

Financing Strategic Reserves

At Crisis Time

Philippe Crevant – SAGESS G'l Secretary & CFO

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Agenda

I - Background

- ~ Financial schemes
- ~ Financial resources providers

II - SAGESS Preparedness

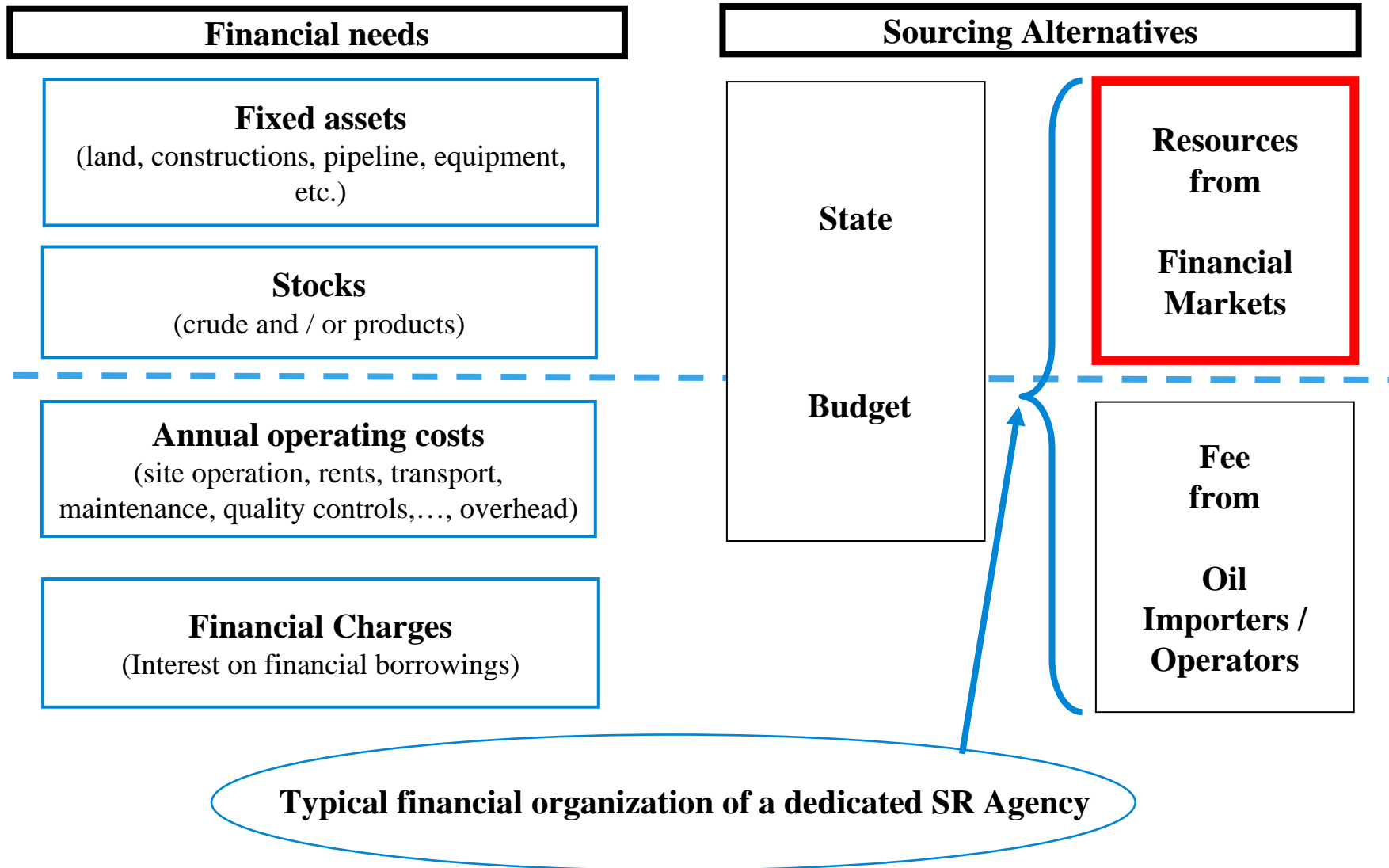
- ~ Financial process
- ~ Financial policy
- ~ Financial needs

III - 2008 Business case

IV - Conclusions

- ~ Lessons learned
- ~ Key considerations

Financial schemes - *From State Budget to financial autonomy*



Financial Resources Providers - *Towards direct market access*

A typical Agency pattern is :

- ~ Limited capital
- ~ A certain proportion of banks loans (more expensive but more secured...when available)
- ~ Direct access to the markets after some years and if SR system / Agency set up allows (authorization and /or credit worthiness)

Capital

Provided by shareholder (s)

Capital locked to keep close control over the Agency

Not preferred

Bank loans

Individual or syndicated loan contract (s)

From short to long term

Guarantee of the bank (s)

More flexible / expensive vs. direct market access

Financial Markets

(Commercial paper, bonds, EMTN, etc.)

