MOODY'S INVESTORS SERVICE

CREDIT OPINION
17 November 2022

Update

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RATINGS

Erdoelbevorratungsverband

Domicile	Hamburg, Germany
Long Term Rating	Aaa
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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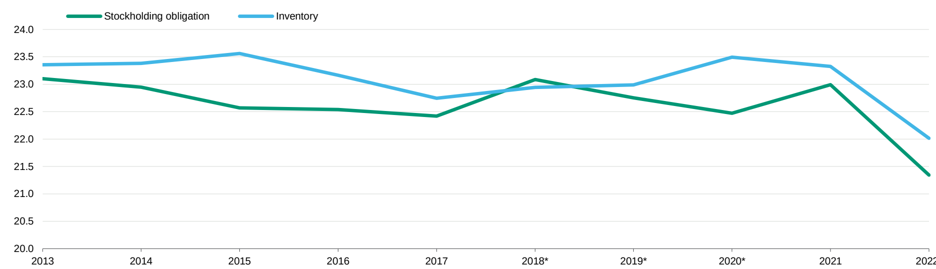
Erdölbevorratungsverband (Germany)

Update to credit analysis

Summary

The credit profile of Erdölbevorratungsverband (EBV, Aaa stable/P-1) reflects its unique public legal status, its strategic role, its public-policy mandate assigned by the Government of Germany (Aaa stable) and the European Union's (EU) directives that delineate the roles and prerogatives of this type of entities in European states. Because of the close ties with the sovereign, we do not distinguish between the credit strength of EBV and that of the German government. We expect the German government to provide full support in the unlikely event that EBV would require financial assistance.

Exhibit 1
EBV's stockholding obligation is trending downwards because of decreasing consumption
In million tons of crude oil equivalent (COE)



*2018, 2019, 2020 and 2021: Alternating stockholding obligation and inventory during the year because of the oil release or a regulatory change.
Sources: Issuer and Moody's Investors Service

Credit strengths

» Unique public legal status that is backed by the German government

» Public-policy mandate and strategic role in Germany

» Solid and predictive financials and business model

Credit challenges

» One-sided business model that is dependent on oil consumption

» No explicit guarantee on financial debt

Rating outlook

The stable rating outlook reflects EBV's close institutional links with the German government. It also reflects our assumption that its legal status and public-policy mandate will remain unchanged.

Factors that could lead to a downgrade

A rating downgrade could be triggered by a weakening of EBV's legal status or its public-policy mandate. A downgrade of Germany's sovereign rating would result in a downgrade of EBV's rating.

Key indicators

Exhibit 2
Erdölbevorratungsverband

	2018	2019	2020	2021	2022
Total Assets (€ mn.)	4,745	4,903	5,049	4,833	5,362
of which crude oil and oil products (€ mn.)	4,406	4,489	4,681	4,565	4,234
Financial Debt (€ mn.)	2,996	2,908	3,224	3,273	2,849
Member fee revenues (€ mn.)	289.6	287.3	288.8	237.1	251.0
Profit / Loss (€ mn.)	145.0	5.5	-27.9	-71.9	362.7
Members (at year-end)	96	100	99	96	93

Fiscal year ending on 31 March of the respective year.
Sources: Issuer and Moody's Investors Service

Detailed credit considerations

The credit profile of Erdölbevorratungsverband (EBV), as expressed in its Aaa stable issuer rating, reflects its unique public legal status, its strategic role, its public-policy mandate assigned by the German government and the EU's directives that delineate the roles and prerogatives of this type of entities in European states. Because of the close ties with the sovereign, we do not distinguish between the credit strength of EBV and that of the German government. We expect the latter to provide full support in the unlikely event that EBV would require financial assistance.

Unique public legal status, backed by the German government

EBV was formed in 1978 under the Petroleum Stockholding Act (Erdölbevorratungsgesetz/ErdölBevG) as a public corporation (Körperschaft des öffentlichen Rechts). It has a unique legal status with close links to the German government and benefits from protection mechanisms, such as exemption from bankruptcy procedures and statutory provisions that transfer EBV's liabilities to the German government on dissolution. A dissolution of EBV can only occur when mandated by federal law.

EBV is composed of three decision-making bodies, as described by the respective law: the general assembly (EBV members), the board of directors (supervisory board; Beirat) and the executive board.

