

# ENMC

## Issue Rating

**BBB-**

Medium and Long Term  
(BBB-, with stable outlook)

(Details on page 2)

## Period of Analysis

Non Applicable

## Methodology

ARC Ratings Non Financial Corporations'  
Rating Methodology ([www.arcratings.com](http://www.arcratings.com))

## Rating Panel

Henrique Murteira  
Head Analyst

Carlos Leitão  
Analyst

T. N. Arun Kumar  
CARE Ratings  
Chief General Manager

Milly Leong Soek Yee  
MARC  
Technical Director

## Analysis Team

Henrique Murteira  
Head Analyst

Carlos Leitão  
Analyst

Next Follow-up

11 June 2014

Initial Rating

2 June 2008

Previous Follow-up

11 June 2013

**ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E. (ENMC)**

**Issue Rating**

Issuers

Validity

**BBB-**

Medium and Long Term  
(BBB-, with stable outlook)

Bond Loan – 360.0 M€

ENMC

6 August 2028

Notes:

M€ = Million Euros

## 1. DESCRIPTION OF THE OPERATION SUBJECT TO EARLY FOLLOW-UP

This follow-up applies to a EUR 360.0 million bond loan issued by EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP), currently ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. (ENMC), on 6 August 2008 under the terms described in the Rating Report of 2 June 2008 (Rating Report).

The rating assigned by ARC Ratings, S.A. (ARC Ratings) to the above bond loan is valid up to its maturity, in the meantime requiring annual follow-ups, the next being due by 11 June 2014. Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the follow-up.

## 2. RECENT DEVELOPMENTS

Following the decision of the Portuguese Government to anticipate the settlement of derivative financial instruments contracted by companies owned by the Portuguese State, the interest rate swap contract between ENMC and JPMorgan, with notional value of EUR 360 million, maturing 6 August 2028 and other conditions described in the follow-up report dated 11 June 2013, was settled on June 2013. ENMC has incurred in cost with this settlement, which amounted to EUR 122.0 million, with impact on its net profits and equity. This amount was paid by Agência de Gestão da Tesouraria e da Dívida Pública — IGCP, E.P.E. (IGCP) with which ENMC got into debt. ENMC paid this amount to IGCP at the end of 2013 and sold 191 thousand tonnes of crude oil reserves. In addition to these sale, and in such a way as to not incur in losses in 2013, also sold 122 thousand tonnes of crude oil reserves. As such at the end of 2013 ENMC crude oil reserves stand at 505 thousand tonnes and equity reached EUR 10.5 million.

With the sale of crude oil reserves referred the potential capital gains associated with the reserves of oil products held by ENMC amounted to EUR 225.4 million at the end of 2013, less EUR 150.8 million than the potential capital gains verified at the end of 2012.

Through Decree Law (DL) no. 165/2013, dated 16 December, the designation of EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. was changed to ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. and the Company was subject to a restructuring, keeping-if the following aspects unchanged:

- the status of a public corporate entity with administrative, financial and patrimonial autonomy;
- the regulatory share capital of EUR 250 thousand fully held by the Portuguese State;
- that in case of Company extinction the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities;
- the assignment to set up and maintain strategic stocks of oil products;
- the responsibilities of the Board of Directors in the fulfilment of the assignment set to the Company regarding the set up and managing of strategic stocks of oil products;

- that the expenses associated with the build up and maintenance of strategic stocks by the Company are fully supported by operators obliged to constitution of emergency reserves;
- that the Company must set up a reserve fund (statutory fund) corresponding to at least 25% of the acquisition cost of the stocks held in a period to be established in its strategic plan; this fund can only be used upon express instructions given by members of Government in charge of finance and energy to sell products at a lower price than their average cost in order to tackle a situation of energy crisis or severe supply disruption, in which case the State assumes the loss corresponding to the difference between the income determined for the sale and the proportional drawings on the statutory fund.

DL no. 165/2013 amended the following aspects in relation to the Company:

- become to exercise functions of planning and monitoring of the oil market, including prospecting, research, development and exploitation of petroleum resources, and in the context of the biofuels sector; It should be referred that, according to the ENMC, the new functions assigned to the Company imply an increase of its staff structure, from the actual 5 people to around 20, considering that the consequent increase in expenses (EUR 0.5 million each year) will be almost entirely supported by related income; in addition the unit engaged in the build up, management and maintenance of oil products stocks (oil reserves unit (URP)) is endowed with technical and administrative autonomy and under an accounting separation status;
- became to compete to member of the Government responsible for the finance area the authorization of the issuance of guarantees for the benefit of another entity, of any act or business with impact actual or potential on Company liabilities and that exceed the annual amount budgeted or do not arise from the investment plan approved and proposed, and the appointment of the board of directors member who must expressly approve any matter whose financial impact in the Company is more than 1.0% of net assets;
- became to compete to supervisory board to issue opinion prior to completion of financing operations or conclusion of legal acts or business from which result liabilities to the Company equivalent to more than 5% of net assets, except in cases in which the same have been approved in the plan of activities and budget, and the monitoring and supervision of petroleum and petroleum products acquisitions and related contracts, as well as prepare reports relating to each acquisition, which are sent to members of the Government responsible for the areas of finance and energy;
- became to compete to the statutory auditor the verification of compliance with accounting separation status between the profits allocated to the URP and other activities;
- no longer constitute Company income the sale of emergency stocks that are invested in the acquisition of new emergency stocks, in debt payment within five years following the date of the sale of the stocks or in the endowment of the provision fund;
- the endowment of the provision fund started to be considered as Company expenses;
- in case the profit of the main activity of the URP, before the final settlement for the fiscal year, deviates from the

