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Research Update:

Spanish Strategic Oil Reserves Manager CORES 'BBB/A-2' Ratings Affirmed; Outlook Stable

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Overview

- Corporación de Reservas Estrategicas de Productos Petroliferos (CORES), which manages Spain's strategic oil reserves, benefits from a strong legal status, ensuring that its operating revenues cover its expenses.
- CORES successfully tapped the capital markets in 2014 and could sell excess oil reserves in case of need.
- We equalize our ratings on CORES with those on Spain, reflecting our opinion of an almost certain likelihood of timely and sufficient extraordinary support if needed.
- We are affirming our 'BBB/A-2' ratings on CORES.
- The stable outlook on CORES reflects that on Spain.

Rating Action

On Oct. 17, 2014, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Corporación de Reservas Estrategicas de Productos Petroliferos (CORES), which manages Spain's strategic oil reserves. The outlook is stable.

Rationale

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. We therefore equalize our ratings on CORES with those on Spain (BBB/Stable/A-2).

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, and therefore we consider it to be a 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, Energy, and Tourism. The Ministry appoints the chairman of CORES, and four of the 11 members of its board of directors. While the board makes agreements by simple majority, the Ministry may exercise veto power through CORES' chairman on any decision that it deems contrary to

public interest.

- "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 for a legally determined period of time. Only the government itself would, in our opinion, be able to undertake CORES' mandate.

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. Moreover, the current legal framework allows the government to demand extraordinary fees from operators if necessary. Ultimately, we believe if CORES were to be dissolved, the central government would take over its obligations. CORES borrows from local and international financial markets to finance the purchase of oil stocks. Its total debt was €1.8 billion on Dec. 31, 2013.

Liquidity

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

CORES issued a €250 million bond on October 2014, with which it financed its 2014 and 2015 maturities. The bond was oversubscribed by 2.6 times, and attracted buyers with a stable profile, such as insurance companies and pension funds from Spain and the rest of Europe.

In the longer term, CORES will have to refinance €380 million in 2016, €750 million in 2018. The remaining maturities totaling €668 million are due in 2020 and beyond, including the €250 million in 2024 corresponding to the bond issued earlier this month. We expect CORES to start prefinancing these maturities well ahead of time, and to gradually smooth its maturity profile. CORES also has €140 million in fully available credit lines, expiring in 2017.

If necessary, CORES may also sell excess oil reserves to meet its financing needs. A drop in petroleum product consumption due to the economic crisis in Spain has left CORES holding reserves above the legally established limits (which are set in days of consumption). As of Sept. 30, 2014, CORES held reserves that were about 27% higher than legally required. We estimate CORES could receive up to €853 million for the sale of these reserves, for which there is a liquid market.

The value of excess reserves is subject to fluctuations arising from potential changes in consumption and global prices for petroleum products. Nevertheless, current excess reserves would comfortably cover 2016 maturities, and we estimate they would continue to do so up to a maximum of a 14% increase in consumption or a 55% decrease in the weighted average market price of CORES' reserves.

CORES may also request that the ministry levy extraordinary fees to its members if needed to cover all or part of its long-term debt maturities. However, we consider it unlikely that CORES would have to resort to this option.

Outlook

The stable outlook on CORES reflects that on Spain. If we lowered or raised our sovereign ratings on Spain, we would take a similar action on CORES.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related Research

- Three Spanish Government-Related Entities Upgraded To 'BBB/A-2' Following Similar Sovereign Action; Outlook Stable, May 27, 2014
- Ratings On Spain Raised To 'BBB/A-2' On Improved Economic Prospects; Outlook Stable, May 23, 2014
- Three Spanish Government Entity Outlooks Revised To Stable After Similar Sovereign Action; 'BBB-/A-3' Ratings Affirmed, Nov. 29, 2013
- CORES, Spanish Strategic Oil Reserves Manager, Ratings Affirmed At 'BBB-/A-3'; Outlook Negative, Oct. 22, 2013

Ratings List

Ratings Affirmed

Corporacion de Reservas Estrategicas de Productos Petroliferos	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB

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