EBV is governed by a board of directors that includes members of federal ministries and of the second chamber of parliament (Bundesrat), and is subject to strict supervision by the German Ministry for Economic Affairs and Climate Action (MoEcon), which approves its annual budget plans.

The public corporation can (and did indeed) adopt its own statutes, which are decided and can be amended by the general assembly, subject to the approval of the MoEcon. The statutes and amendments must be published in the Federal Gazzette. The general assembly appoints most members of the board of directors, while three members are delegated public officials. The board of directors is responsible for appointing the executive board. Furthermore, the MoEcon, together with the Bundesrat, can amend the members' voting rights by a legal decree.

Public-policy mandate and strategic role in Germany

The federal government recognises EBV's strategic role in the national energy supply, as reflected in its public-policy mandate to hold emergency oil stocks, as required by law (ErdölBevG).

One of EBV's main functions is to pursue state duties of holding emergency oil reserves, as required by law (ErdölBevG). Its other main function is to carry out a strictly limited public-policy function as the supplier of oil and oil products in an emergency situation. The release of any oil stocks reserve below the legal threshold to mitigate shortages requires approval from the MoEcon.

Its duties are in compliance with regulations originating from international agreements orchestrated by the International Energy Agency (IEA) and the EU law (Agreement on an International Energy Programme dated 18 November 1974 and Council Directive 2009/119/EC). The international coordination and agreements emphasise EBV's strategic function and relevance for the German government.

The membership to EBV is mandatory by law for all qualified enterprises (currently about 100 qualified oil importers and producers) that engage in the production or import of oil products, including petrol, diesel fuel, heating fuel and jet fuel (JET A-1).

The law prescribes EBV to hold emergency stocks equal to 90 days of the net German imports of crude oil and oil products, either the average of the three preceding calendar years or the preceding calendar year — whichever is higher. At least one-third of the stockholding must be in oil products. A minimum threshold of 90% of stocks need to be held directly by EBV (currently, less than 10% of stocks are delegated). As of 31 August 2022, EBV's stock of 21.97 million tons of crude oil equivalent (COE) exceeded the then mandated stockholding obligation of 20.22 million tons of COE (see Exhibit 1). The stockholding obligation is mandated by the public administration according to the annual administrative order. During 2022, the stockholding obligation alternated as an oil release was mandated in March (see further details below). As of 1 September 2022, the stockholding obligation was 20.66 million tons of COE.

Any releases from EBV's oil stockholdings must be mandated by the MoEcon by a legal decree and require consent from the Bundesrat if the release is set to stretch for more than six months. Legitimate reasons for stock releases are defined in paragraph 12 of the German Petroleum Stockholding Act, essentially referring to the prevention of imminent or the remedying of existing disruptions in energy supply, be it nationally (local emergency situations) or internationally (decision by the governing board of the IEA).

The release quantity and product mix are also defined by a legal decree and offered for sale to EBV members at market prices according to their fee contribution share. Furthermore, the MoEcon's legal decree can bind EBV to the priority provision of stocks for, for example, critical infrastructure.

Historically, EBV was instructed to release stocks, that is, provide them for sale to its members, as a response to five instances: following decisions by the IEA, during the Gulf crisis in 1990-91, after Hurricane Katrina in the US in 2005, during the Libyan crisis in 2011 and in March 2022, following a decision of IEA, in reaction on the Russia-Ukraine military conflict.

EBV released oil stocks in October 2018 when the MoEcon mandated the public corporation to release oil products (around 331,000 tons of COE). This request aimed at addressing a local emergency situation following supply shortages caused by the combination of a drought-induced non-navigability of the German rivers Main and Rhine, and a long-term outage of a major refinery in Bavaria. Following the mandated oil release in March 2022, EBV released around 435,000 tons of COE (around three percent of Germany's oil reserves at the time), but has since moved to again increase its stockholdings. EBV's stocks currently exceed its stockholding obligation, a surplus to increase flexibility for any necessary actions in the near future. This latest episode once again showed EBV's strategic role in securing national energy supply.

