



Tagging Info

Fitch Assigns CORES 'BBB'; Outlook Negative Ratings Endorsement Policy

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Fitch Ratings-London/Barcelona-05 March 2013: Fitch Rating has assigned Corporacion de Reservas Estrategicas de Productos Petroliferos (Cores) Long-Term foreign and local currency ratings of 'BBB', and a Short-Term rating of 'F2'. The Outlooks on the Long-Term ratings are Negative. The ratings also affect the EUR1,816m financial debt.

KEY RATING DRIVERS

Cores ratings are credit linked to the Spanish government ('BBB'/Negative/'F2') under Fitch's public sector entity criteria. The link to the sovereign is due to the strategic mission of Cores in maintaining and controlling energy safety reserves. The ratings also take into account the strong control from the central government and the ability to increase at any time its revenue so that it covers its operating cost.

Cores was created in 1995 with the mission of controlling and maintaining Spain's strategic reserves of oil and gas. Oil is crucial for domestic energy supply, representing more than half of the energy consumed and almost its entire consumption of oil is imported. Even if the supply is geographically diversified, there is still a political risk, which was evidenced during the 1970s due to the disruption caused by the various conflicts that took place in Middle East. Any disruption in oil supply would have a dramatic consequence on the Spanish economy. As such, the Spanish central government has since 1972 established minimum strategic reserves, which in 1982 became an obligation with the European Union. Regarding oil products, minimum reserves are established at 92 days of consumption.

Although the central government is not a stakeholder as Cores is a type of public sector entity without equity gathering oil and natural gas operators in Spain, we consider its control over the activity of Cores as very strong. It is largely present in Cores' board of directors, the key governing body of Cores, and its president, who is directly appointed by the Ministry of Industry Energy and Tourism, has a veto right. It has never happened, illustrating the strong consensus within the board of directors.

By law, operators in natural gas and oil distribution need to pay a fee to Cores, and are also responsible for maintaining Cores' financial creditworthiness. Their annual fee is established by ministerial order under the proposal of Cores' board of directors. It could increase at any time, if Cores' creditworthiness requires it. The fee, which is paid on a monthly basis, represents only 0.3% of the retail price of a litre of oil, and Fitch considers that an extraordinary rise on the fee would have little impact on the volume of sales.

Cores financial results are positive and by law the fees paid from the operators must cover Cores' operating costs (storage facilities, interest payments, structural cost). Its financial debt, estimated at EUR1,816m, represents about 85% of total assets which are essentially made of oil inventories. Due to the negative trend in oil consumption, largely due to the downturn of the national economy, inventories held by Cores exceeded its required reserves by 13% in 2011. The sale of reserves must be allocated to debt repayment, and are organised through auctions, as occurred in 2010 and in 2012. Reserves at market prices were valued at EUR5bn at end 2012.

RATING SENSITIVITIES

Cores' ratings could be downgraded if:

- The Kingdom of Spain ('BBB'/Negative/'F2') was downgraded. Cores' Negative Outlook mirrors that of the sovereign. Conversely, a positive action on the rating of Spain would automatically be reflected in the rating of Cores.
- Oil does not remain a strategic source of energy in the domestic economy, which is very unlikely in the medium term.
- There is diminishing support from the central government, with in particular limitations in the capacity to increase at any time the fee paid by operators. This is also unlikely in the medium term.
- There is a sustained decline of the fee collections from operators. This is also unlikely in the medium term.

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The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Ratings of Public Sector Entities outside the US' dated 4 March 2013 and 'Tax supported Rating Criteria' dated 14 August 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research

Rating of Public Sector Entities - Outside the United States

Tax-Supported Rating Criteria

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