

ARC Ratings lowers rating of EGREP loan to BBB-

- Early liquidation of interest rate derivative contracted by EGREP significantly impacts its earnings and equity

Issue	EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP)
Operation	Bond Loan of EUR 360,0 Million
Ratings	BBB-, with stable outlook
Ratings' Date	3 December 2013

It is the opinion of ARC Ratings that EGREP maintains an adequate capacity to pay its obligations under the bond loan subject to follow-up but that adverse changes in economic conditions or a sudden change of circumstances may weaken the issuer's capacity to honour the financial commitment in question. ARC Ratings lowers the rating to BBB-, with stable outlook.

Recent developments

Subsequent to 11 June 2013, the date of the last Follow-up Report on the rating assigned by ARC Ratings, S.A. (ARC) to a bond loan of EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP), the following situations have occurred, with an impact on EGREP's capacity to fully and timely honour said loan:

- following the Portuguese Government's decision to liquidate in advance the derivative financial instruments contracted by companies held by the Portuguese State, the interest rate swap contracted by EGREP with JPMorgan, with notional value of EUR 360 million, maturity on 6 August 2028, and remaining conditions as described in the Follow-up Report of 11 June 2013, was liquidated;
- EGREP bore the cost of that liquidation, which amounted to EUR 122.0 million and impacted its net earnings and equity; this amount was paid by the Agência de Gestão da Tesouraria e da Dívida Pública — IGCP, E.P.E. (IGCP, the Portuguese Treasury and Debt Management Agency), to which EGREP became indebted;
- EGREP intends to pay its debt to IGCP soon, using for the purpose the proceeds from the sale of roughly EUR 100.0 million of its strategic reserves;
- the oil products held by EGREP, which are booked under inventories at cost, totalled EUR 349.7 million at the end of the first half of 2013, having remained practically unchanged since the end of 2012; on this last date there was a positive difference of EUR 376.2 million between the market and the book value of these inventories; from the end of 2012 to November 2013 the price of crude fell by around 5.0%, considering for the purpose the *Europe Brent Spot Price FOB* in dollars per barrel (converted into euro, the reduction would have been of 7.5%) and consequently the difference between the market and the book value of those inventories would be EUR 26.1 million lower;

Legal framework

Note also that a bill was approved at a Council of Ministers meeting that transposes the European Directive on emergency stocks of oil products and also rules on the renaming and restructuring of EGREP; the following situations referred in the Follow-up Report of 11 June 2013 should remain unchanged:

- the Portuguese State is the regulator of the market in which EGREP operates;
- the Company plays a strategic role for the Portuguese State, which remains its sole shareholder (the Company thus maintains the status of a public corporate entity); as a result, in terms of shareholder responsibility, EGREP continues to fall within the framework of article 488 and following of the Commercial Companies Code; and
- in case EGREP is wound up, the Portuguese State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities.

Ratings of the Portuguese Republic's financial commitments

As regards the ratings on the Portuguese Republic's long-term financial commitments, since 11 June 2013 Standard & Poor's (S&P) lowered its outlook and Moody's Investors Service (Moody's) improved its outlook. The set of ratings assigned to the Portuguese Republic's financial commitments by credit rating agencies (CRAs) registered with or certified by the European Securities and Markets Authority (ESMA), in accordance with REGULATION (EC) no. 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September 2009, is currently as follows: (medium and long term / outlook or ongoing action / short term):

- A / negative, by Japan Credit Rating Agency, Ltd.;
- BBB low / negative / R-2 mid (corresponding to A-3 in ARC Ratings' rating schedule), by DBRS Ratings Limited;

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- BB+ / negative / B, by Fitch Ratings (Fitch);
- BB / negative / B, by S&P;
- Ba3 (corresponding to BB- in ARC Ratings' rating schedule) / stable / NP (not prime, corresponding to B or lower in ARC Ratings' rating schedule), by Moody's.

Using the criteria foreseen by ARC Ratings for cases where it has to base its assessment on one or more ratings assigned by other rating agencies, its rating of the medium and long term commitments of the Portuguese Republic remains at BB+, with negative outlook.

Factors under observation

ARC Ratings will maintain the following aspects under observation: any changes in the legal and regulatory framework of EGREP's activity; the evolution of the international price of oil and oil products, and consequent market value of the stocks of oil products held by EGREP (and corresponding potential capital gain); the balance in EGREP's provision fund and its coverage by liquid assets and Portuguese public debt securities held by EGREP; any transactions involving the stocks of oil products held by EGREP implying their valuation at market prices and subsequent possibility of distributing the income generated; and the maintenance by the Portuguese State of full control over EGREP.

Note: Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors. This disclosure is for information purposes only and therefore does not dispense the reading of the respective rating reports. Ratings are assigned based on information, including confidential information, collected from a wide group of sources, and in particular from the entity whose financial commitments are subject to rating. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, cross-checking and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its truthfulness. ARC Ratings must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

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