national railway staff (1995), truck drivers (1996, 1997, and 2000), and dockworkers (2001). On each of these occasions, the government considered SAGESS' services very efficient, and confirmed the good coordination between DIREM, which supervises the stockpiling system, and SAGESS.

Organizational Structure and Management
The quality of SAGESS' senior management, its tight supervision, 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 12 members, including eight representatives from refiners and four from oil distributors. Board members are responsible for supply and logistics, and stockpiling obligations. The chairman since June 2001, Mr. Marc Larzillière, is also the CEO. The chairman is chosen from among the refiners' representatives; the vice-chairman is chosen from among the distributors' 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 minister. Each decision taken by the board is automatically in force within eight days, unless a minister asks for a revision. In such an event, any new decision would be in force immediately and in full.

The term of office for each member of the board of directors is five years and is renewable. In exceptional circumstances, an extraordinary board meeting can be held to nominate a provisional member in order to replace a member of the board before the end of his term of office.

Finances
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 the privileges that it enjoys under the SAGESS/CPSSP bilateral convention. Relying on a single stable and predictable source of revenues that covers all its expenses (CPSSP's reimbursements), SAGESS maintains no formal liquidity cushion of its own. All profits are redistributed in dividends to shareholders. However, it maintains a €21 million overdraft facility (same-day clearance) spread across three banks, as well as up to €150 million in backup lines to its CP program.

SAGESS customarily swaps the yearly fixed-interest payments on its bonds against floating-rate quarterly payments (three-month EURIBOR). No mismatch of currency denominations between revenues and expenditures exists, eliminating all currency risk. Furthermore, SAGESS has never used interest rate derivatives or futures, thereby further protecting cash-flow predictability.

Given SAGESS' total dependence on CPSSP's transfers, the latter's financial soundness is pivotal for SAGESS' creditworthiness. CPSSP's costs are made up of the services invoiced by SAGESS, plus fees paid to the oil operators that had lent stocks to CPSSP, and a very small amount of own operating costs. CPSSP covers its costs through mandatory monthly membership fees paid by operators. CPSSP fees are calculated in accordance with the volumes released for inland consumption. They are set by CPSSP itself with the objective of safeguarding a balanced budget position. This objective has always been fulfilled in the past.

Most of CPSSP's fee-paying members are also shareholders of SAGESS; 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 mechanism exist to 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 rate penalty of 10%, with no grace period.
- Three-month guarantee. Each operator is obliged to provide a guarantee amounting to three months' fee payment (as defined in a CPSSP internal agreement). The French Stockpiling Law prescribes this guarantee.
- Discontinued service. If nonpayment continues after three months, CPSSP, and therefore SAGESS, would cease holding stocks for the delinquent operator. The offender would still have to complete its stockpiling obligation from its own stocks. If this is not fulfilled, the operator can be fined, and may ultimately lose its "authorized warehouse-keeper" status.

Given this tightly knit safety net, any default by a CPSSP member does not impact SAGESS' financial commitments. Since 1992, CPSSP has experienced just one fee payment default, due to an operator's bankruptcy in 2003. The operator's guarantee was called by CPSSP, and all related costs were covered by levying higher fees on other operators. 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 provided on a timely basis has never been jeopardized. Standard & Poor's is of the opinion that, in the absence of material legal changes, SAGESS' cost recovery through CPSSP transfers remains secure.