Direct market access

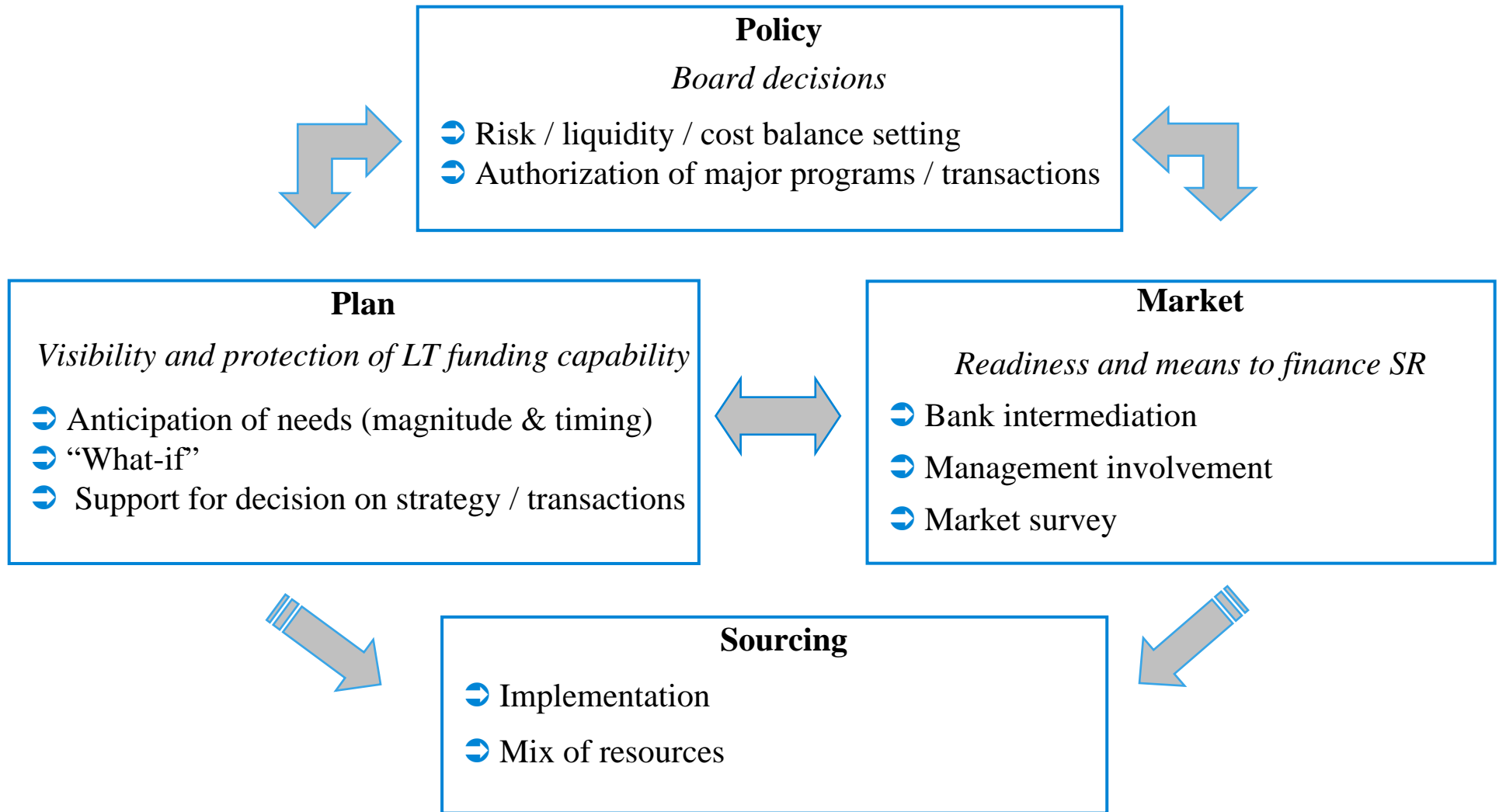
From short to long term

Rating required

Heavy contractual documentation

Complexity / Volatility

SAGES Financial Process - *Under Board close control*



SAGES Financial Policy – *Focus on liquidity*

Objectives

- ➔ Raise funds at competitive cost when needed to finance the stocks and the assets
- ➔ Majority of funds from medium and long term borrowings
- ➔ Staggered maturities
- ➔ Diversification of funding sources
- ➔ Flexibility in case of stock release

