

# RatingsDirect®

---

## Research Update:

# Corporacion de Reservas Estrategicas de Productos Petroliferos Cut To 'BBB-/A-3' After Action On Spain, Outlook Negative

### Primary Credit Analyst:

Alejandro Rodriguez Anglada, Madrid (34) 91-788-7233;  
alejandro\_rodriguez\_anglada@standardandpoors.com

### Secondary Contact:

Lorenzo Pareja, Madrid (34) 91-389-6962; lorenzo\_pareja@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Corporacion de Reservas Estrategicas de Productos Petroliferos Cut To 'BBB-/A-3' After Action On Spain, Outlook Negative

## Overview

- We lowered our long- and short-term sovereign credit ratings on Spain to 'BBB-/A-3' from 'BBB+/A-2' and assigned a negative outlook to the long-term rating on Oct. 10, 2012.
- We equalize the ratings on Corporación de Reservas Estrategicas de Productos Petroliferos (CORES) with those on Spain, reflecting our opinion of an almost certain likelihood CORES would receive timely and sufficient extraordinary support from the Spanish government in the event of financial stress.
- Consequently, we are lowering our long and short-term ratings on CORES to 'BBB-/A-3' from 'BBB+/A-2'.
- The negative outlook on CORES primarily reflects that on Spain.

## Rating Action

On Oct. 16, 2012, Standard & Poor's Ratings Services lowered to 'BBB-/A-3' from 'BBB+/A-2' its long- and short-term issuer credit ratings on Corporación de Reservas Estrategicas de Productos Petroliferos (CORES), the company responsible for managing Spain's strategic oil reserves. The outlook is negative.

## Rationale

The downgrade of CORES reflects a similar action on the Kingdom of Spain (BBB-/Negative/A-3), (see "Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative," published on Oct. 10, 2012 on RatingsDirect on the Global Credit Portal). We consider CORES to be a government-related entity (GRE). In accordance with our criteria for rating GREs we believe 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 public law, but with a distinct legal status and acting under private law. It conducts its activities under the tutelage of the central government, exercised through the Ministry of Industry, Energy, and Tourism. We consider it to be a government-related entity (GRE). Our opinion of an almost certain likelihood of support reflects 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 see 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 from local and international financial markets to finance the purchase of oil stocks. Its total debt was €1.9 billion on Dec. 31, 2011.

### **Liquidity**

CORES' liquidity is adequate, in our view given that CORES takes into consideration all of its expenses, including debt service, when determining the annual fees applicable to its members. These fees are typically set with very conservative assumptions about expected expenditures. As a result CORES normally returns excess fees to operators at year end, although it could retain excess fees as reserves if necessary. Fees are cashed in monthly, ensuring regular access to liquidity inflows.

CORES' long-term debt accounts for 86% of the total. As of Oct. 5, 2012, CORES had credit lines of €305 million, of which €51 million were available. CORES faces debt repayments of €599 million in 2013--€350 million from long-term debt, and €249.5 million from the renewal of credit lines.

We understand that CORES has already refinanced its credit lines, which expire in February 2013, using a combination of sources including bank loans, new credit lines, and the sale of excess oil reserves for an estimated €73 million. We expect that CORES will fund its €350 million long-term debt maturity, which is due in June, by issuing debt in the capital markets, or signing loans with the banking sector.

CORES may also choose to meet part of its remaining financing needs for the year 2013 by selling additional excess reserves. A drop in petroleum product consumption due to the economic crisis in Spain has left CORES' holding reserves above the legally established limits. Based on current prices, CORES

estimates it could receive up to €520 million from the sale of these reserves, for which there is a liquid market. CORES can choose how much of the excess to sell and would be legally obliged to use any proceeds from sales to reduce its indebtedness.

Finally, in our view CORES may also decide to set higher fees for its members for the year 2013 to cover all or part of its long-term debt maturities, although we consider it unlikely that CORES would have to resort to this option.

## Outlook

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

We might also lower the rating if, contrary to our current expectation, CORES was not be able to access funding smoothly through a combination of bank loans or bonds, sale of oil reserves or higher fees to its members, or ultimately the support of Spain's government.

We believe it is unlikely that the combination of all these alternative sources of funding would prove insufficient to meet CORES' financing needs for 2013.

## Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Government-Related Entities CORES, ICO, And SEPI Downgraded To 'BBB+/A-2' On Spain Downgrade; Outlooks Are Negative, April 30, 2012
- Spain's Corporacion de Reservas Estrategicas de Productos Petroliferos Downgraded To 'A/A-1' Following Action On Spain, Jan. 17, 2012
- Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative, Oct. 10, 2012

## Ratings List

Downgraded

Corporacion de Reservas Estrategicas de Productos Petroliferos

	To	From
Issuer Credit Rating	BBB-/Negative/A-3	BBB+/Negative/A-2
Senior Unsecured	BBB-	BBB+

### Additional Contact:

International Public Finance Ratings Europe; [PublicFinanceEurope@standardandpoors.com](mailto:PublicFinanceEurope@standardandpoors.com)

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.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) 783-4009.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).