Income statement and profitability.
SAGESS' revenues are transferred monthly by CPSSP to cover all current costs of the preceding month, including interest payments on financial borrowings necessary to fulfill SAGESS' stockpiling obligations. No other significant revenue sources exist (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 Items					
(Mil. €)	**2003**	**2002**	**2001**	**2000**	**1999**
Revenues	155.2	133.9	139.2	118.7	86.0
Receipts for services rendered to CPSSP	155.2	133.9	139.2	118.7	85.6
Expenditure	(153.6)	(131.8)	(135.9)	(115.6)	(83.7)
Products bought	(275.4)	(137.4)	(137.6)	(255.2)	(131.3)
Changes in inventory	275.3	137.5	137.6	255.2	131.3
Storage costs	(104.2)	(79.9)	(72.4)	(63.3)	(55.6)
Insurance	(2.0)	(1.0)	(0.4)	(0.2)	(0.7)
Product analysis and others	(0.1)	(1.9)	(2.7)	(6.2)	(0.9)
Interest and similar expenditures	(42.0)	(46.5)	(57.1)	(44.1)	(25.4)
Personnel	(0.4)	(0.4)	(0.5)	(0.4)	(0.3)
Net income	1.7	2.6	3.3	3.1	2.3

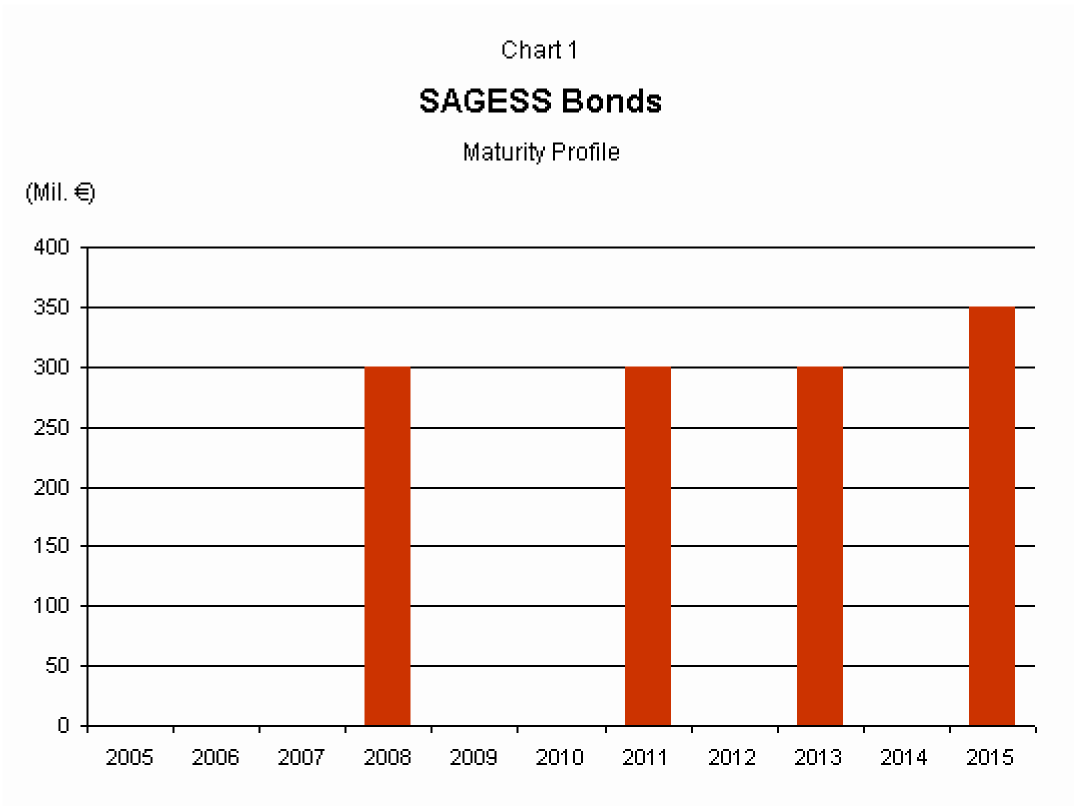
Net operating income is typically marginally positive (€1.7 million in 2003, or 0.1% of assets). Given that SAGESS is principally fulfilling a public policy role without a profit maximization motive, however, net income is not a very useful indicator to measure performance. As explained above (see section headed "Legal Status and Ownership Structure" above), selling stock at a loss is prohibited. In contrast to for-profit companies, SAGESS' net income is largely endogenous, as all the costs are automatically invoiced to CPSSP. Cost efficiency is demonstrated by its average storage cost per ton, however, which is comparable with its European peers, such as EBV in the Federal Republic of Germany (AAA/Stable/A-1+) and CORES in the Kingdom of Spain (AAA/Stable/A-1+). SAGESS' storage costs are lower than oil refiners' in France, largely owing to the fact that SAGESS stores more oil products in caverns.