budgeted the necessary adjustment to turnover start to be processed in the same fiscal year.

DL no. 165/2013 amended the following aspects in relation to petroleum products emergency reserves:

- the categories of products subject to the build up and maintenance of emergency reserves turning to include biofuels;
- Company corporate object no longer includes that its oil reserves would have to match at least one-third of emergency reserves in replacement of operators obliged to build up emergency reserves, allowing the Company to ensure only a partial replacement in the fulfilling of these operators obligation, equivalent to a proportion to be set by the members of Government responsible for the areas of finance and energy, upon proposal submitted by ENMC; to say that ENMC has proposed that the partial replacement is maintained at one-third;
- introduced the possibility, if authorized by the member of the Government responsible for the area of energy, that the management of emergency reserves by the Company be subject to contract, without possibility of subcontracting, to celebrate with economic operators, in accordance with applicable law, with the exception of the sale and the acquisition of emergency reserves;
- the acquisition by the Company of crude oil and oil products in the international market as well as the contracts for the maintenance at its order of these products that are the property of third parties are no longer subject to the Public Procurement Code (CCP) with strict observance of the following principles: a) competition and non-discrimination of potential suppliers; b) documentation and audit ability of procedures; c) award for lowest cost or by most economically advantageous tender; d) safeguard the fulfilment of contracts by the contractors;
- removed the restrictions the Company had to comply by its byelaws regarding the composition of oil reserves, according to which the finished products would have to be at least one-third of the reserves the Company had to maintain and that would have to maintain at least the ownership of 25% of its oil reserves;
- for operators obliged to build up emergency reserves was introduced a restriction to maintain a minimum of one-third of reserves into finished products;
- the emergency reserves began to have to match the minimum component of finished products required to ensure that the national emergency reserves should be constituted by a minimum of one third by finished products;
- ceased to be contemplated the possibility of the Company to maintain emergency reserves above the minimum in order to comply with international commitments.

Regarding oil products emergency reserves DL no. 165/2013 maintained the following aspects:

- the national obligation of build up and to maintain emergency reserves, at least, equivalent to 90 days for A, B and C products categories;
- the emergency reserves may be build up by: a) crude oil and other hydrocarbons subject to manufacture on refining premises; b) intermediate products or in process of manufacture; c) finished products and their components, having passed to include biofuels, or additives incorporated or intended for incorporation, provided that are stored in

incorporation premises;

- the build up of reserves can be performed directly by the operators obliged, with own products and within own storage, or the storage contracted with third parties;
- possibility of contracting the keeping to the order of the Company of oil products or crude oil owned by a third party, with respect to the limit in force of own reserves and provided that the contracts ensure, at a minimum, the following conditions: a) the Company option for the purchase of the products within a fixed price; b) the right of verification of the quantity and quality of the products by the Company as well as by the competent authority; c) maintenance of the products in tanks that comply with applicable legislation; d) warranty and mechanisms for maintaining the quality of the products;
- possibility of location of emergency reserves in other European Union Member States subject to national interest, to the need to satisfy the obligations with international institutions and to the convenience of creating storage capacity supply; for this possibility may be defined: a) a national ceiling for emergency reserves that can be build up and maintained in other Member States, b) a ceiling to the obligation of each operator, by products category or globally; c) the subordination of the authorization to the existence of a consistent logistics, based on the existence of customary commercial relations, which will ensure a constant flow of oil products from the area where the reserves are stored;
- the possibility of sale of surplus reserves by the Company following market mechanisms, at a price not lower than the average acquisition price; in this case the sale requires a prior authorization of the members of the Government responsible for the areas of finance and energy, and must be justified in economic terms.

### 3. OUTLOOK

ENMC business plan for 2014, dated 1 November 2013, includes, among others, the following aspects: the review of the conditions of oil products storage contracts it maintains with third parties; the inclusion of insurance coverage for environmental damage; contracting Compulsory Stock Obligation (CSO) for petroleum products; implementation of a new specific software for the management of stocks of oil products and the respective amounts due from operators.