Current Debt Structure

- ➔ Majority of long term debt
- ➔ Bonds, banks loans, commercial paper
- ➔ 750 - 1,250 M€commercial paper program, with back-up lines with banks

Stock Evolution

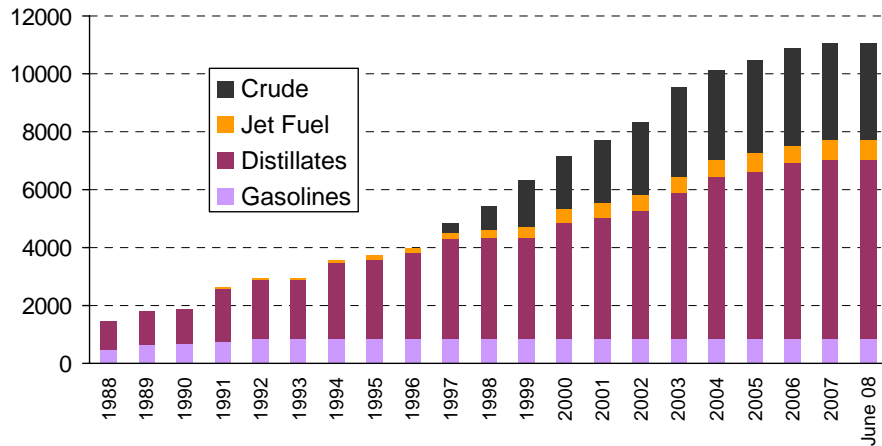
- ➔ Borrowings follow the evolution of the stocks

Risk Management

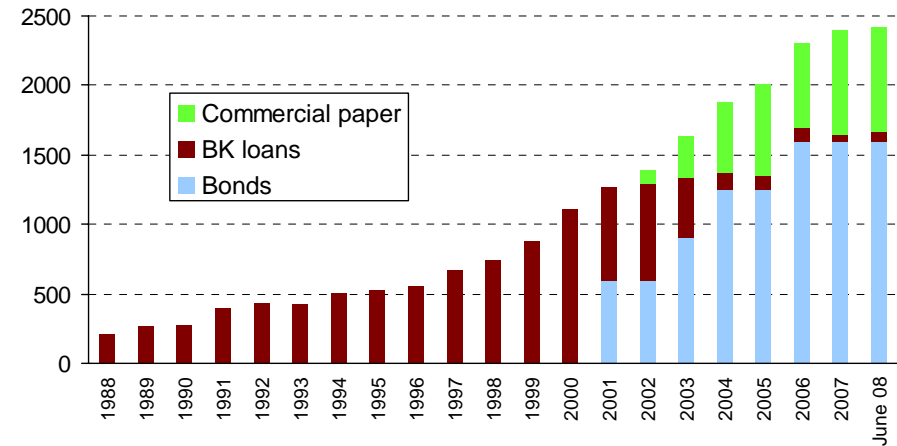
- ➔ Short term floating rate debt policy
- ➔ No exposure to currencies or oil price
- ➔ No derivatives except swaps of bond issues (Board prior approval)
- ➔ Periodic insurance risk assessment, insurance contracts in place (property products, environment, third party), high limits and limited deductibles. Dedicated PSM coverage

SAGESSE Financial needs - 2.4 G€ of borrowings / "AAA" S&P

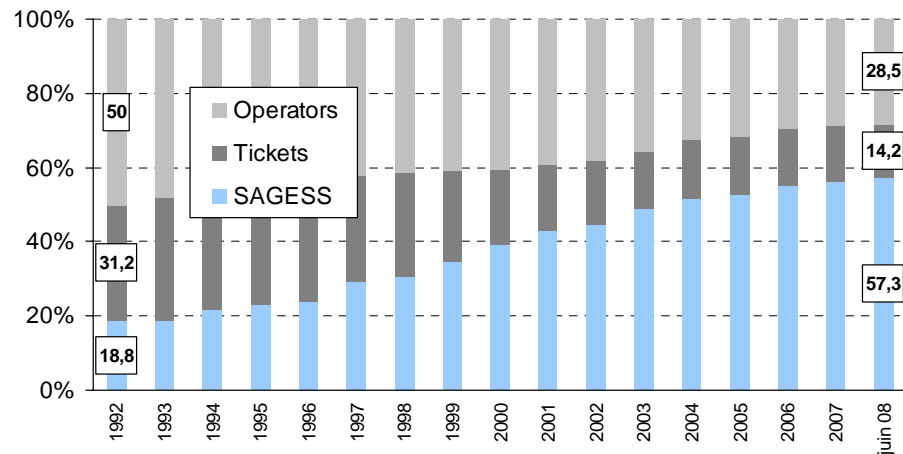
SAGESSE stocks Evolution (KT)



