

Financing Strategic Reserves

In France

Philippe Crevant – SAGESS G'l Secretary & CFO

Petrostocks 2007
New Orleans – January 2007



Agenda

- I - France strategic reserve (SR) system set up
- II - Financing process
- III - Sourcing
- IV - Conclusions and Key Considerations

I- France SR system set up

Roles and Responsibilities

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

Operators

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

CPSSP

(“Comité Professionnel des Stocks Stratégiques Pétroliers”)

- ➔ Introduced in 1992
- ➔ Fulfillment of delegated obligation
- ➔ Coverage by stocks « lent » by oil operators (tickets) and by SAGESS stocks
- ➔ Key decisions: SAGESS purchase and sale plans, fees from operators to recover system costs
- ➔ Committee without assets or operational activities / Delegation of obligation management to SAGESS
- ➔ Bank guarantee against fee payment default

Long term

*“Convention”
(1)*



SAGESS

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

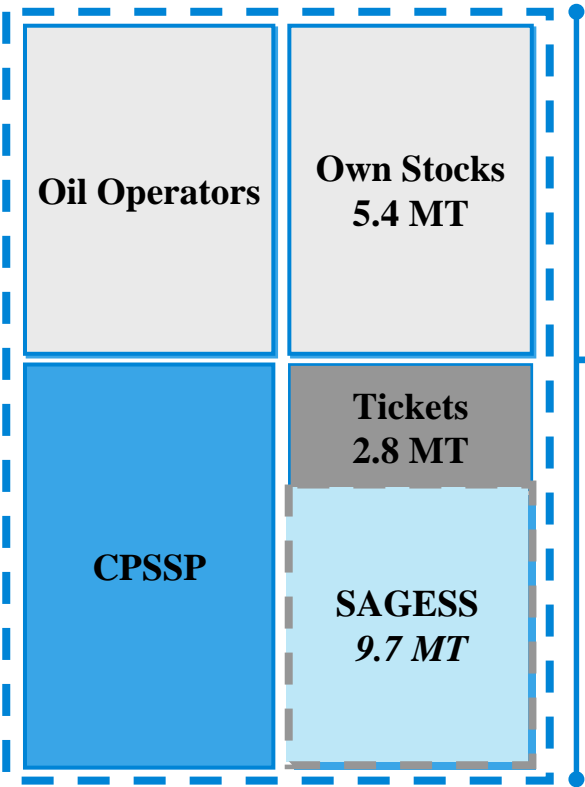
- ➔ Created in 1988 / Incorporated private Cy
- ➔ Oil reserve management as exclusive object
- ➔ Stocks acquisition, storage and maintenance
- ➔ Management of the whole system (“Convention”)
- ➔ Full cost recovery
 - ➔ All operating, administrative and debt-servicing costs covered by CPSSP
 - ➔ Can only sell upon State formal request
 - ➔ Cannot sell at loss
- ➔ **Fully responsible for its financing**

