

Rating Action: Moody's downgrades three Spanish government-related issuers, negative outlook

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Madrid, October 19, 2011 -- Moody's Investors Service has today downgraded the long-term ratings of the following three Spanish government-related issuers (GRIs) following the downgrade of Spain's government bond rating to A1 from Aa2:

Sociedad Estatal de Participaciones Industriales (SEPI) was downgraded by two notches to A1 from Aa2.

Corporacion de Reservas Estrategicas (CORES) and Administrador de Infraestructuras Ferroviarias (Adif) were both downgraded by three notches to A2 from Aa2. (Concurrently, Moody's has affirmed the Prime-1 short-term rating of Adif, which was not under review.)

The outstanding bonds of the former Red Nacional de los Ferrocarriles Españoles (RENFE) with maturities of 19 December 2024 of EUR 90 million, 19 October 2024 of EUR 48 million and 19 December 2024 of EUR 18 million, were downgraded by two notches to A1 from Aa2 on the basis that these bonds were assumed by Spain's government back in 2004, and are therefore rated at the same level as the Spanish government.

Downgrades:

..Issuer: Administrador de Infraestructuras Ferroviarias

....Issuer Rating, Downgraded to A2 from Aa2 on watch for possible downgrade

..Issuer: Corporacion de Reservas Estrategicas

....Issuer Rating, Downgraded to A2 from Aa2 on watch for possible downgrade

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)A2 from (P)Aa2 on watch for possible downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from Aa2 on watch for possible downgrade

..Issuer: Sociedad Estatal Participaciones Industriales

.... Issuer Rating, Downgraded to A1 from Aa2 on watch for possible downgrade

Moody's also maintains the following ratings on Adif: Short-Term Issuer Rating of P-1

Today's rating actions conclude the review for possible downgrade, which Moody's had initiated on these three entities on 29 July 2011, coinciding with the initiation of a review of Spain's sovereign ratings.

The ratings of all three entities now have a negative outlook, in line with the outlook on Spain's sovereign ratings.

RATINGS RATIONALE

Today's rating actions on these entities follows Moody's downgrade of Spain's government bond rating to A1 from Aa2. For full details please refer to Moody's press release http://www.moody.com/research/Moodys-downgrades-Spains-government-bond-ratings-to-A1-negative-outlook--PR_228099.

The link between the ratings of these companies and that of the sovereign is based on their status as GRIs, their strategic importance to Spain and the very strong government support that is incorporated within their ratings. The ratings of Adif, CORES and SEPI also consider these entities' standalone credit profiles and 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. This is despite the lack of explicit guarantees from the Spanish state.

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

Moody's has downgraded SEPI by two notches to A1, which is the same level as that of the sovereign because of the implicit support it receives from the government and its strategic importance. In determining SEPI's rating, Moody's applies a credit substitution approach that considers the company's particular funding and business model. The rating agency therefore does not publish a granular analysis of typical GRI factors for SEPI, i.e. support and dependence in addition to the baseline credit assessment (BCA) and sovereign rating.

CORPORACION DE RESERVAS ESTRATEGICAS (CORES) AND ADMINISTRADOR DE INFRAESTRUCTURAS FERROVIARIAS (ADIF)

Moody's has downgraded CORES and ADIF by three notches, thereby positioning their ratings one notch below that of the government. Moody's has introduced this rating differential partly to reflect the lack of explicit guarantees from the Spanish government, but also the relative weakness in their underlying credit profiles compared to the credit strength of the sovereign. Additionally, despite a very high likelihood of support by the government given its close links with these GRIs, Moody's one-notch differentiation between CORES's and Adif's ratings and the government rating reflects (i) a degree of uncertainty regarding the timely provision of support in the event of need; and/or (ii) a modest degree of risk that over the rating horizon and in potential stress scenarios simultaneously affecting various issuers requiring support, a more selective approach to the provision of support might be considered by the government.

In the case of CORES (as with SEPI), Moody's applies a credit substitution approach that considers the company's particular funding and business model. The rating agency therefore does not publish a granular analysis of typical GRI factors for CORES, i.e. support and dependence in addition to the baseline credit assessment (BCA) and sovereign rating. The one notch differential between the rating of CORES

and the sovereign rating reflects a view that the likelihood of timely support, while very high, is insufficient to equalize the ratings.

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 9 (on a scale from 1 to 21, where 1 represents the lowest level credit risk and 21 the highest). This reflects the expected funding needs of the company as a result of a programme of substantial investments in the high-speed railroad network approved by the government.

RATIONALE FOR NEGATIVE OUTLOOK

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.

WHAT COULD CHANGE THE RATINGS UP/DOWN

In the absence of a change in the nature and standalone profiles of these entities or the perceived strength of underlying sovereign support, the ratings of SEPI, CORES or Adif are expected to be primarily driven by the rating of the Kingdom of Spain.

Moody's cautions that these entities do not benefit from explicit guarantees from the Spanish government and that any indication of a change in the government'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 and thereby differentiating the rank order of support needs among all potential calls on the government funding, could introduce a further degree of notching in the ratings of these GRI vs. those of the sovereign.

In addition, downward pressure on the rating of Adif could also occur if the BCA deteriorates substantially, as a result of increased leverage beyond Moody's current expectations, FFO to debt falling below 3.5% or due to Adif facing substantial refinancing needs without an adequate liquidity back up plan in place.

Downward pressure on CORES rating could also 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.

In view of today's action, and the negative outlook for the sovereign rating, no positive ratings pressure is currently envisaged in the short-term for either SEPI, CORES or Adif.

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

METHODOLOGY USED

The principal methodology used in rating SEPI and CORES was Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

The principal methodology used in rating Adif was the Government Owned Rail Network Operators Industry Methodology published in April 2009. Other methodologies used include the Government-Related Issuers methodology published in July 2010. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

All three companies are headquartered in Madrid, Spain.

Adif benefits from a 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.

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.

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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

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

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