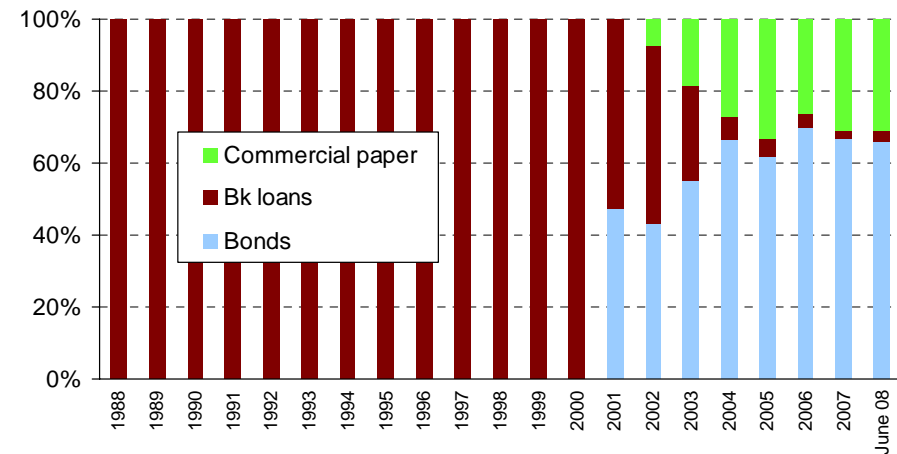
External funding sources (M€)



National Obligation Coverage



Proportion of funding sources (%)



2008 Business case – *The wrong year*

Market	SAGESS
2006: liquid and attractive market	June 2006: 350 M€10 yr bond issue at low spread
2007 (2 nd S) : <ul style="list-style-type: none">- Real Estate related write offs- Liquidity crisis in August- Instability, volatility, low visibility	2007 : no needed financial operation / Market monitoring Dec '07 & March '08 Board : 300 M€needed in '08 / Sensitivity identified but assessed as negligible
2008 (1st S) : <ul style="list-style-type: none">- Subprime write-offs (continued)- Interest rates and spreads rising- Instability, volatility, low visibility- “Windows” market	June '08 Board : 500 M€needed in '08 / 250 M€in '09 ? Bonds issue process <ul style="list-style-type: none">- All banks met in 2Q to deepen market intelligence- June Board authorization (500 - 750 M€)- Bonds documentation done early August- CFT to select book runners late August- BNPPARIBAS & Merrill Lynch retained early Sept- Roadmap established- Marketing / Road show ready to go

2008 Business case – *The wrong year*

Market

Mid Sept:

- BOA / Merrill Lynch
- Lehman Brothers
- AIG,
- ➔ WW financial markets collapse
- ➔ No liquidity / No investor

After mid October (on the €market) :

- Massive State-guaranteed bank bonds issues
- A few “Corporate” issues at high cost
- Short durations

SAGESS

All aspects of the financial strategy reconsidered in urgency:

- Financial Committee and Board meetings
- Bonds issue pursued with enlarged limits (1,250 M€)
- CHF allowed / USD considered & not retained
- CP program revised from 750 to 1,250 M€
- Shareholders advance discussed
- Cash surplus investment supports strengthened

Marketing pursued differently

439 M€ secured in two steps:

- 275 M€ mid Oct. for 8 yrs (re-opening of the €market)
- 164 M€ (250 MCHF) late Nov. for 3 yrs

No other opportunities

Lessons learned

Critical success factors

- Status
 - ~ « AAA » to grasp opportunities, but not a full guarantee
 - ~ Consistent communication, transparency and absence of undue sophistication
- Focus on liquidity
 - ~ Exposure reduced with staggered maturities
 - ~ Back up bank credit lines (cost acceptable as some “insurance premium”)
- Diversification
 - ~ Financial alternatives available (sources & maturities)
 - ~ Other currencies as a fall back
- Organization
 - ~ Financial planning to share reference business cases and key sensitivities
 - ~ Periodic reviews at Board to favor mutual understanding and foster reactivity
 - ~ Financial Committee (shareholders “experts”) to mitigate limited size of the Agency
 - ~ Right choice of book runners