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

SAGESS

A growing central coverage and an increasing recourse to SAGESS stocks

France Obligation Coverage

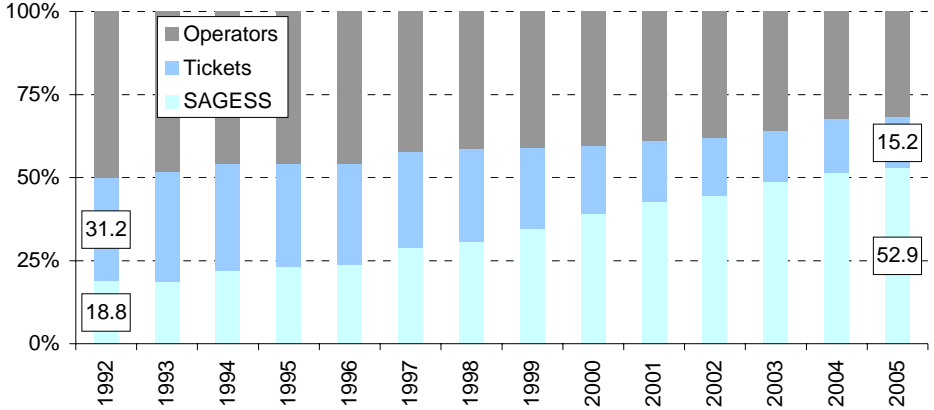


27% of the previous calendar year's volumes released for inland consumption

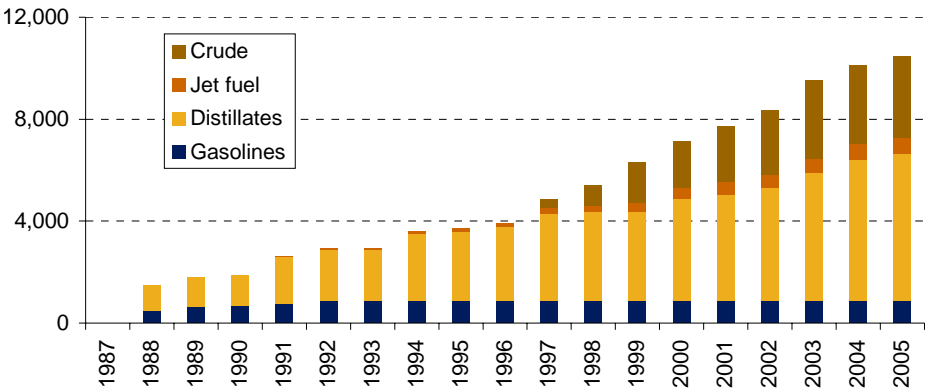
- For each product category
- Gasoline
 - Diesel oil / heating oil
 - Jet fuel
 - Heavy fuel oils

SAGESS's Increasing Importance

National Obligation Coverage



SAGESS Stocks Evolution (KT)



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

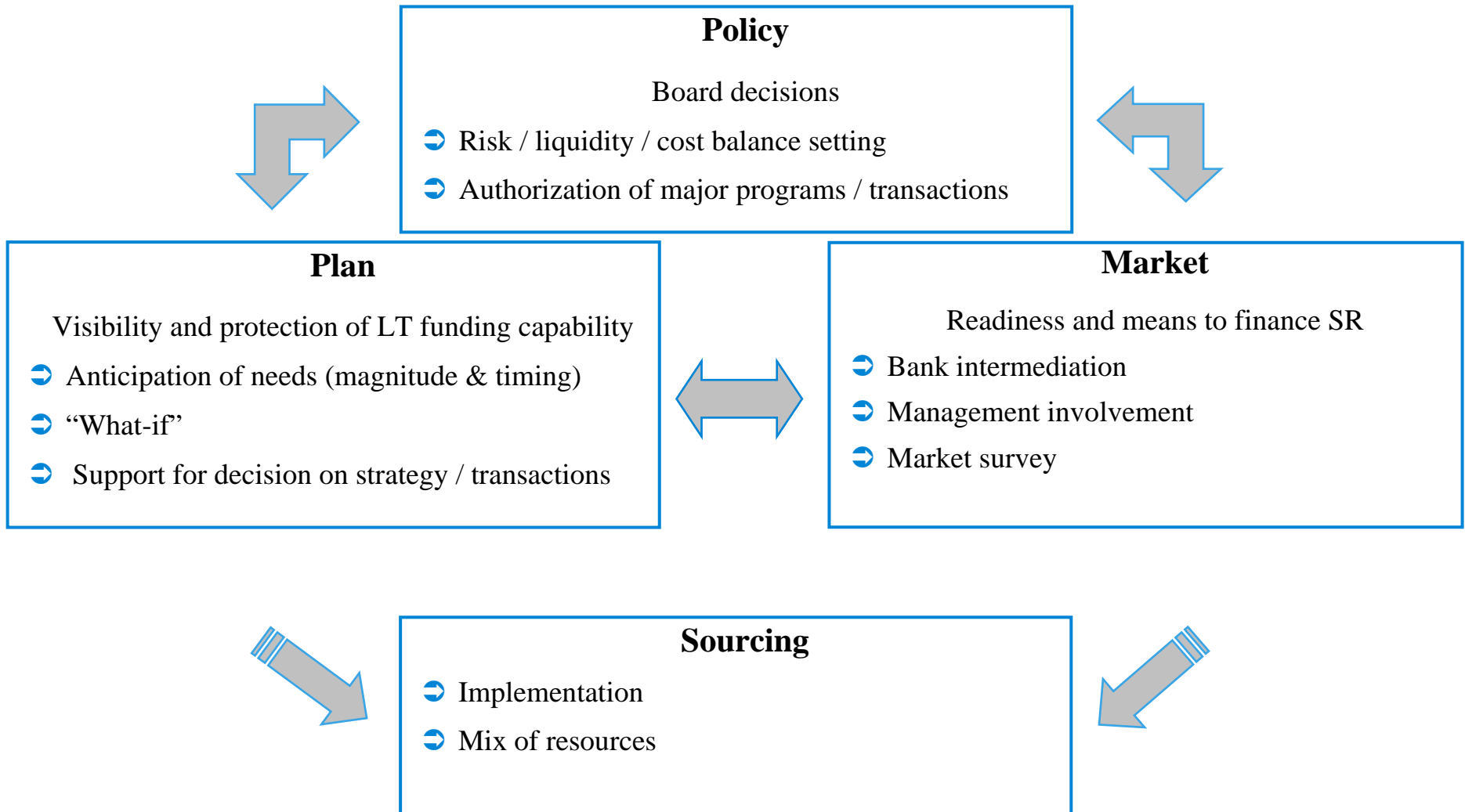
I- France strategic reserve system set up



