

# ARC Ratings maintains ENMC's BBB- rating, with stable outlook

## **ISSUER**

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

## **ISSUES RATING**

**BBB-**

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

## **RATING DATE**

6 May 2014

It is the opinion of ARC Ratings that 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.

## **FUNDAMENTALS**

The change of the legal framework applying to the activity of EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (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.

## **COMPANY PROFILE**

Decree-Law (DL) no. 165/2013 attributed to ENMC planning and monitoring functions in relation to the oil sector, (including prospecting, research, development and exploration of oil products) and the biofuels sector. It should be noted that the unit in charge of building, managing and maintaining reserves of petroleum products (Oil Reserves Unit (ORU)) has technical and administrative autonomy as well as separate accounting. According to ENMC the increase in costs resulting from these new functions will be almost entirely covered by the associated income.

## **RECENT DEVELOPMENTS AND OUTLOOK**

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 ENMC 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 in June 2013. ENMC supported the cost of this liquidation (EUR 122.0 million), which 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 ENMC became indebted. At the end of 2013 ENMC paid this debt, having for the purpose sold 191 thousand tonnes of crude oil stocks. In addition, and so as not to report losses in 2013, the Company sold another 122 thousand tonnes of crude oil, after which it had total stocks of 505 thousand tonnes and equity in the amount of EUR 10.5 million at the end of 2013.

After the referred sales, the potential capital gains associated to the stocks of oil products held by ENMC amounted to EUR 225.4 million at the end of 2013, which is EUR 150.8 million less than at the end of 2012.

## **FACTORS UNDER OBSERVATION**

ENMC's capacity to fully and timely honour its obligations under the bond loan subject to rating may be influenced by the following factors, which ARC Ratings will maintain under observation:

- any changes in the legal and regulatory framework of ENMC'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 ENMC's (and corresponding potential capital gain);
- the balance in ENMC's provision fund and its coverage by liquid assets and Portuguese public debt securities held by ENMC;
- any transactions involving the stocks of oil products held by ENMC leading to its valuation to the respective market prices and subsequent possibility of distributing the income generated; and
- the maintenance by the Portuguese State of full control over ENMC.

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**THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT  
DISPENSE THE READING OF THE RESPECTIVE RATING REPORT**

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## **ARC Ratings, S.A.**

Rua Luciano Cordeiro, 123 – R/C Esq.  
1050-139 Lisbon  
PORTUGAL  
Tel: +351 213 041 110  
Fax: +351 213 041 111  
E-mail: [arcratings@arcratings.com](mailto:arcratings@arcratings.com)  
Site: [www.arcratings.com](http://www.arcratings.com)

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