Room for improvement

- ~ Two-layer French SR set up (SAGESS + CPSPP) confusing for investors
- ~ SAGESS organization still a constraint at peak time
- ~ Banks “pool” to be reconsidered
- ~ Further diversification of funding:
 - CHF market in the base case ?
 - EMTN program, if sustainable for the organization

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)
 - ➔ Constitutes a step change
 - ➔ Impacts structurally the organization (exposures, staffing, controls, Board agenda)
 - ➔ Creates international visibility, expectations and responsibilities
 - ➔ For all agency activities (corporate consistency and governance)
 - ➔ To be sustained on the long run
 - ➔ Requires heavy 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

Responsibility for France's Reserves Obligation...

...Rests 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 (17.4 MT as of 1st July 2008)
 - ⇒ 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”)

- Fulfillment of delegated obligation
- Coverage by additional 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”)

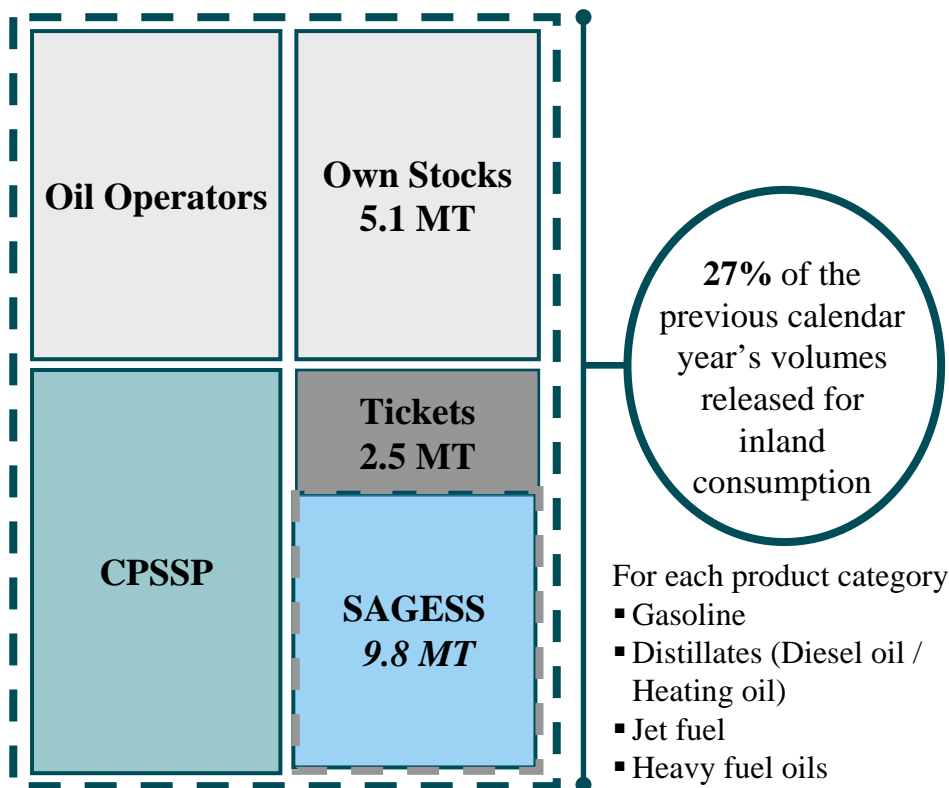
- Oil reserve management as exclusive object
- Stocks acquisition, storage and maintenance
- Management of the whole system (“Convention”)
- All operating, administrative and debt-servicing costs covered by CPSSP
- Can only sell upon State formal request
- Cannot sell at loss

