MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's downgrades SEPI, ADIF and CORES to Aa1; outlook stable**

Global Credit Research - 05 Oct 2010

Madrid, October 05, 2010 -- Moody's Investors Service has today downgraded to Aa1 from Aaa the issuer and long-term debt ratings of three Spanish government-related issuers (GRIs), namely: (i)Administrador de Infraestructuras Ferroviarias (ADIF), (ii) Corporación de Reservas Estratégicas (CORES) and (iii) Sociedad Estatal de Participaciones Industriales (SEPI). The outlook on the ratings is now stable. Today's rating action concludes the review for possible downgrade, which was initiated by Moody's on 1 July 2010.

RATINGS RATIONALE

These rating actions follow Moody's recent downgrade of the Kingdom of Spain to Aa1 from Aaa on September 30, 2010, which was prompted by (1) the country's weak economic growth prospects, also relative to other peer sovereigns, as the process of rebalancing the economy away from the construction and real-estate sectors will likely take several years; (2) the considerable deterioration of the Spanish government's financial strength, as reflected in a more pronounced fiscal deterioration compared to other peer sovereigns; and (3) worsening debt affordability (i.e. interest payments as a share of revenues) and significant borrowing requirements, implying that the government remains vulnerable to further episodes of market volatility.

Although ADIF is not explicitly guaranteed by the Spanish State, Moody's notes that the rating is in line with the sovereign rating of the Kingdom of Spain due to the very high level of dependence and support based on the special legal status and the importance as a major part of Spain's transport and infrastructure. However, Moody´s noted that the underlying credit strength or Baseline Credit Assessment (BCA) of ADIF is perceived to be weakening due to the increasing debt levels at ADIF to fund the high speed railroad infrastructure in Spain. A further downgrade of the rating of ADIF would occur if the sovereign rating of the Kingdom of Spain were to be downgraded or if the levels of support and/or dependence were to diminish substantially. Downward pressure on the rating could also occur if the BCA deteriorates substantially. An upgrade would be considered if the sovereign rating of the Kingdon of Spain is upgraded.

Although CORES and SEPI do not enjoy explicit guarantees from the Spanish government either, Moody's notes that their ratings are in line with the sovereign rating of the Kingdom of Spain. This is because the ratings of CORES and SEPI are based on Moody's assumption that these entities will remain key instruments for the Spanish government's public sector management and oil reserves policy. Therefore, the recent downgrade of the sovereign ratings of Spain has triggered a downgrade of the ratings of CORES and SEPI.

The importance to the economy and to the Government's policies of CORES and SEPI is very strong, which combined with their limited degree of autonomy with a heavy government footprint over their business plans, budgets, revenue sources and funding, limits our standalone analysis, and leads us to use a credit substitution (CS) approach to both entities and assign a rating at the government's rating level instead of applying the more granular GRI framework to assign such rating. Therefore, in these two cases, instead of assigning a BCA and assumptions on both support and dependence, Moody's has applied credit substitution and assigned a rating at the same level as the government's rating. Moody's has nonetheless considered the standalone profiles of each of these companies including, in the case of CORES, its currently adequate asset to debt coverage.

In the absence of a change in the nature of these entities or the perceived strength of underlying sovereign support, a further downgrade in the ratings of both SEPI and CORES would most likely be driven by a downgrade in the rating of the Kingdom of Spain. In addition, downward pressure on CORES' rating could build up if its liquidity profile deteriorates beyond Moody's expectations or if the company's headroom under the asset coverage of debt ratio weakens materially. A rating upgrade for SEPI and CORES would be considered if the sovereign rating of the Kingdom of Spain is upgraded.

All of the above companies are government-related issuers which have an element of potential government support incorporated within their ratings in accordance with Moody's rating methodology for government-related issuers.

For additional information on rating factors, please refer to the individual issuer credit opinions, available on www.moodys.com.

Moody's last rating action pertaining to ADIF, CORES, and SEPI was on 1 July 2010 in light of the rating action to place the Aaa ratings of the Kingdom of Spain on review for possible downgrade.

The principal methodology used in rating Administrador de Infraestructuras Ferroviarias, Corporación de Reservas Estratégicas and Sociedad Estatal de Participaciones Industriales was Government-Related Issuers: Methodology Update published in July 2010. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Headquartered in Madrid, Spain, ADIF is responsible for: i) owning and managing the railway infrastructure including tracks, stations, and freight terminals, on behalf of the Spanish government; ii) managing rail traffic; iii) distributing capacity to rail operators; and iv) collecting fees for infrastructure, station and freight terminal use.

Madrid-based CORES is the organisation responsible for managing the strategic oil reserves and controlling compulsory reserves (petroleum products and natural gas) in Spain. By law, all companies authorised to distribute oil products in Spain - both operators and importers - must be members of CORES and pay its monthly fees or risk losing their licence.

Headquartered in Madrid, SEPI is a public law entity which holds equity stakes in companies in various industries in Spain including real state, aerospace, shipping, engineering, and finance. The entity was created as per Royal Decree 5/1995 under the public law bylaws in Spain. It is ascribed to the Ministry of Economy and its purpose is to i) maximise the return of its equity holdings; ii) determine a strategy to maximise the value of its portfolio; iii) manage and minimise the debt held by the former INI and iv) supervise and manage a conglomerate of publicly-owned companies in strategic sectors or in non-competitive industrial sectors under the EU directives which enable governments to intervene in the restructuring of certain activities that might be considered obsolete.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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