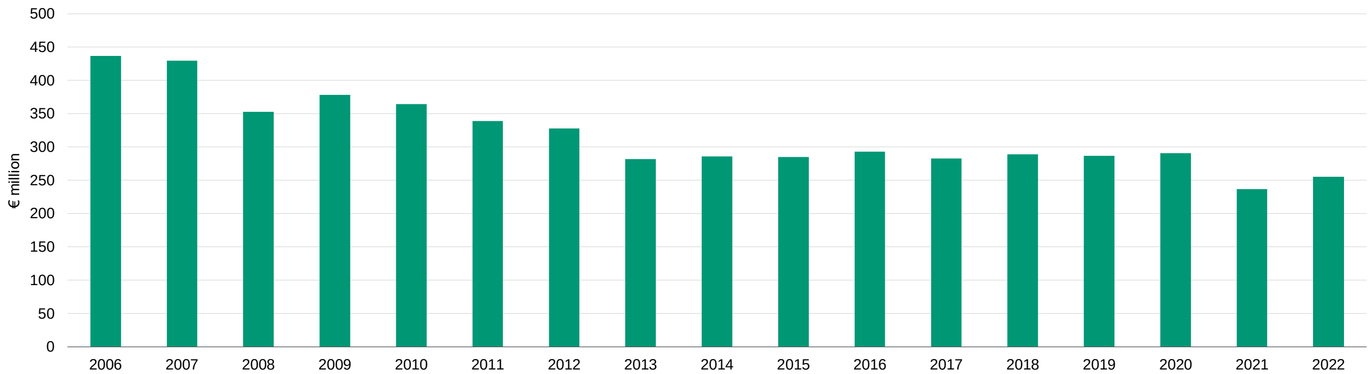
Solid and predictive financials and business model

EBV is generally managed independently, led by its executive board. EBV finances its activities through a fee system designed by federal law and its statute, whereby every qualified oil producer and importer in Germany pays a fee that covers all operating costs, including administrative expenses and debt service payments. A legally mandatory membership fee for all qualified oil companies, producing or importing oil or oil products, ensures a predictable and stable revenue base for EBV. The fee scheme is established by an administrative act, allowing EBV to have a superior enforcement and fee collection status than under private law claims.

Typically, the membership fee is sufficient to finance related costs. In principle, EBV covers its cost by collecting fees or by drawing from previously accumulated reserves. In the fiscal year that ended 31 March 2022 (fiscal 2022), membership fees increased to €251 million (versus €237 million in fiscal 2021; see Exhibit 3), and as of fiscal year-end, accumulated reserves (from earlier fee surpluses) amounted to €83.7 million, down from €115.2 million a year earlier. The fee scheme (that is, fee rate) for members has remained unchanged since 2012-13.

Exhibit 3

EBV's member fee collection is set to temporarily increase again after the 2021 low



In € million for each fiscal year. Member fee shown here includes minor amounts of other income.
Sources: Issuer and Moody's Investors Service

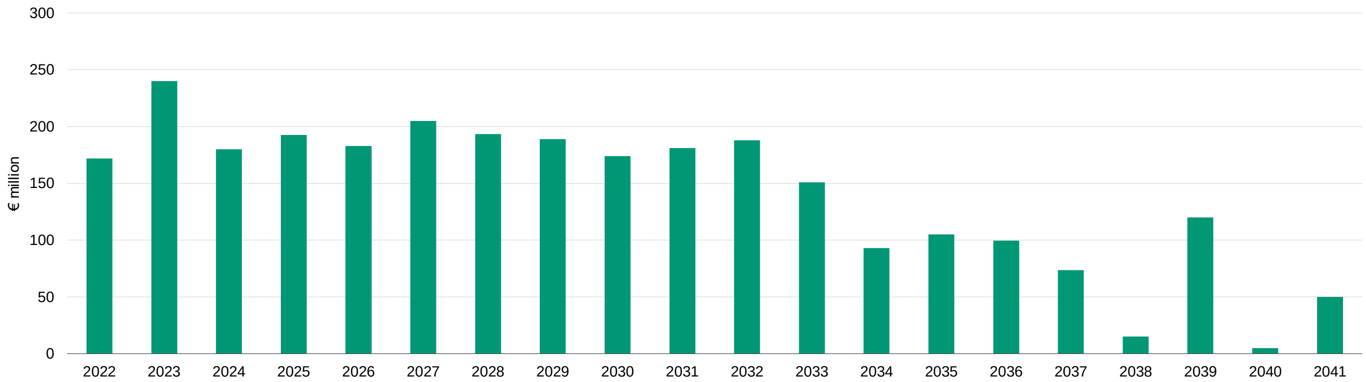
EBV's fee revenue has not been subject to volatility despite the traditional annual fluctuation of members (around 20 entries and exists per year). In fiscal 2022, the large majority of members completed their reporting, as well as fee contribution duties, and no loss of contributions was recorded.