II- Financing process

Process Components and Stakeholders

A business critical process, under close control



Policy

Board decision on Risk - Liquidity - Cost balance

- ➔ Formal Board approval on
 - ➔ Business critical orientations to secure and optimize long term financing
 - ➔ Major financial program or transaction / Delegated authorities
- ➔ Preparatory process: LT plan ➔ Market assessment ➔ Proposal build up ➔ Shareholders consultative Finance Committee review
- ➔ Policy made available to rating agencies, bank contacts and summarized in all financial reports

Current Policy

- ➔ Raise funds when needed to finance the stocks and the assets, and at competitive cost
- ➔ Minimum risk taking with 60 - 70 % of funds from medium and long term borrowings
- ➔ Flexibility, in case of stock release (30 - 40 % rapidly reimbursable)
- ➔ Staggered maturities (about 300 M€each)
- ➔ Diversification of funding sources
 - ➔ Bonds / Commercial paper / Bank loans
 - ➔ National and International
- ➔ Short term floating interest rate
- ➔ No foreign exchange or oil price exposure
- ➔ No derivatives except swaps of new bonds issues (Board prior approval)

Plan

Anticipation and protection of financing capability

Yearly process / Ad hoc simulation of all possible material changes

- ➔ “High” - “Low” scenarios to test sufficiently different, but possible, “futures”
- ➔ Flexible planning horizon (3 - 5 yrs typically)
- ➔ Simple stand-alone worksheet model integrating key SR system components

Deliverables

- ➔ Impact assessment of possible changes in key variables
 - ➔ SR regulation
 - ➔ Change in / from operators
 - ➔ Petroleum market (consumption & market positions)
- ➔ Identification of risks / sensitivities / limits
- ➔ Financial needs magnitude and timing
- ➔ Financing alternatives
- ➔ Adequacy of financing policy
- ➔ Basis for Board decision on policy and on major financial transactions

