

RESEARCH

Societe Anonyme de Gestion de Stocks de Securite

Publication date: 02-Jul-2007
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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 or loss recovery through fees levied on oil operators

Sovereign Credit Rating

AAA/Stable/A-1+

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 oil under EU and International Energy Agency requirements, both of which ensure strong state support. The ratings are also underpinned by SAGESS' very stable financial profile 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 been tested in times of energy supply disruption due to strikes. On each occasion, SAGESS operated seamlessly.

Outlook

The stable outlook reflects that SAGESS will retain its strategic role for the French economy due to: France's dependence 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.

Background And Business Description

France is about 99% dependent on imported oil, which is the most important source of energy in the country, providing more than two-thirds of total requirements and 100% of requirements for road transport. The oil shocks of the 1970s and the more recent volatility in 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 their 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 reserves at any given time. It was formed with a view to ensuring better enforcement, safeguarding a satisfactory geographic distribution of inventories, and easing 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 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 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 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 95.0 days, respectively, effective from Sept. 1, 2003. The increase was carried out to ensure more flexibility in fulfilling 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, and the 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 78% of the CPSSP obligation at year-end 2006 (see table 1). The modifications mentioned above have further increased the strategic role of CPSSP and SAGESS.

Table 1

SAGESS Operational Indicators*							
	2006	2005	2004	2003	2002	2001	2000
(000 tons)							
Net inland consumption	65.8	66.2	66.3	65.9	66.0	67.0	65.5
French stockholding obligation	17.9	17.9	17.8	17.8	17.4	17.0	17.3
CPSSP coverage	12.5	12.1	11.9	11.4	10.7	10.4	10.3
SAGESS stocks	9.7	9.3	9.0	8.6	7.6	7.3	6.8

SAGESS share in CPSSP coverage (%)	77.6	76.9	75.7	75.4	71.3	70.3	66.0
SAGESS share in French stockholding obligation (%)	54.5	51.8	50.6	48.1	43.8	42.8	39.2
(Mil. €)							
SAGESS inventory (historical cost)	2,263.1	2083.4	1,917.9	1,752.5	1,477.2	1,340.0	1,202.0
(% change)	8.6	8.6	9.4	18.6	10.2	11.5	26.9
Of which: Gasoline (%)	7.3	8.2	8.4	9.8	12.0	13.0	14.0
Of which: Diesel oil and gasoil (%)	58.1	57.7	57.3	53.7	54.0	54.0	57.0
Of which: Jet fuel (%)	6.6	6.9	6.7	6.4	7.0	8.0	7.0
Of which: Crude oil (%)	28.0	27.2	27.6	30.2	27.0	25.0	21.0
SAGESS inventory (market value)	4,378	4,427	2,793	2,060	2,108	1,501	1,760

*Figures are in finished-product equivalent, and exclude additional stocks of crude held by SAGESS as a buffer against temporary periods of technical noncompliance with International Energy Agency stockholding rules. CPSSP--Comité Professionnel des Stocks Stratégiques Pétroliers.

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 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, and 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 of 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. 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 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 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 on 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 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 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.

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 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 2006, SAGESS' shareholders continued to comprise almost all of the oil companies that operate in France. Major international oil companies hold the majority of shares, but the proportion held by supermarket chains has been growing in recent years. Predictably, the stability of shareholders has been strong in the past few years. At year-end 2006, SAGESS had 30 shareholders (down from 37 four 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, owing to 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 owing to 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 CPSSP's important operational and financial decisions, would not assume the latter's obligations (including those 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 Erdoelbverordnungsverband (EBV; AAA/Stable/A-1+) and Corporación de Reservas Estrategicas de Productos Petroliferos (CORES; AAA/Stable/A-1+), published on RatingsDirect, Standard & Poor's Web-based credit analysis system, on Nov. 30, 2006, and Jan. 12, 2007, 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 fulfils 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, 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. The DIREM has allowed SAGESS to store a limited quantity of products (200 Kt) in Feluy in the Kingdom of Belgium (AA+/Stable/A-1+) for a limited period. 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 (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 economic, but the lack of such storage facilities in most regions limits their use if satisfactory geographic coverage is to be upheld. The DIREM has therefore required SAGESS to be in a position to release all the stocks it holds in Manosque within six months in the event of a crisis. A pipeline construction project to ensure this is under way. The cost of the pipeline (€124 million) will be entirely transferred to the fees levied on operators by CPSSP. Construction work is due to end July 2007, with the pipeline becoming operational later in the year.

