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### Research Update:

## Spain's Corporacion de Reservas Estrategicas de Productos Petrolieros 'AA-/A-1' Ratings Affirmed; Outlook Negative

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## Overview

- We believe that there is an "almost certain" likelihood that the Spanish government would provide timely and sufficient extraordinary support to state oil agency Corporación de Reservas Estratégicas de Productor Petrolíferos (CORES), if needed.
- As a result, we equalize our rating on CORES with that on the Kingdom of Spain.
- We are affirming our 'AA-/A-1+' issuer credit ratings on CORES.
- The negative outlook on CORES mirrors that on Spain, which, in turn, reflects our view of the risks to Spain's economic growth linked to private sector deleveraging, external financing pressures, and their impact on budgetary consolidation.

## Rating Action

On Nov. 14, 2011, Standard & Poor's Ratings Services affirmed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES), the public entity responsible for managing Spain's strategic oil reserves. The outlook is negative. At the same time, the 'AA-' issue rating on CORES' senior unsecured debt was affirmed.

## Rationale

The long-term rating on CORES continues to reflect the long-term rating on the Kingdom of Spain (AA-/Negative/A-1+), since we believe 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 distress.

CORES is a corporation governed by Spanish public law and acting under private law. It is subject to the supervision of the central government, exercised through the Ministry of Industry, Tourism, and Trade. We consider it to be a government-related entity (GRE). In accordance with our criteria for 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, Tourism, and Trade. 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 view as 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. We believe 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 to undertake CORES' mandate.

CORES borrows funds in the local and international financial markets to finance the purchase of oil stocks. Total debt on Aug. 31, 2011, stood at €1.88 billion.

## **Liquidity**

In our view, CORES' liquidity position remains "adequate" under our criteria, given that CORES takes into consideration all of its expenses, including debt service, when determining the annual fees applicable to its members.

CORES' liquidity position also benefits from debt that is primarily long term (86% of total debt) and from conservative budgeting, with fees that are set slightly above expected expenditures (CORES typically returns the excess to operators at year-end). In addition, on Nov. 3, 2011, CORES had credit lines of €330 million, of which €80.5 million were available.

However, CORES faces debt repayments in the amount of €599 million in 2013 (€350 million from long-term debt, and €249.5 million from credit lines). Although CORES has the possibility of increasing 2013 fees to meet these repayments, we expect CORES to refinance these maturities. We believe that CORES will likely start looking for funds in 2012, and break up its refinancing into smaller debt instruments (loans or bonds), thereby smoothing out the maturities over time. We assume CORES will not have any problems in accessing capital markets to refinance these maturities.

## **Outlook**

The negative outlook on CORES reflects that on Spain. A downgrade of the sovereign would also result in a downgrade of CORES.

The negative outlook on Spain reflects our view of the risks to Spain's economic growth linked to private sector deleveraging, external financing

pressures, and their impact on budgetary consolidation.

We could lower the ratings on Spain if, consistent with our downside scenario, the economy contracts in 2012, Spain's fiscal position significantly deviates from the government's budgetary targets, or additional labor market and other growth-enhancing reforms are delayed.

Conversely, we could revise the outlook on Spain, and thus, on CORES, to stable if, consistent with our upside scenario, the government meets its budgetary targets in 2011 and 2012, risks to external financing conditions subside, and Spain's economic growth prospects prove to be more buoyant than we currently assume.

## Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Summary: Corporación de Reservas Estratégicas de Productos Petrolíferos, Oct. 18, 2011
- Long-Term Rating On Spain Lowered To 'AA-' On Economic Growth And Banking Sector Risks; Outlook Negative, Oct. 13, 2011.
- Spain-Based Corporación de Reservas Estratégicas de Productos Petrolíferos 'AA/A-1+' Ratings Affirmed; Outlook Negative, Dec. 28, 2010

## Ratings List

Ratings Affirmed

Corporacion de Reservas Estrategicas de Productos Petroliferos

Issuer Credit Rating	AA-/Negative/A-1+
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Senior Unsecured	AA-
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