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Research Update:

Spain-Based Corporacion de Reservas Estrategicas de Productos Petroliferos Outlook To Negative; 'AA+/A-1+' Rtgs Affirmed

Primary Credit Analyst:
Lorenzo Pareja, Madrid (34) 91-389-6962;lorenzo_pareja@standardandpoors.com

Secondary Credit Analyst:
Sarah N'Sonde, Paris (33) 1-4420-6665;sarah_nsonde@standardandpoors.com

Table Of Contents

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Overview

- Compared with its peers, Spain could undergo a more pronounced and persistent deterioration in public finance and a more prolonged period of economic weakness.
- We have revised our outlook on the Kingdom of Spain to negative from stable.
- Since the outlook on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), the Spanish government's vehicle for managing the state's industrial holdings, mirrors that on the sovereign, we are revising our outlook on CORES to negative from stable.
- The negative outlook on CORES reflects the downgrade that would occur if we were to downgrade Spain.

Rating Action

On Dec. 9, 2009, Standard & Poor's Ratings Services revised its outlook to negative from stable on Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES), the public entity responsible for Spain's strategic oil reserves. The outlook revision mirrors that on the Kingdom of Spain (AA+/Negative/A-1+), CORES' government owner (see "Related Research" below). At the same time, Standard & Poor's affirmed the 'AA+' long-term and 'A-1+' short-term issuer credit ratings on CORES.

Rationale

The 'AA+' rating on CORES is based on an equalization with the long-term rating on Spain, reflecting Standard & Poor's opinion that there is an "almost certain" likelihood that the Spanish government would provide timely and sufficient extraordinary support to CORES in the event of financial stress.

In accordance with our criteria for government-related entities (GREs), our rating approach is based on 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 Spain's strategic oil reserves, in accordance with EU and international legislation. CORES' assets account for more than 40% of the country's total regulatory reserves. 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 support that we consider strong and ongoing, in the form of a regulatory framework under which oil and gas operators are obliged to pay whatever fees are necessary to cover CORES' full costs--including debt service. CORES can neither be privatized nor go bankrupt. CORES' dissolution can only occur following the adoption of another parliamentary law. The ratings on CORES take into account that this legislation would safeguard a smooth sovereign takeover of CORES' obligations.
- "Critical" role as an entity specifically formed to provide-–on behalf of the Spanish government--a strategic public service. CORES is specifically mandated to monitor and ensure that Spain--a country that imports virtually all its oil-consumption needs–-holds the necessary oil reserves. Only the government itself can, in our opinion, undertake CORES' mandate.

CORES is funded through the monthly fees it receives from its compulsory members (all oil and gas operators and importers in Spain, including large multinationals in the oil and gas sector, such Repsol-YPF S.A. (BBB/Stable/A-2) and BP PLC (AA/Stable/A-1+). By law, fees are set to cover all operating, financial, and administrative costs, including debt service. Fees are not substantial when compared to the size of oil & gas operators' Spanish business and, importantly, failure to pay the fees on time can result in the termination of an operator's license. This provides a very powerful incentive for timely compliance with fee payments, which might be envisaged as a super senior obligation for oil and gas operators. Additionally, in the event of unforeseen circumstances that could put CORES' liquidity and/or solvency at risk, the government is entitled by law, at any time, to charge an extraordinary fee to the operators. A member's default has only occurred once in CORES' history, and the only affecting a minor operator. The law does not preclude the state's granting financial support to CORES in a potential stress scenario.

CORES borrows funds in the international financial markets to finance the purchase of oil stocks. We estimate that total debt is set to reach some €1.7 billion at year-end 2009, with no currency risk. Further debt increases are likely and will continue to finance CORES' legal requirement to build up at least 45 days' worth of consumption of oil reserves by 2011.

Liquidity

CORES has limited need for short-term credit lines for operating purposes for two reasons: Fees are budgeted to cover full costs, and members pay the fees monthly. And CORES' budgeting is often conservative. Consequently, fees surpass effective costs (and the excess is returned to operators at year-end).

CORES' debt amortization calendar is comfortable in the next three years, encompassing debt repayments totalling €84 million in 2010, and €18 million in 2011-2012. In 2013 and 2018, CORES faces debt repayments of €350 million and

€500 million, respectively.

Committed credit lines from Banco Bilbao Vizcaya Argentaria, S.A. (AA/Negative/A-1+) and Calyon (AA-/Negative/A-1+) represent some €530 million.

Outlook

The outlook on CORES mirrors that on Spain, which, in turn, reflects the risk of a downgrade within the next two years in the absence of more aggressive actions by the authorities to tackle fiscal and external imbalances.

We could revise the outlook on Spain, and hence CORES, to stable if the government announces concrete fiscal measures that we believe could credibly achieve annual primary surpluses of 2%--or higher--by 2012.

Related Research

- Spain Outlook Revised To Negative On Rising Fiscal Deficits And Risks Posed By Macroeconomic Adjustment, Dec. 7, 2009
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Corporacion de Reservas Estrategicas de Productos Petroliferos		
Issuer Credit Rating	AA+/Negative/A-1+	AA+/Stable/A-1+
Senior Unsecured	AA+	AA+

Additional Contact:
International Public Finance Ratings Europe;PublicFinanceEurope@standardandpoors.com

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at 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) 495-783-4011.