Shared and discussed with Finance Committee, Board, bankers, rating agencies

Market

Stable and LT bank relations with periodic presence on market

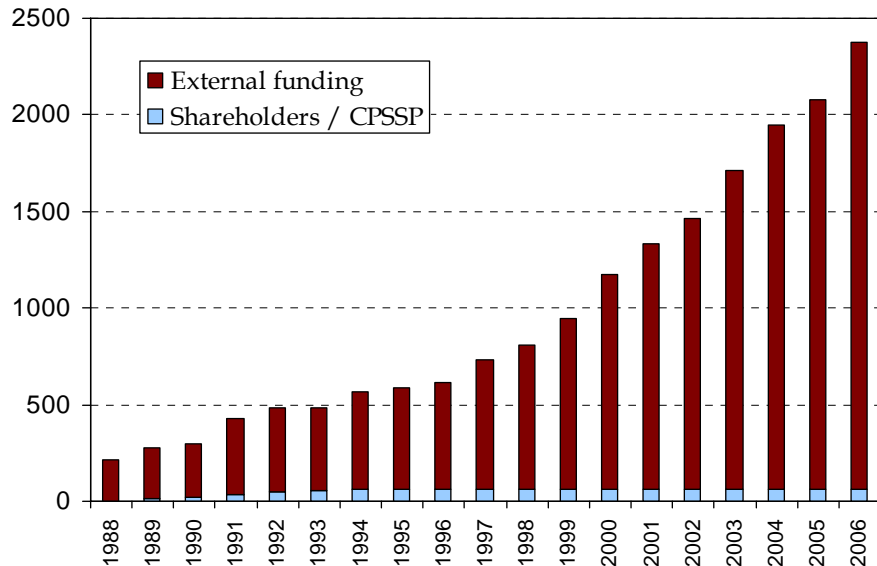
- ➔ France SR financing quite “basic” from a financial market perspective
 - ➔ Stable set up - Transparent policy – Predictability
 - ➔ Easy risk assessment for lenders / investors
 - ➔ Infrequent market transactions / Moderate amounts
- ➔ Stable and adequate LT banks “pool” as the key liaison with the financial market
 - ➔ Mix of bank profiles to ensure access both to local resources and international operations
 - ➔ Reasonable number to maintain competition while remaining manageable (11 banks currently)
 - ➔ Banks size commensurate with SAGESS profile and needs
 - ➔ Transparency as a working rule
 - ➔ Periodic in-depth market review and screening of opportunities
 - ➔ Detailed SAGESS business case study as needed
- ➔ Direct SAGESS management involvement at each market transaction (roadshow and documentation)
 - ➔ Proper understanding of French SR system and related exposures (or absence of)
 - ➔ SAGESS role, responsibilities, businesses, risks, organization, staffing, etc.
 - ➔ Orientation of marketing targets and of support documentation
 - ➔ Long term investment
- ➔ Specialized publications, conferences, etc. on an on-going basis / No “Reuters” or “Bloomberg”

III- Sourcing

Financial Needs and Coverage

Minimal “capital” / 98% of the total balance sheet made of stocks financed by borrowings.

SAGESS Financing - M€



YE '05 Balance sheet – M€

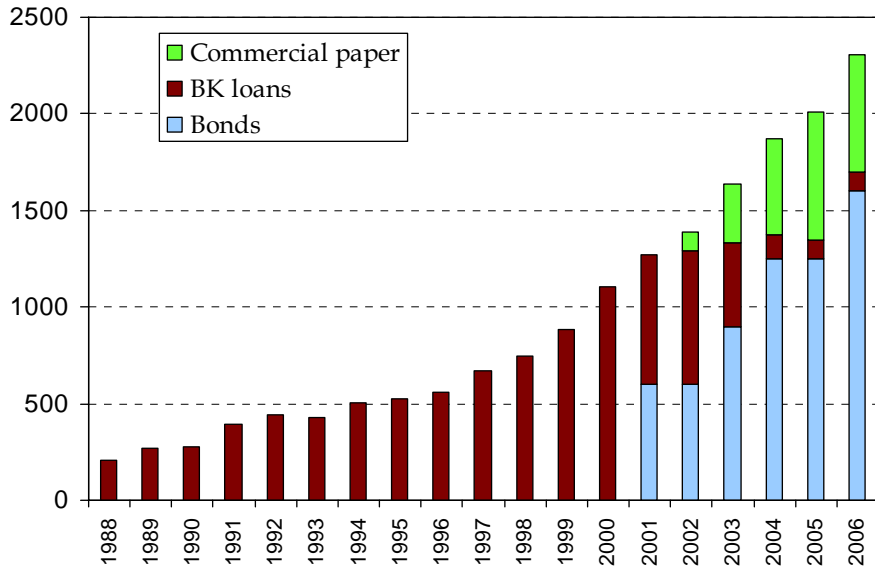
	Assets	Liabilities	
Fixed assets	10	1	Net worth
Oil stocks	2,083	2,079	Borrowings
Receivables & others	40	53	Payables & others
Total	2,133	2,133	Total