Assets.
Inventories account for almost the totality of assets (see Table 3). Oil stocks are valued at historical cost. This practice provides for a certain amount of "hidden reserves" as long as actual oil prices are higher than the historical purchase cost (currently about $18-$20 per barrel). Due to the limitations in SAGESS' stock release process, these hidden reserves cannot be called on for the purpose of propping up its balance sheet. Non-oil assets are mainly investments in the one depot directly owned by SAGESS.

Table 3 SAGESS Balance Sheet Selected Items					
(Mil. €)	**2003**	**2002**	**2001**	**2000**	**1999**
Assets	1,780.1	1,501.4	1,361.8	1,227.0	974.0
Net fixed assets	6.0	4.4	2.4	2.0	1.0
Inventory	1,752.0	1,477.2	1,339.7	1,202.0	947.0
Net receivables	14.0	13.1	11.5	12.0	8.0
Liquid assets (securities and cash)	2.1	0.8	3.6	7.0	7.0
Other and accruals	6.0	6.3	4.6	4.0	11.0
Liabilities	1,780.1	1,501.4	1,361.8	1,227.0	974.0
Equity (including retained profits)	1.9	2.9	3.5	3.0	2.0
Provisions for risk	3.4	3.4	3.4	3.0	3.0
Total liabilities to banks/other creditors	1,772.1	1,492.8	1,342.8	1,218.0	960.0
Of which bonds	900.0	600.0	600.0	0.0	0.0
Of which Commercial Paper	302.5	99.0	0.0	0.0	0.0
Of which bank loans	438.3	696.7	732.0	1,171.0	947.0
Of which trade payables	61.3	32.2	10.8	47.0	13.0

Liabilities.
SAGESS' total debt of €1.77 billion at year-end 2003 (or about 11 times SAGESS' 2003 annual revenues), raised exclusively to finance oil stocks, accounts for almost the totality of its liabilities. The share capital was increased in February 2001 to €229,000 from €152,000, to comply with the minimum equity endowment required by French regulations for companies issuing listed bonds. When SAGESS converted its accounts into euros (June 2001), the share capital was adjusted to reach €240,000.

SAGESS started issuing long-dated bonds in 2001, raising €600 million at maturities of 2008 and 2011. Two further issues followed, in 2003 (€300 million due in 2013) and in 2004 (€350 million due in 2015), bringing the total raised to €1.25 billion as of January 2005 (see Chart 1).



In 2002, SAGESS launched a €300 million French commercial paper program ("billets de trésorerie"), which was increased to €500 million in 2003. About €100 million had been issued under the CP program by year-end 2002, increasing to about €300 million by year-end 2003, and the maximum of €500 million in March 2004. The target is to renew one-third of the program every month (at three-month maturities). Although SAGESS has no formal liquidity cushion, it maintains a CP backup line with four banks, equivalent to one month's CP redemptions.

Until 2001, all borrowing had been bank loans (apart from trade payables, and a €61 million shareholders' loan that is now gradually being replaced by an interest-free loan from the CPSSP). With the issuance of SAGESS' first three long-dated bonds, of €300 million each, the share of bank loans in total indebtedness fell to 25% of all borrowing at year-end 2003, from more than 90% as recently as 2000. That share has fallen further following the issuance of SAGESS' €350 million 10-year bond in October 2004, but SAGESS is expected to maintain a small cushion of bank loans.

SAGESS aims to maintain a majority of its borrowings at medium- and long-term maturities, to stagger maturities (see Chart 1), and to diversify funding sources. Future financing needs will depend on operational changes in the stockpiling regime and/or delegation levels (see section headed "Background and Business Description" above).

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