

**Rating Action: Moody's downgrades Adif, CORES and SEPI to Aa2 (Spain)**

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Madrid, March 16, 2011 -- Moody's Investors Service has today downgraded to Aa2 from Aa1 the long-term ratings of (i) Administrador de Infraestructuras Ferroviarias (Adif), (ii) Corporacion de Reservas Estrategicas (CORES) and (iii) Sociedad Estatal de Participaciones Industriales (SEPI). Concurrently, Moody's has affirmed the Prime-1 short-term rating of Adif, which was not under review.

Today's rating actions follow Moody's recent rating downgrade to Aa2 from Aa1 of the ratings of the Kingdom of Spain. All ratings have a negative outlook, in line with the ratings of the Kingdom of Spain.

The rating actions conclude the review for possible downgrade of these entities, which Moody's initiated on 15 December 2010, coinciding with the review of the sovereign ratings.

In addition, the sovereign downgrade has not affected the A2 senior unsecured ratings with a negative outlook of Red Electrica de España SAU (REE) and the guaranteed debt of its affiliates. This is because REE's current ratings do not benefit from any direct uplift from governmental support as a result of SEPI's 20% ownership of the company.

**RATINGS RATIONALE**

"These rating downgrades follow Moody's downgrade to Aa2 from Aa1 of the long-term ratings of the Kingdom of Spain, which was prompted by: (i) ongoing uncertainties over the eventual cost of bank restructuring despite the government's recent announcements on higher capital requirements for Spanish financial institutions; and (ii) ongoing concerns regarding the ability of the Spanish government to achieve the required sustainable and structural improvement in general government finances, given the limits of central government control over the finances of regional governments," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for Adif, CORES and SEPI.

Moody's decision to assign negative outlooks to the ratings follows its assignment of a negative outlook to the ratings of the Kingdom of Spain and reflects its view that risks remain regarding the Spanish government's finances. Spain's country ceilings for bonds and bank deposits are unaffected and remain at Aaa (in line with the Eurozone's rating).

In Moody's view, these three Spanish government-related issuers (GRIs) are suited to a par rating with the government; indeed, they have benefited from the sovereign's rating in the past and continue to do so due to their special status, conferring the strategic importance of their role. However, Moody's cautions that Adif, CORES and SEPI do not enjoy any explicit guarantees from the Spanish government, and that any indication of a change in the Kingdom of Spain's (i) willingness to intervene in a timely manner to support these GRIs in the event of need; and/or (ii) propensity to support or encourage a more selective approach thereby differentiating the rank order of support needs among all potential calls on the government funding, could introduce a degree of notching in the GRI ratings vs. the sovereign ratings.

All of the above companies are GRIs, which have a very strong element of government support incorporated within their ratings in accordance with Moody's rating methodology for such entities. This is because the ratings of Adif, CORES and SEPI are based on these entities' legal characteristics including their bylaws and/or their public law nature, as well as Moody's assumption that these entities will remain key instruments for the Spanish government's public sector management and strategic oil reserves policy.

In the case of CORES and SEPI, Moody's applies credit substitution, supported by the companies' particular funding and business models. Therefore, for CORES and SEPI, the rating agency does not publish a granular analysis of typical GRI factors, i.e. support and dependence in addition to the baseline credit assessment (BCA) and sovereign rating.

In the case of Adif, Moody's assigns a very high level of support and dependence. The rating agency has lowered Adif's BCA to 7 (on a scale from 1 to 21, where 1 represents the lowest level credit risk and 21 the highest). This reflects the expected increasing funding needs of the company as a result of a programme of substantial investments in the high-speed railroad network approved by the government. In Moody's view, the new BCA level better positions Adif compared with its European railroad network operator peer group.

For additional information on rating factors, please refer to the individual issuer credit opinions, available on [www.moody's.com](http://www.moody's.com).

Moody's last rating action on Adif, CORES, and SEPI was implemented on 15 December 2010, when the rating agency placed the ratings of the three companies on review for possible downgrade following the review of the ratings of the Kingdom of Spain.

The principal methodology used in this rating was Government-Related Issuers: Methodology Update published in July 2010.

REE, based in Madrid, Spain, is the owner and operator of the country's electricity transmission system and network. As of 31 December 2010, the Red Electrica Group had consolidated revenues of EUR1.4 billion.

Headquartered in Madrid, Spain, Adif enjoys special legal status as an Entidad Pública Empresarial, reflecting its 100% state ownership and critical importance as a major part of the country's transport infrastructure. Adif exhibits a strong business risk profile, primarily derived from its natural monopoly position as the national railway infrastructure manager. It is responsible for: (i) owning and managing Spain's railway infrastructure, including tracks, stations, and freight terminals, on behalf of the 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 it monthly fees or risk losing their licence.

Headquartered in Madrid, SEPI is a public law entity that 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 certain EU directives. These directives enable governments to intervene in the restructuring of certain activities that might be considered obsolete.

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