- Maximum leverage effect enabled by strong regulatory framework (No loss, full cost recovery, predictability)
- Change drivers (in decreasing importance):
 - Regulation: % of reserve obligation, % of delegation, stock release in case of crisis
 - Petroleum products consumption (“90%” vs. “56%” relative market position, total consumption)
 - Petroleum products price & €\$ rate

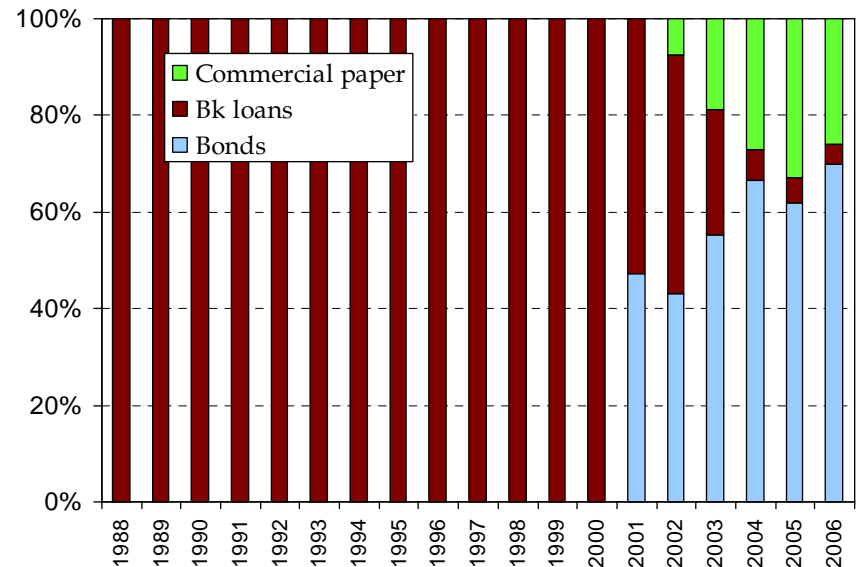
Mix of funds

From traditional / local financing to market / international sourcing

External funding sources - M€



External funding sources - Proportion



- ➔ First S&P “AAA” rating early 2001 / No justification for a second rating
- ➔ Liquid and favorable financial market / LT bank orientations from lending to intermediation
- ➔ Mgt involvement required for “marketing” of bonds (cost, diversification)
- ➔ LT financing secured: Bonds for 10 yrs, CP for 1 yr (but low-cost back up lines behind), Bk loans for 2 - 3 yrs
- ➔ Current funding mix 3 M€/ Yr cheaper than 100% bank borrowings

