CREDIT OPINION
26 November 2024

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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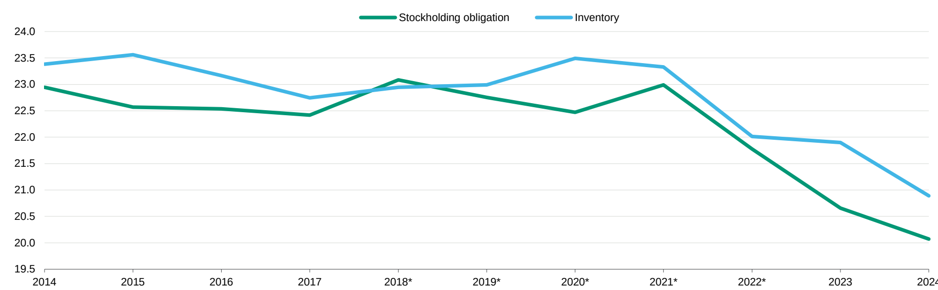
Erdoelbevorratungsverband (Germany)

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 entity in European states. Due to close multiple ties with the sovereign, status and mandate, we do not distinguish between the credit strength of EBV and that of the German government. We expect the German government to provide full and timely 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, 2021 and 2022: Alternating stockholding obligation and inventory during the year because of the oil release or a regulatory change.
Sources: EBV and Moody's Ratings

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, in line with the German government, 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

	2020	2021	2022	2023	2024
Total Assets (€ mn.)	5,049	4,833	5,362	5,319	5,373
of which crude oil and oil products (€ mn.)	4,681	4,565	4,234	4,214	4,098
Financial Debt (€ mn.)	3,224	3,273	2,849	2,679	2,433
Member fee revenues (€ mn.)	288.8	237.1	251.0	260.4	250.1
Profit / Loss (€ mn.)	-27.9	-71.9	362.7	303.2	219.5
Members (at year-end)	99	96	93	93	93

Notes: Fiscal year ending on 31 March of the respective year.
Sources: EBV and Moody's Ratings

Detailed credit considerations

The credit profile of 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 entity in European states. Due to 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 and timely support in the unlikely event that EBV would require financial assistance.

Unique public legal status, backed by the German government

EBV was established 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 outlined 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 supervision by the German Ministry for Economic Affairs and Climate Action (MoEcon), which approves its annual budget plans.

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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 Gazette. The general assembly appoints most members of the board of directors, except for three members who are delegated public officials. The board of directors is responsible for appointing the executive board. Furthermore, the MoEcon, in collaboration 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). Its other main function is to carry out a strictly limited public-policy function as the provider of oil and oil products in a public emergency situation. The release of any oil reserves 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 its relevance for the German government.

The membership to EBV is mandatory by law for all qualified enterprises (in recent years, constantly around 95) that engage in the production or import of oil products, including petrol, diesel fuel, heating fuel and jet fuel (JET A-1) in Germany.

The law mandates that EBV maintains emergency stocks equivalent to 90 days of Germany's net imports of crude oil and oil products. This calculation is based on 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 30 June 2024, EBV's stock, amounting to 20.89 million tons of crude oil equivalent (COE), exceeded the mandated stockholding obligation by 4.8% (see Exhibit 1). The stockholding obligation, as determined by public administration, is outlined annually in the administrative order. As of 1 July 2024, the stockholding obligation became 19.48 million tons of COE.

Any releases from EBV's oil stockholding must be authorized by the MoEcon through a legal decree and require consent from the Bundesrat if the release is projected to last more than six months. Legitimate reasons for stock releases, as defined in paragraph 12 of the German Petroleum Stockholding Act, include the prevention of imminent disruptions or the remedying of existing disruptions in the energy supply, whether these occur nationally (in local emergency situations) or internationally (following a 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. Additionally, the MoEcon's legal decree can obligate EBV to prioritise the provision of stocks for critical infrastructure, for example.

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 the IEA, in reaction to the Russia-Ukraine war.

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 was aimed at addressing a local emergency situation following supply shortages caused by the combination of 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 replenish its stockholding to appropriate levels (90 days target). 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.

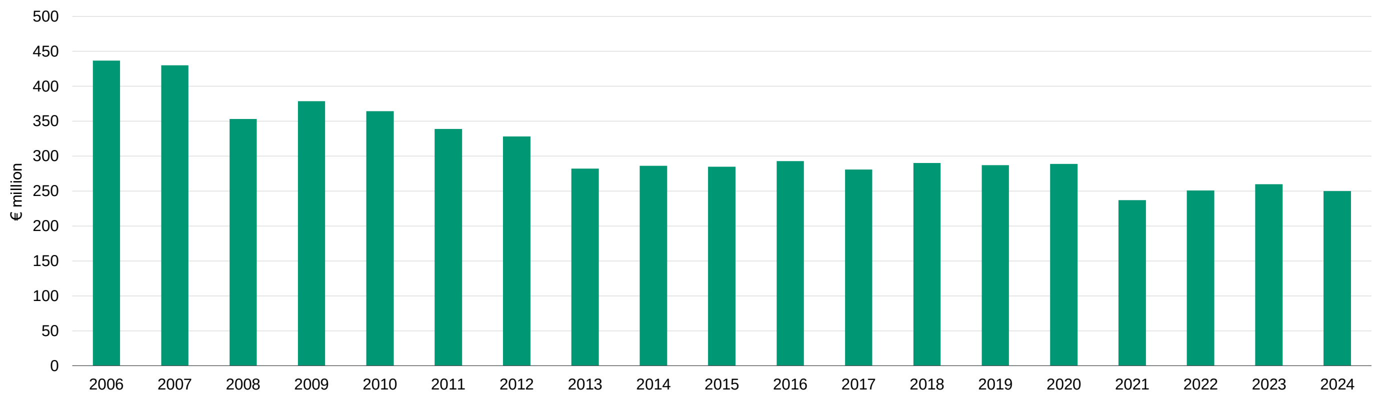
Solid and predictive financials and business model

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. For the fiscal year ending on 31 March 2024 (fiscal 2024), membership fees decreased to €250 million, down from €260 million in fiscal 2023 (refer to Exhibit 3). As of the fiscal year-end, accumulated reserves (from earlier fee surpluses) amounted to €76.2 million, an increase from €73.6 million of the previous year. The fee scheme (that is, fee rate) for members has remained unchanged since 2012-13.