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

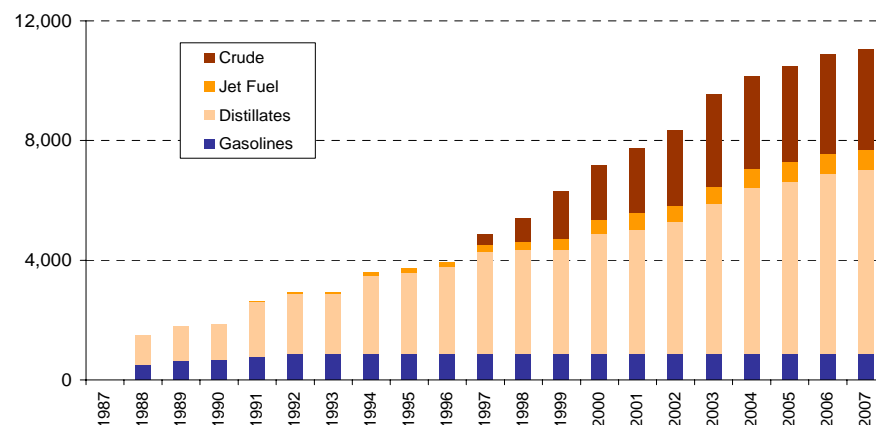
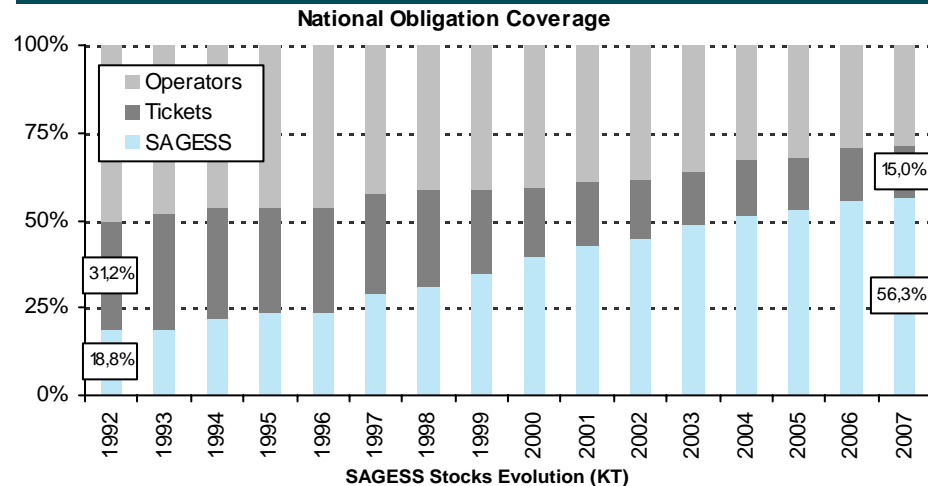
SAGESSE is at the heart of France's Reserve obligation...