### 4. RATING

It is the opinion of ARC Ratings that the change of the legal framework applying to the activity of EGREP, which, among others, caused the company to change its name to ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E., had no impact on its capacity to fully and timely honour its obligations under the bond loan subject to rating or the underlying guarantees, in so far as there have been no changes in the following:

- the Company maintains the status of a public corporate entity with administrative, financial and patrimonial autonomy;
- in case the Company is extinguished, the Portuguese State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities;

- the Company maintains its duties in terms of building up, managing and maintaining strategic reserves of petroleum and petroleum products;
- the costs incurred by the company to build up and maintain strategic reserves are fully borne by the operators obliged to set up safety reserves; and
- If ENMC is forced to sell petroleum products below average acquisition cost in order to tackle a situation of energy crisis or serious supply disruption, the State assumes the loss corresponding to the difference between the income obtained from the sale and the proportional drawings on the statutory fund.

So the ENMC's capacity to fully and timely honour its obligations under the bond loan subject to rating remains adequate, but that adverse changes in economic conditions or a sudden change of circumstances may weaken the issuer's capacity to meet its financial commitment on the obligations. The rating is thus maintained at BBB-, with stable outlook.

This page was intentionally left blank.

This page was intentionally left blank.

This page was intentionally left blank.

## MEDIUM AND LONG-TERM ISSUES

### Low Risk Range

**AAA**

An obligation rated "AAA" has the highest possible rating assigned by ARC Ratings. The obligor's future cash flow capacity to meet its financial commitments on the obligation is gauged as extremely strong. A timely and full payment of principal and interest thereof is not but remotely subject to adverse influence of an outside force or future event.

**AA**

An obligation rated "AA" differs from the highest rated obligations only in a very small degree. The obligor's capacity to meet its financial commitments on the obligation remains very strong.

**A**

An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions when compared to obligations in highest categories. However, the obligor's capacity to meet its financial commitments on the obligation remains quite strong.

### Moderate Risk Range

**BBB**

An obligation rated "BBB" always exhibits an adequate set of protection parameters. However, adverse economic conditions or suddenly changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligation.

**BB**

An obligation rated "BB" exhibits a fair set of financial protection parameters. However, the obligor may face a future deterioration of its payment capacity due to adverse business, financial or economic conditions, which could lead to an unforeseen deterioration of the chances of a timely and full debt servicing.

### High Risk Range

**B**

An obligation rated "B" is more vulnerable than obligations rated "BB", in the sense that its obligor, while currently showing a limited capacity to meet its financial commitments on the obligation, may under adversely changing business, financial or economic conditions very likely impair such capacity or even the willingness to service its debt.

**CCC**

An obligation rated "CCC" is currently very vulnerable, and is thus strictly dependent upon favourable business, financial, and economic conditions facing the obligor to meet its financial commitment. Upon the event of adverse business, financial or economic conditions, the obligor will most likely not have the capacity to meet its financial commitments on the obligation.

### Imminent or Actual Default

**CC**

An obligation rated "CC" is highly vulnerable to payment delays and/or partial default although not showing payment delays at present, due to its own endogenous limitations, notwithstanding the outside conditions facing the obligor.

**C**

An obligation rated "C" faces an imminent default. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation have not yet been discontinued.

**D**

An obligation rated "D" is currently under payments default.

The ratings from "AA" to "CCC" may be modified by the addition of "+" or "-" to show their relative standing within own rating categories. The rating outlook (**positive**, **stable**, **negative** or **developing**) highlights the potential direction of a rating during the following year. An outlook is not necessarily a precursor of a rating change or future follow-up ahead of schedule.

\* ARC Ratings has updated its Rating Definitions on June 18, 2013, maintaining the equivalence between the notations before and after the update.

## ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.

1050-139 Lisbon

PORTUGAL

Phone: 213 041 110

Fax: 213 041 111

E-mail: [arcratings@arcratings.com](mailto:arcratings@arcratings.com)

Site: [www.arcratings.com](http://www.arcratings.com)



ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA), within the scope of the REGULATION (EC) N° 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September, and recognised as External Credit Assessment Institution (ECAI) for Corporates by the Bank of Portugal.

This Rating / Follow-up Report should preferably be read together with initial Rating Report and with the subsequent Follow-up reports.

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to honour, in due time and in full, the financial commitments (principal and interest) subject to rating.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are subject to rating.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are subject to rating the documents that substantiate the rating to be attributed (the preliminary rating report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are subject to rating are taken into account by ARC Ratings in the assignment of the rating.

Once the Rating Panel has assigned a rating, it is up to the entity whose financial commitments are subject to rating to decide whether or not this rating will be published, and there is no possibility of ARC Ratings changing this rating. Cases provided for in the law and rating analyses on structured products constitute exceptions to this option on publishing.

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the follow-up. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the listing of public ratings available at the web site [www.arcratings.com](http://www.arcratings.com).

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.

In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating classification of the financial commitment in question.