Exhibit 3

EBV's member fee collection covers all operating costs which we expect to decrease gradually over the medium term



In € million for each fiscal year.
Sources: EBV and Moody's Ratings

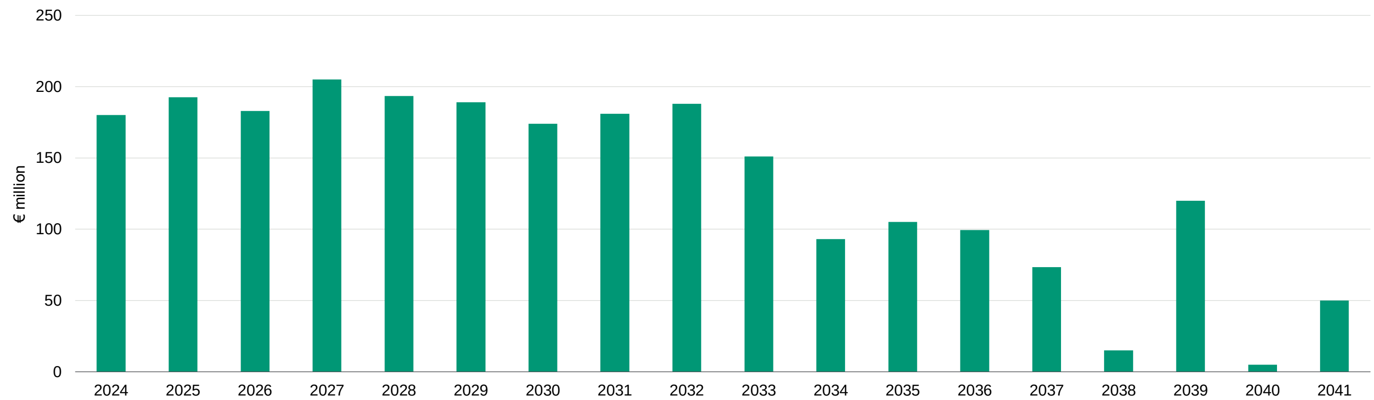
EBV's fee revenue has not been subject to volatility, despite the traditional annual fluctuation of members (around 20 entries and exits per year). In fiscal 2024, the vast majority of members completed their reporting, as well as fee contribution duties, and no loss of contributions was recorded.

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

Overall, the balance sheet as of 31 March 2024 consisted of total assets of €5,373 million, of which €4,098 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 2024 stood at €2,433 million, with €222 million being short-term debt. All financial debt is denominated in euros. Funding sources include bonds and promissory notes (Schuldschein), as well as credit lines from different banks. Annual maturities, excluding credit lines, are typically between €150 million and €200 million over the next 5 to 10 years (see Exhibit 4).

Exhibit 4
EBV's debt maturity profile



In € million for each fiscal year.
Sources: EBV and Moody's Ratings

EBV's liquidity increased to EUR 315 million in March 2024 (from EUR 73 million in the previous year). Liquidity lines and money market instruments could be used regularly to cover liquidity needs. Also, its legal status and regulatory treatment allows favourable access to funding. EBV's strong standing is further evidenced by EBV's ability to refinance its debt at rates only a few basis points higher than those of the German government, underscoring investor demand and EBV's status as a public-sector issuer.

In fiscal year 2024, the interest cost on outstanding financial debt further declined to €69 million, a decrease from the €75 million in the previous year, attributed to a reduction in the volume of outstanding standing. With a rising interest rate environment and stabilising debt, it is likely to increase in the coming years as past low interest debt is refinanced with higher rates. If EBV needs to refinance maturing debt, EBV would be currently faced with significantly higher rates than one or two years ago.

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 energy sources, which will pose a significant challenge to EBV's members.

We expect the stockholding obligation required by the government to not exceed the pre-pandemic 2019-20 level, given 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.

We note that EBV's financial debt is accounted under Germany's general government sector debt, in line with European System of National and Regional Accounts ESA 2010.

ESG considerations

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

When assessing the economic and financial strength of sub-sovereign issuers, we consider the impact of environmental (E), social (S) and governance (G) factors. In the case of EBV, the materiality of ESG to the credit profile is largely based on the ESG considerations for the Government of Germany, along with specific considerations.

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 one hand, due to the nature of its business - the storage of oil using cavern and tank storage facilities, EBV is inherently subject to environmental risks. 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.

Social risks are not material to EBV's ratings, as the changes in societal behaviour and consumer habits to reduce oil and refined products' consumption are already factored into EBV's activities (e.g., the decrease in the requirement to maintain oil stock).

Governance risk, however, is material to EBV's rating. The governance framework of EBV is closely linked with the government, which provides strong oversight and ultimately has the authority to make critical decisions. EBV is required to comply with its legally defined mandate.

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 in January 2024.

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 Ratings

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REPORT NUMBER 1423495