In the long term, further increases in SAGESS' coverage of the national obligation, combined with a dearth of third-party storage facilities, could require additional storage solutions. Regardless of SAGESS' future storage strategy, however, all costs will continue to be met by the fees levied on operators by CPSSP.

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

Purchases and sales

SAGESS' oil purchases are made through tenders, with about 30 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 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 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). 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 insures its stocks extensively, including against 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 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, its stock release procedures were tested in response to disruptions affecting supply depots. 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.

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. 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. In addition, since 2006 a state commissioner has had veto rights over all decisions related to SAGESS' new pipeline.

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 its privileges 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 does not maintain a cushion of retained earnings. All profits are redistributed in dividends to shareholders. It maintains a €21 million overdraft facility (same-day clearance), however, spread across three banks, and €250 million in backup lines to its CP program. In addition, as at December 2006, it was only using about one-third of the €300 million bilateral credit lines it has set up with banks.

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. SAGESS has never used interest rate derivatives or futures.

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, 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, 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. 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 Indicators							
(Mil. €)	2006	2005	2004	2003	2002	2001	2000
Revenues	219.8	179.7	185.2	155.2	133.9	139.2	118.7
Receipts for services rendered to CPSSP	219.8	179.7	185.1	155.2	133.9	139.2	118.7
Expenditures	(219.4)	(179.5)	(184.1)	(153.6)	(131.8)	(135.9)	(115.6)
Products bought	(179.7)	(165.6)	(186.3)	(275.4)	(137.4)	(137.6)	(255.2)
Changes in inventory	179.7	165.6	186.3	275.3	137.5	137.6	255.2
Storage costs	(148.9)	(130.8)	(137.6)	(106.6)	(82.6)	(75.5)	(69.3)
Interest and similar expenditures	(67.4)	(46.2)	(42.4)	(42.0)	(46.5)	(57.1)	(44.1)
Personnel	(0.5)	(0.6)	(0.7)	(0.4)	(0.4)	(0.5)	(0.4)
Net income	0.6	0.7	1.2	1.7	2.6	3.3	3.1

CPSSP--Comité Professionnel des Stocks Stratégiques Pétroliers.

Net operating income is typically marginally positive (€562,851 in 2006, or 0.03% 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 for measuring performance. As explained above (see "Legal Status And Ownership Structure"), 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 compares favorably 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 all assets (see table 3). Oil stocks are valued at historical cost. This practice provides for a certain amount of "hidden reserves" (€2.1 billion at year-end 2006) as long as actual oil prices are higher than the historical purchase cost. 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, as well as the assets related to the pipeline under construction.

Table 3

SAGESS Balance Sheet - Selected Indicators							
(Mil. €)	2006	2005	2004	2003	2002	2001	2000
Assets	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4	1,361.8	1,227.0
Net fixed assets	61.4	10.0	5.2	5.7	4.4	2.4	2.0
Inventory	2,263.1	2,083.4	1,917.9	1,752.5	1,477.2	1,339.7	1,202.0