...with a growing central coverage and an increasing recourse to SAGESSE stocks

France Obligation Coverage



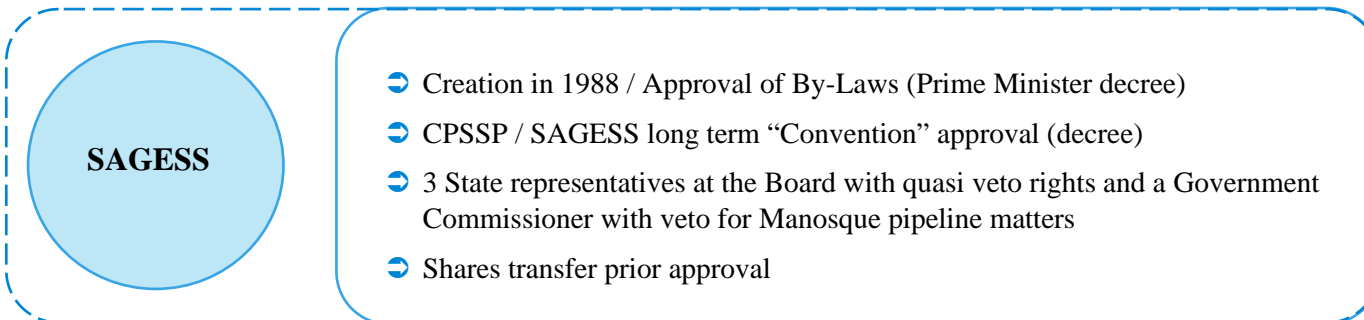
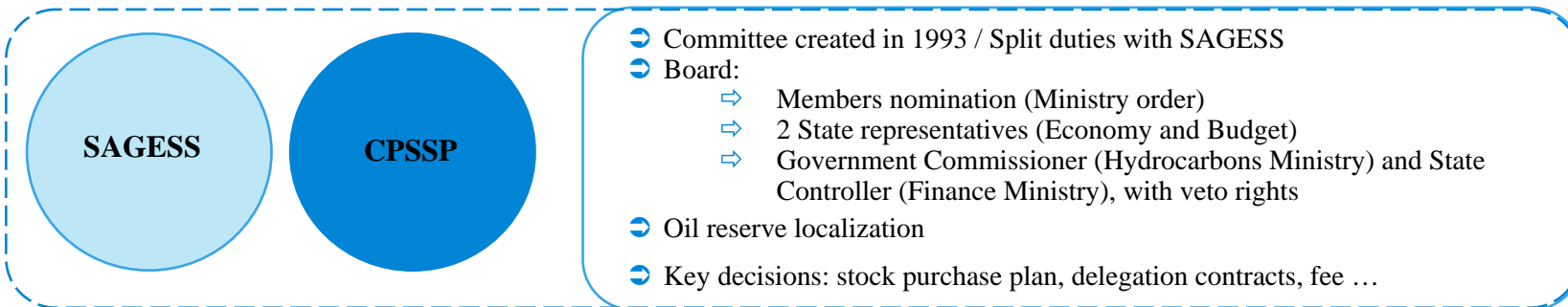
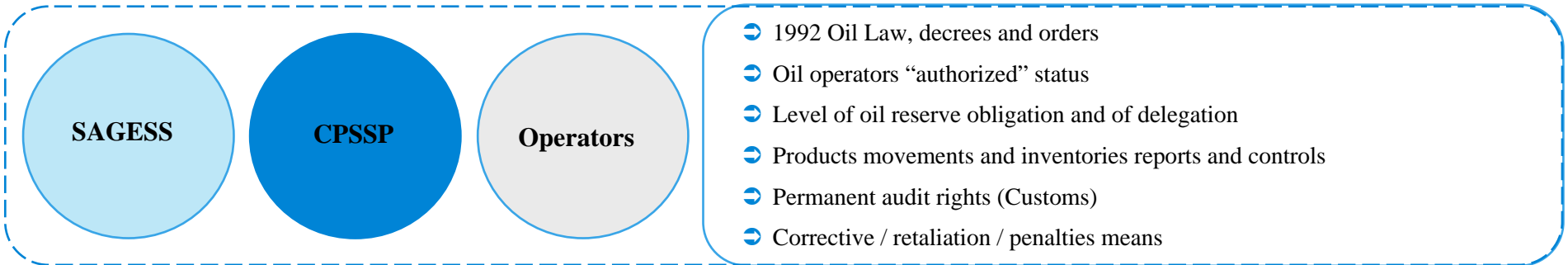
SAGESSE's Increasing Importance



France Obligation Fulfilment: 17.4 MT as of 1st July 2008

SR France Regulatory Framework

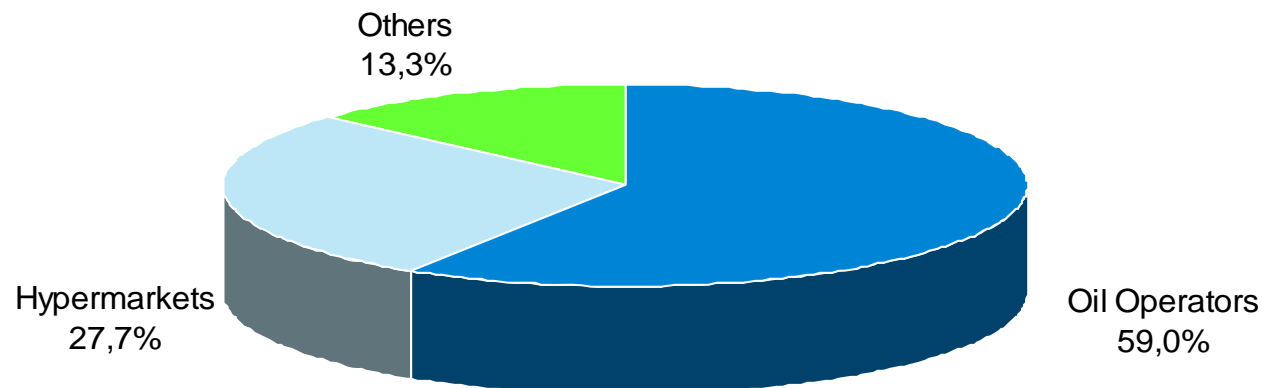
All components of the system under a tight and permanent control of the State



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
 - ➔ 28 shareholders at year-end 2007
 - ➔ 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 2007
- ➔ Shares can be transferred only with the government’s prior approval