EBV has the right to adjust the member contribution rate (member fees), with the decision of the board of advisers and approval from the MoEcon and the Ministry of Finance.

Overall, the balance sheet as of 31 March 2022 consisted of total assets of €5,362 million, of which €4,234 million represented the stocks of oil and oil products. We understand that assets include considerable reserves (as market prices are higher than valuation on balance).

Financial debt as of 31 March 2022 was €2,849 million, of which €211 million was short-term debt. All financial debt is denominated in euro. Funding sources include bonds and promissory notes (Schuldschein), as well as credit lines from different banks. Annual maturities, excluding credit lines, typically are between €150 million and €200 million (see Exhibit 4).

Exhibit 4
EBV's maturity profile



In € million for each fiscal year.
Sources: Issuer and Moody's Investors Service

EBV's liquidity rose to €123 million as of March 2022 (from €58 million a year earlier), and liquidity lines and money market instruments are regularly used to manage its liquidity needs. However, its legal status and regulatory treatment allow favourable access to funding. EBV's strong standing is also reflected by the fact that it pays just a few basis points more than the German government when refinancing its debt. This reflects investors' demand and EBV's status as a public-sector issuer.

Interest cost of €88 million during fiscal 2022 continued to decline, but is likely to rise again in the coming two years because of a rising interest rate environment. When refinancing maturing debt, EBV is currently still able to refinance at favourable interest cost.

One-sided business model dependent on oil consumption

For Germany, demand for oil and refined products is likely to decline over the coming decades, resulting in less need for oil stockholding. This expectation reflects governmental and societal efforts to move towards less carbon-intensive sources of energy, which will pose a significant challenge to EBV's members.

Despite the rebounding economy after the coronavirus pandemic, we expect the stockholding obligation required by the government to not exceed the 2019-20 level any further because of the long-term declining trend in consumption (see Exhibit 1). For EBV, this may imply declining member fee revenue in the long term. However, this risk is mitigated by the high reserves that the public corporation has accumulated because of surpluses in the past decades. Over time, the likely decrease in the stockholding requirement would also lead to respective storage cost reduction.

No explicit guarantee on financial debt

EBV's favourable legal status does not constitute an explicit guarantee on its financial debt vis-a-vis the investors. Nevertheless, we assume that EBV's setup, including its public-sector legal status, supervision of the entity by the MoEcon, and a legally mandated membership and cost contribution of all relevant companies, makes it a government agency. In particular, the fact that all the liabilities of EBV would be transferred to the government in case of dissolution underlines its public status. Therefore, we expect EBV to receive timely support from the government.

ESG considerations

How environmental, social and governance risks inform our credit analysis of EBV

We take account of the effect of environmental, social and governance (ESG) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of EBV, we assess the materiality of ESG to its credit profile as follows:

In general, government and societal efforts to move towards less carbon-intensive sources of energy pose a significant business and credit risk to EBV's members (oil industry) because of the potential for these policies to reduce future consumption for oil and refined products. Oil consumption is likely to peak in the next 10-15 years.

Environmental risks are not material to EBV's rating. On the one hand, EBV is subject to environmental risks because of the nature of its business, that is, the storage of oil using cavern and tank storage facilities. In this respect, EBV aims to adhere to the highest technical standards for the storage of petroleum products and is covering potential liabilities via insurance and dedicated reserves. On the other hand, EBV's members (oil industry) are exposed to environmental risks, including government policies to reduce the use of carbon-intensive sources of energy, such as oil. Nevertheless, these risks are not material to EBV's rating.

Social risks are not material to EBV. Changes in societal behaviour and consumer habits to reduce oil and refined products' consumption will affect EBV's activities — reflected in the decrease in the requirement to maintain oil stock — in the longer term.

Governance risks are material to EBV because it has to abide by the mandate set by the law. It is also subject to close oversight by the central government.

Further details are provided in the Detailed credit considerations. Our approach to ESG is explained in our cross-sector rating methodology General Principles for Assessing ESG Risks.

Rating methodology

For EBV's rating, we use our Government-Related Issuers Methodology, published on 21 February 2020.

Ratings

Exhibit 5

Category	Moody's Rating
ERDOELBEVORRATUNGSVERBAND	
Outlook	Stable
Issuer Rating -Dom Curr	Aaa
ST Issuer Rating -Dom Curr	P-1

Source: Moody's Investors Service

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