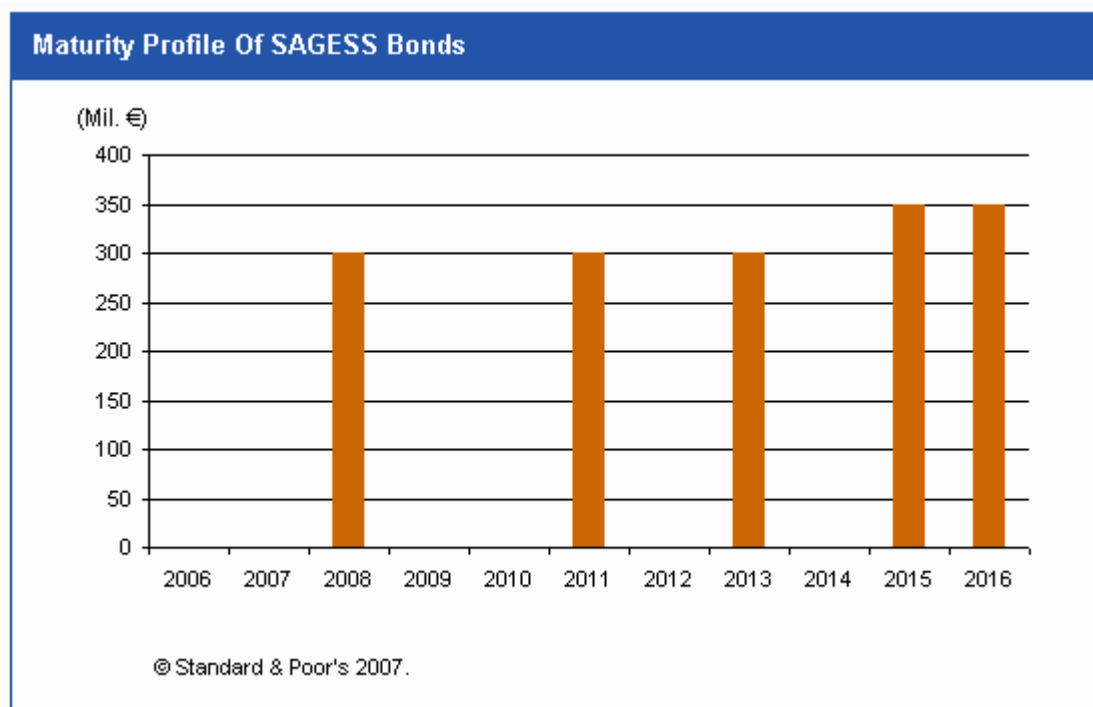
Net receivables	62.4	30.2	56.8	14.2	13.1	11.5	12.0
Liquid assets (securities and cash)	1.0	1.3	0.1	2.1	0.8	3.6	7.0
Liabilities	2,397.2	2,133.5	1,990.7	1,780.1	1,501.4	1,361.8	1,227.0
Equity (including retained profits)	0.8	1.0	1.4	1.9	2.9	3.5	3.0
Provisions for risk	0.0	0.0	3.4	3.4	3.4	3.4	3.0
Total liabilities to banks/other creditors	2,396.4	2,132.5	1,980.5	1,772.1	1,492.8	1,342.8	1,218.0
Of which: Bonds	1,600.0	1,250.0	1,250.0	900.0	600.0	600.0	0.0
Of which: CP	580.0	656.0	500.0	302.5	99.0	0.0	0.0
Of which: Bank loans	116.5	110.6	134.9	438.3	696.7	732.0	1,171.0
Of which: Trade payables	24.5	49.9	34.1	61.3	32.2	10.8	47.0

Liabilities

SAGESS' total borrowings of €2.4 billion at year-end 2006, raised exclusively to finance oil stocks, account for almost all 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. Three further issues have followed, in 2003 (€300 million due in 2013), in 2004 (€350 million due in 2015), and in 2006 (€350 million due in 2016), bringing the total raised to €1.6 billion at June 2006 (see chart 1).

Chart 1



In 2002, SAGESS launched a €300 million French CP program ("billets de trésorerie"), which was increased to €500 million in 2003, and once more to €750 million in 2005. The target is to renew one-third of the program every month (at three-month maturities). SAGESS maintains a CP backup line with four banks, equivalent to one month's CP redemptions (€250 million).

Until 2001, all borrowing had been bank loans (apart from trade payables, and a €61 million shareholders' loan that has now been replaced by an interest-free loan from the CPSSP). Following the issuance of SAGESS' first four long-dated bonds, the share of bank loans in total indebtedness fell to 5% of all borrowing at year-end 2006, from more than 90% as recently as 2000. Nevertheless, SAGESS retains €300 million in available bank financing, and it is expected to maintain a small cushion of such borrowing.

SAGESS aims to maintain 60%-70% of its borrowings in long-dated bonds (68% at year-end 2006), to stagger maturities and to diversify funding sources. 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). On current trends, the share of the national stockpiling obligation covered by SAGESS will continue to rise, necessitating further increases in borrowing to finance stock purchases.

Ratings Detail (As Of 02-Jul-2007)*	
Societe Anonyme de Gestion de Stocks de Securite	
Sovereign Credit Rating	AAA/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Unsecured	
<i>Local Currency</i>	AAA
Sovereign Credit Ratings History	
10-Jan-2001	AAA/Stable/A-1+

*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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SovereignLondon@standardandpoors.com

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