

## Corporacion de Reservas Estrategicas de Productos Petroliferos

### Rationale

The ratings on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) are based on expected and continued support from the Kingdom of Spain (AAA/Stable/A-1+). This expectation is justified by CORES' strategic importance for the national economy and its legal status as a public entity, which implies tight supervision by the Spanish state and the latter's ultimate responsibility for all of the entity's obligations. CORES benefits from a favorable regulatory environment, characterized by a full-cost, fee-based funding system that provides it with a predictable and flexible financial profile.

CORES' legal mandate is to ensure compliance with obligations under Spanish law and international regulations regarding the strategic stockholding of oil and gas products. CORES was established in 1994 as a public entity and its legal status can only be changed by law.

CORES does not receive any funds from the government, nor has the state granted an explicit guarantee of CORES' liabilities. The law does not, however, preclude the granting of state financial support to CORES in a potential stress scenario.

CORES is funded exclusively through the monthly quotas it receives from its members. All oil and gas operators and importers in Spain are required by law to pay fees to CORES; failure to do so can eventually result in the termination of an operator's activities. By law, fees are set to cover all operating, financial, and administrative costs. In the event of unforeseen circumstances that could put CORES' liquidity and/or solvency at risk, the government is entitled by law to charge an extraordinary fee to CORES' members at any time.

Default and arrears on fee payments have, to date, been of minimal importance. Fee income surpluses and the selling of stocks at a profit have enabled CORES to gradually build up its financial reserves, which are expected to have totaled €66.5 million at year-end 2005. CORES borrows funds in the financial markets to finance the purchase of oil stocks.

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It has easy access to the international financial markets, which reflects the state support ensured by its legal framework. CORES' outstanding long-term debt was an estimated €671.5 million at year-end 2005, bearing no currency risk.

### **Outlook**

The stable outlook reflects the likelihood that CORES, based on its strategic role for the Spanish economy, will keep receiving strong implicit government support given that Spain's oil imports account for nearly 100% of the country's consumption needs. Standard & Poor's Ratings Services does not expect any changes to CORES' legal or regulatory status that would undermine its creditworthiness in the foreseeable future, given the continued strategic importance of the entity for the Spanish government. Total debt is expected to increase to €2 billion by year-end 2007, owing to the requirement to increase reserves gradually to 45 days of supply. This growth is unlikely to erode CORES' financial solvency or liquidity, however, given that the financial cost increase associated with the debt rise will be offset by fee hikes, which are expected to be absorbed easily by members.

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