FITCH AFFIRMS CORES AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Barcelona/London-15 June 2015: Fitch Ratings has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' Long-term local and foreign currency Issuer Default Ratings (IDR) at 'BBB+' with Stable Outlooks and Short-term rating at 'F2'. The affirmation also affects the EUR1,864m debt outstanding at end of 2014.

The affirmation reflects the unchanged link between Cores and the Spanish government since our last review, including no change in Cores' ability to adjust the fees collected by operators in order to cover its operating costs and debt servicing.

KEY RATING DRIVERS

Cores' ratings are credit linked to Spain (BBB+/Stable/F2), in line with Fitch's public sector entity criteria, given its strong legal status, the company's strategic mission of maintaining and controlling the country's oil and gas emergency stocks, and the strong control from its sponsor.

The central government is not a stakeholder given Cores' legal status as a public-law corporation (corporacion de derecho publico). Nevertheless, the government is present on Cores' board of directors and the president is directly appointed by the Ministry of Industry, Energy and Tourism (MINETUR). The fact that Cores can increase fees to the operators, at any time, provided that it justifies that the increase is related to the coverage of the operating cost (including debt repayment) is a key rating factor. Under Spanish law, operators in natural gas and oil distribution must pay a fee to Cores, and are also responsible for maintaining Cores' financial creditworthiness. The annual fee is established by ministerial order from the proposal of Cores' board of directors and must cover Cores' operating expenditure. The legal framework has been relatively stable apart from the recent potential transfer to Cores of the direct management of gas reserves.

Oil is crucial for the domestic energy supply, representing more than half the energy consumed. Almost all oil is imported.

Although the central government is not a stakeholder as Cores is a public law corporation, we consider its control as very strong. The government is not a dominant presence on Cores' board of directors, although its president, who is directly appointed by the Ministry of Industry, Energy and Tourism, has a veto right.

In 2014, despite a slight decrease in the consumption of oil products, Cores was generating a larger surplus than budgeted, due to savings in the cost of borrowing, to the point that the board decided to lower the fees charged to operators. This also happened in 2013. Cores' outstanding debt remained at EUR1.8bn. The decline in consumption meant that at the end of 2014, Cores had excess reserves estimated at EUR528m, equivalent to 28.3% of its outstanding debt, and 21.27% of its required maintenance. Due to the large decline of oil price in 2H14 (40% decline), reserves were valued at EUR2.7bn at end of 2014, EUR1.8bn less than a year ago.

RATING SENSITIVITIES

Cores' ratings could be downgraded if:

- The Kingdom of Spain (BBB+/Stable/F2) was downgraded. Cores' Stable Outlook mirrors that on the sovereign. Conversely, positive rating action on Spain would automatically be reflected in Cores' rating.
- There is diminishing support from the central government, in particular with limitations of the ability to increase at any time the fee paid by operators. Fitch views this as unlikely in the medium term.

KEY ASSUMPTIONS
Fitch assumes oil will remain a strategic source of energy in the domestic economy.

Contact:
Primary Analyst
Guilhem Costes
Senior Director
+34 93 323 8410
Fitch Ratings Espana. S.A.U.
Paseo de Gracia, 85
08008 Barcelona

Secondary Analyst
Julia Carner
Analyst
+34 93 323 8401

Committee Chairperson
Guido Bach
Senior Director
+49 69 768076 111

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating of Public-Sector Entities - Outside the United States (pub. 26 Feb 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=862448
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015