IV- Conclusions & Key Considerations

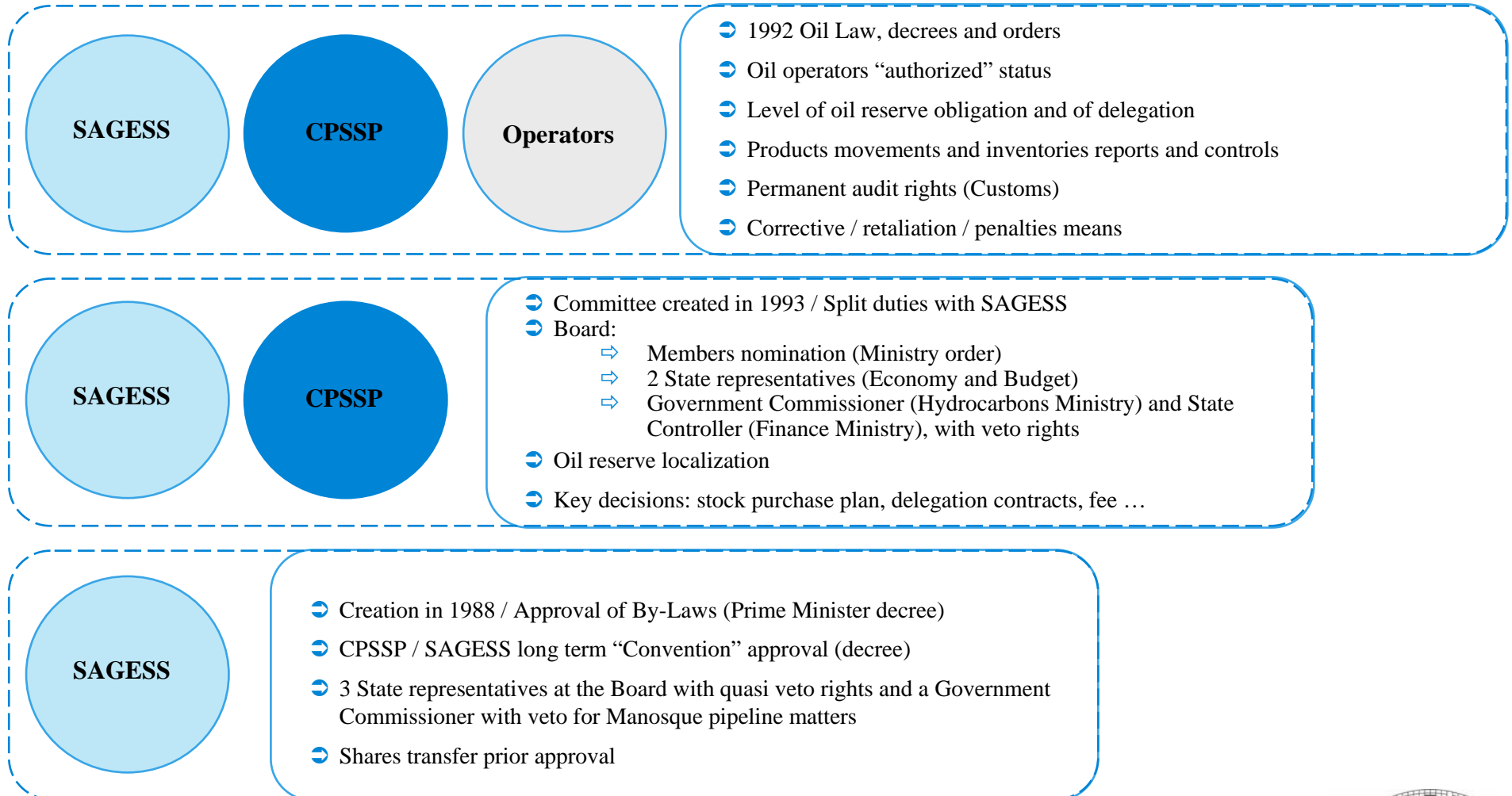
Conclusions and Key Considerations

- ➔ SR financing is a long-term business critical process, requiring management attention and involvement
- ➔ SR system set up conditions options and limits
 - ➔ Transparency & predictability
 - ➔ Credit worthiness
- ➔ Direct access to the financial market (and rating)
 - ➔ Seems to be a long term pattern
 - ➔ Constitutes a step change
 - ➔ Creates visibility, expectations and responsibilities
 - ➔ For all agency activities (corporate consistency and governance)
 - ➔ To be sustained on the long run
 - ➔ Requires direct management involvement in all market transactions
- ➔ SR financing remain relatively “standard”
 - ➔ No specific concepts and issues
 - ➔ No need for sophistication (transactions type, organization, tools)

Back Ups

SR France Regulatory Framework

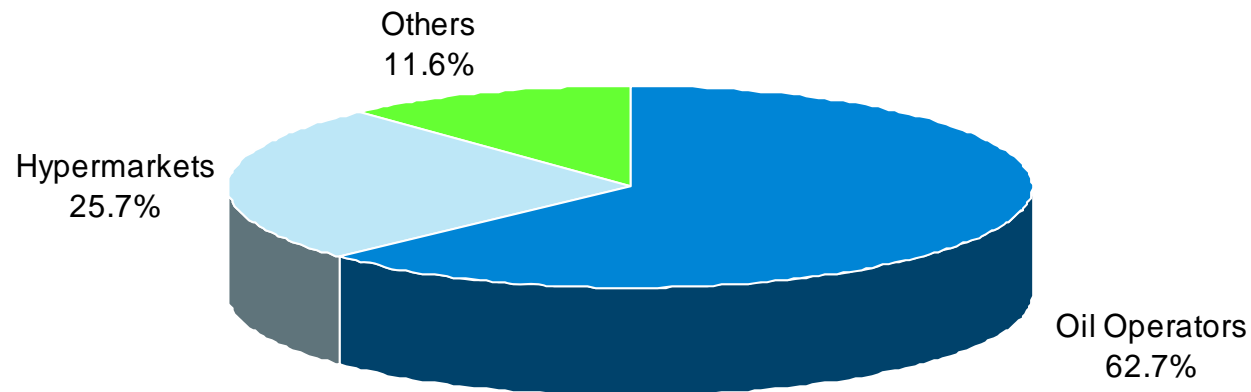
All components of the system under a tight and permanent control of the State



