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### Research Update:

## CORES Long-Term Rating Lowered To 'AA' Following Spain Downgrade; Outlook Negative

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## Research Update:

# CORES Long-Term Rating Lowered To 'AA' Following Spain Downgrade; Outlook Negative

## Overview

- In our opinion, Spain is likely to have an extended period of subdued economic growth, which weakens its budgetary position.
- We have lowered our long-term rating on the Kingdom of Spain to 'AA' from 'AA+' and assigned a negative outlook.
- Since our ratings and outlook on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)--the public entity responsible for Spain's strategic oil reserves--are based on an equalization with those on the sovereign, we are lowering our long-term rating on CORES to 'AA' from 'AA+' and assigning a negative outlook.
- The negative outlook on CORES indicates the downgrade that would occur if we were to lower our ratings on Spain.

## Rating Action

On April 28, 2010, Standard & Poor's Ratings Services lowered its long-term issuer credit rating to 'AA' from 'AA+' on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), the public entity responsible for Spain's strategic oil reserves. At the same time, the 'A-1+' short-term issuer credit rating was affirmed. The outlook is negative.

## Rationale

The rating actions are the same as those we have taken today on the Kingdom of Spain (AA/Negative/A-1+). The 'AA' long-term rating on CORES is based on an equalization with the long-term sovereign credit rating, reflecting Standard & Poor's opinion that there is an "almost certain" likelihood that the Spanish government would provide timely and sufficient extraordinary support to CORES in the event of financial stress.

In accordance with our criteria for government-related entities (GRES), our rating approach is based on our view of CORES':

- "Integral" link with the Spanish government. CORES is a public-law entity, tightly controlled and supervised by the Spanish Ministry of Industry. We see CORES as an extension of the government, specifically mandated to build up, manage, and control the nation's strategic oil reserves in accordance with EU and international legislation. CORES does not receive funds from the government, nor does it benefit from any explicit guarantee on its liabilities. However, the government provides CORES with what we deem to be strong ongoing support in the form of a regulatory framework under which oil and gas operators have the

obligation to pay whatever fees are necessary to fully cover all of CORES' costs--including debt service. Standard & Poor's believes that this framework would safeguard a smooth sovereign takeover of CORES' obligations if needed.

- "Critical" role as an entity specifically formed to provide a strategic public service on behalf of the Spanish government. CORES has a specific mandate to monitor the level of Spain's oil reserves--virtually all of which come from imports--and ensure that they are sufficient to cover the country's oil consumption needs. Only the government itself would, in our opinion, be able undertake CORES' mandate.

CORES borrows funds in the international financial markets to finance the purchase of oil stocks. We estimate that total debt is likely to have reached about €1.9 billion at year-end 2009, with no currency risk. We understand from CORES that it plans to place a €0.5 billion bond in 2010. In our opinion, further debt increases are likely, in light of CORES' strategy to continue to build up security stocks.

## **Liquidity**

CORES has limited need for short-term credit lines for operating and debt servicing purposes, since the government budgets the fees that CORES receives to fully cover all costs, and members pay the fees monthly. Moreover, CORES' budgeting is often conservative; hence, fees surpass effective costs (CORES returns the excess to operators at year-end). However, CORES does borrow for investment purposes (i.e., stock building), and took on €243.5 million in short-term credit lines at year end 2009 in this respect. Committed credit lines from Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and Crédit Agricole Corporate and Investment Bank (formerly Calyon) represent some €515 million. We understand that CORES will refinance this short-term debt with the proceeds of a €500 million bond that it will issue shortly.

CORES' debt amortization profile involves long-term debt repayment of €84 million in 2010 and €18 million in both 2011 and 2012. In 2013 and 2018, CORES faces debt repayments of €350 million and €500 million, respectively.

## **Outlook**

The negative outlook on CORES reflects that on Spain, which, in turn, reflects the possibility of a downgrade if Spain's fiscal position underperforms to a greater extent than we currently anticipate.

Conversely, we could revise our outlook on Spain, and hence CORES, to stable if the government meets or exceeds its fiscal objectives in 2010 and 2011 and Spain's economic growth prospects prove to be more buoyant than we currently envisage.

## Related Criteria And Research

- Spain Downgraded To 'AA' On Protracted Economic Adjustment And Risks To Budgetary Position; Outlook Negative, April 28, 2010
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

## Ratings List

Downgraded; Ratings Affirmed

	To	From
Corporacion de Reservas Estrategicas de Productos Petroliferos		
Issuer Credit Rating	AA/Negative/A-1+	AA+/Negative/A-1+
Senior Unsecured	AA	AA+

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Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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