Financial 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

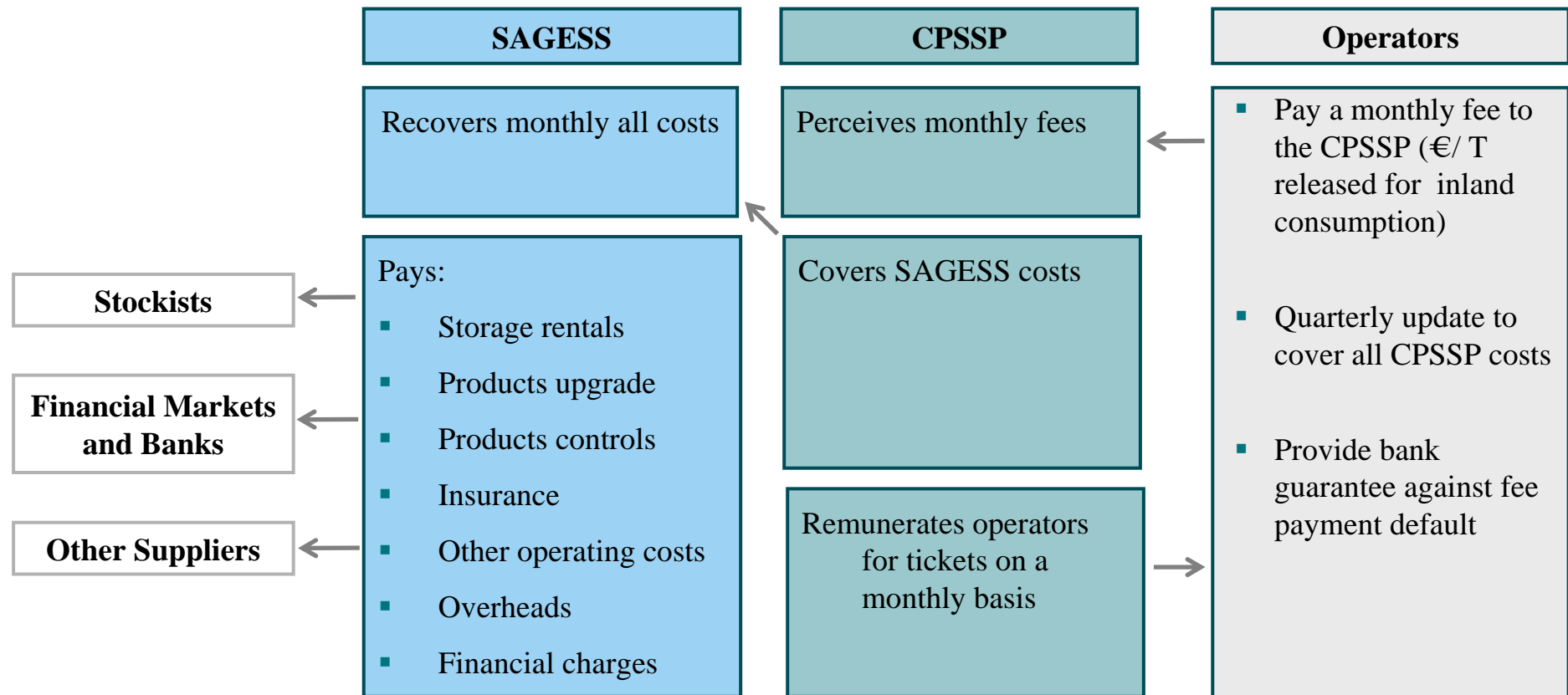
Market Interfaces

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”

Full Cost Recovery

SAGESS and CPSSP are by Law self sustaining entities, which sets aside any cost recovery issue



SAGES Summary Balance Sheet

95% of the total balance sheet is made of stocks financed by borrowings. Stocks are protected against a fall in oil price and are insured

Assets			Liabilities		
€m	Year End 2007	Year End 2006	€m	Year End 2007	Year End 2006
Total Fixed Assets	121	62	Net Worth and Provisions	-	1
Oil Stocks	2,329	2,263	Borrowings	2,477	2,357
Receivables and others	88	72	Payables and Others	61	39
Total Assets	2,538	2,397	Total Liabilities	2,538	2,397

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
- ➔ 94% of borrowings is based on variable rates
- ➔ Preferential tax regime – No corporate income tax

€m	Year End 2007	Year End 2006
Cost recovery from CPSSP	280.4	219.8
Products storage costs	(176.8)	(148.9)
Other charges	(4.2)	(2.8)
Financial charges	(99.2)	(67.6)
Net Result	0.2	0.5