A Stable and Oil Industry Representative Shareholding Structure

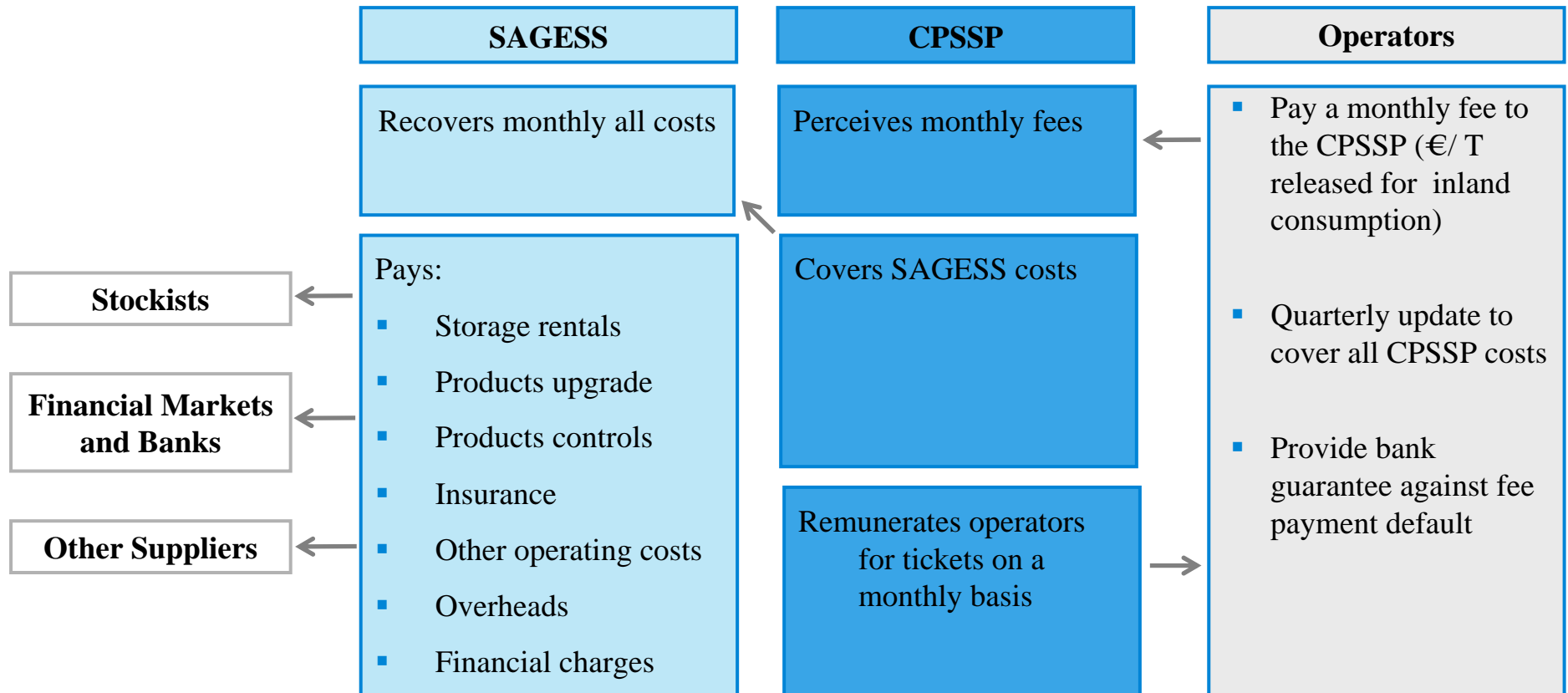
SAGESS is a private company owned by most of the players in the oil sector

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



Full Cost Recovery

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



SAGESS Profit & Loss Account

SAGESS cannot make a loss and is exempt from corporate taxes

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

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