

FITCH AFFIRMS CORES AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Barcelona/London-07 June 2017: Fitch Ratings has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' (CORES) Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDRs) at 'BBB+' with Stable Outlooks and Short-Term Foreign-Currency IDR at 'F2'. The ratings on the senior unsecured outstanding bond issues have been affirmed at 'BBB+'.

The affirmation reflects the unchanged link between CORES and the Spanish government over the last 12 months, including CORES' ability to adjust the fees collected from operators to cover its operating costs and debt servicing.

KEY RATING DRIVERS

Legal Status (Stronger)

CORES has the legal status of a public-law corporation without equity. It does not have any shareholders. There is no law that would regulate the dissolution of CORES. Nevertheless, Fitch considers the entity's legal links with the sponsor to be strong and therefore very supportive of its credit quality. This incorporates the key rating factor that CORES can ask the Spanish government for an increase of the fees to be paid by operators at any time, provided that it can justify it is requested to guarantee its creditworthiness for the coverage of operating costs (including debt repayment).. Under Spanish law, operators in natural gas and oil distribution must pay a fee to CORES. The annual fee is established by ministerial order based on a proposal of CORES' board of directors and must cover CORES' operating expenditure.

Strategic Importance (Stronger)

Oil is crucial for the domestic energy supply, representing about 45% of energy consumed in Spain. A European Directive requires each member state to hold strategic oil stocks, and generally, in most EU countries, a public entity has been established to control and manage stocks of strategic reserves. Spain plays an important role in the refinery of crude oil in a European context, and imports most of its crude oil. In 2016 Spain imported about 64 million tons of crude oil, which was refined and part of the petroleum products exported. Domestic consumption of petroleum products reached 58.1 million tons, which was a 3.5% rise y.o.y. Oil largely comes from countries that could face political instability, which is why the maintenance of safety reserves is key for Spain.

Integration (Weak)

CORES' activities are not included in the general budget of the Spanish central government; and its accounts and debt are not debated by central government. The administrative protection means that CORES is not integrated into the general administration, but that the general administration supervises its compliance with the legal framework.

Control (Mid-range)

CORES' president has a five-year mandate, which can be renewed for a further five years. The president's main function is to be the legal representative of CORES in all its acts and contracts and to manage its inspection activities. Acting through the president, the Minister of Energy, Tourism and the Digital Agenda has a veto right, although it has never been used, and there is usually a strong consensus within the board of directors. To date, all decisions have been adopted unanimously. The board of directors has 12 members including the President, with the President and four other members appointed by the Minister of Energy, Tourism and the Digital Agenda.

As CORES has been maintaining reserves above requirement, the company decided in 2016 to sell about 478 thousand cubic metres of crude oil, and 39 thousand cubic metres of gasoline through a

bid process. The sale generated about EUR144 million, and the regulatory framework imposes that the proceeds of reserves sale is first applied to debt reduction. Consequently, CORES' outstanding debt declined to EUR1.76 billion, while the book value of reserves was EUR1.88 billion and market value was estimated at EUR2.93 billion. CORES reported an excess of fees (fees collected from the operators more than covering operating spending), which allows a reduction of the fees to oil operators, which generally occur in the last quarter of the year.

RATING SENSITIVITIES

CORES' ratings are credit linked to and equalised with its sponsor, Spain. Therefore any rating action on the sovereign would be mirrored on CORES' ratings. A downgrade could also result from a diminishing strategic importance, which Fitch views 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.

Av. Diagonal 601

08028 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

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/878660>

Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016)

<https://www.fitchratings.com/site/re/877128>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing

and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001