Follow-up Report
24 September 2014

ENMC

Issues Rating

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

(Details on page 2)

Period of Analysis

2008 to 2013

Methodology

ARC Ratings Non Financial Corporations' Rating Methodology (www.arcratings.com)

Rating Panel

Emma-Jane Fulcher
Acting Chief Ratings Officer

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	Initial Rating	Previous Follow-up
24 September 2015	2 June 2008	11 June 2013

ARC Ratings, S.A.

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

Issues Rating		Issuers	Validity
BBB-	Medium and Long Term (BBB-, with negative outlook)		
Bond Loan – 360,0 M€		ENMC	6 August 2028

Notes:
M€ = Million Euros

EXECUTIVE SUMMARY

Through Decree Law (DL) no. 165/2013, dated 16 December, the Portuguese State assign to the to ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. the 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. 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;:

The above mentioned DL keept-if the following aspects unchanged:

- the status of a public corporate entity with administrative, financial and patrimonial autonomy;
- 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;
- 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;
- in case of energy crisis or severe supply disruption if ENMC sells strategic stocks of oil products in a situation where proceeds obtained are insufficient to cover the average present acquisition cost of products with the proportional allocation of the reserve fund, the State assumes the corresponding loss by making an extraordinary contribution to the fund; and
- that Portugal is highly dependent on imported energy, with oil maintaining a prominent place in the supply structure, which bolsters ENMC's strategic role.

1. DESCRIPTION OF THE OPERATION SUBJECT TO 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) of which we highlight the following:

– maturity of 20 years with full payment of principle at maturity, which will occur on August 6 2028;

– possibility of full but not partial early redemption at issuer initiative, on 8 August 2016 and 7 August 2023, or "in case the following circumstances occur cumulatively:

  a) change, after the issue date, of tax regulations applicable in Portugal, or change in the official application or interpretation of such regulations, such as impose upon the issuer the obligation to pay additional sums other than foreseen in the contractual documentation;

  b) the issuer is unable to avoid the referred imposition by taking measures available to it for the purpose, within reasonable criteria".

– early redemption, among others, in the following cases:

  - if the Portuguese State ceases to hold, directly or indirectly the entire share capital and voting rights of the issuer, or if the issuer ceases to have the legal status of an "entidade pública empresarial" (public corporate entity);

  - if any change in issuer's legal framework eliminates or restricts the Portuguese State's current obligation to assume losses arising from the liquidation of assets as well as the residual responsibilities;

  - non performance of pari passu or negative pledge clauses;

  - change in the 0% weighting attributed by the Bank of Portugal to the liabilities of credit institutions to the issuer for purpose of calculating the solvency ratio and the limits to major exposures.

Under the standard method of the Basel II Agreement, in accordance with the Bank of Portugal notice no. 5/2007, "the positions at risk on public sector entities are to be treated as positions on institutions", being that, "in exceptional cases, the positions at risk on public sector entities may be treated as positions at risk on the central administration whenever the Bank of Portugal considers that there are no differences in the risk of these types of positions, as a result of the existence of an appropriate guarantee provided by central administration". Yet, according to the above mentioned Bank of Portugal notice, "the positions at risk on central governments or central banks of the Member States of the European Union (EU), denominated and funded in the national currency of this central administration or of that central bank, must be applied a 0% risk weighting".

To be noted that, in accordance with the Bank of Portugal circular no. 2/2011/DSP, dated 10 March, "on a case-by-case basis, upon duly motivated request, the Bank of Portugal can consider that entities that are not part of the "central administration" benefit from a legally binding guarantee of central administration that allows them a more favourable risk weighting, particularly due to his regime and byelaws (as is the case of Parpública – Participações Públicas, SGPS, S.A. and EGREP – Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E.)". It must be mentioned that on 20 January 2014 the Bank of Portugal has confirmed the 0% risk weighting for ENMC.

2. RECENT DEVELOPMENTS

MACROECONOMIC FRAMEWORK

According to the Directorate-General for Energy and Geology ("DGEG"), Portugal's scarcity of endogenous fossil energy sources makes it highly dependent on energy imports (79.4% in 2012), namely of primary energy resources of fossil origin. Note, however, that the energy dependence rate has been falling since 2005, when, due to very little rain during the year and consequent low productivity of hydropower plants, it reached the highest value of the decade (88.8%). In relative terms, oil still represents the bulk of the supply structure, accounting for 43.3% of total primary energy consumption in 2012 (46.8% in 2011). Natural gas, which has contributed to reduce dependence on oil as well as to diversify the profile of energy supply in Portugal, represented 18.4% of total primary energy consumption in 2012.

According to portaria 126/2014, of 25 June 2014, effective as from 1 January 2014, the share in which ENMC partially replaces the bound operators' obligation to set up safety reserves corresponds to 30 days of average daily consumption in the previous year" and "the share of reserves to be held by ENMC corresponds to one third of the reserves which the bound operators are obliged to maintain'. Note that according to its supervising ministry, ENMC must hold the strategic reserves in products.

According to ministerial order 6967/2014, of 19 May 2014, effective as from 1 January 2014 "crude oil and petroleum products safety reserves may be set up and maintained in other Member States, up to a maximum of 34.0% of the total national stockholding obligation", "but they may never be less than 5,000 tonnes per storage location"; the authorisation to set up (...) is subject to the existence of logistics consistency, based on regular commercial relations ensuring a constant flow of petroleum products from the area where the reserves are set up and maintained"; and ENMC "may ask the member of Government responsible for Energy to reassess the established limit of" 34.0% "if it proves that the cost of storing reserves in Portugal is excessive and unreasonable compared to alternative storage locations in another Member Country, providing the" above mentioned "requirements are complied with. The provisions of this ministerial order apply to "the replacement by EMNC of the remainder of the stockholding obligation of operators that lack sufficient storage capacity to meet their obligations".

MARKET OF PETROLEUM PRODUCTS

According to the International Energy Agency's Oil Market Report of January 2014, supply of crude oil increased by approximately 0.7% year-on-year in 2013 while demand increased by roughly 1.4%. Although oil prices remained stable in the period, 2013 saw sharp price swings as well as a market redesign, namely due to marked changes in the various contributions to the growth of supply and demand, and in the direction of trade flows. In terms of supply, the referred Oil Market Report notes that growth in the US has made up for falls in Libya and Iran, with this growth in US supply being set to continue in 2014 and representing one of the most significant changes in the market. In terms of demand, growth in the Organisation for Economic Cooperation and Development (OECD) countries compensated for lower than expected growth in the emerging economies. Due to the imbalance between supply and demand in 2013, crude stocks registered a significant contraction.

In the period of 2009 to 2013 all categories of oil products for which the creation of emergency stocks is compulsory registered average annual decreases in the quantities introduced for consumption. This decrease was sharpest in category C products (fuel oil), which dropped by 23.7%, showing high volatility from one year to the next. In the past this was due to fluctuations in the quantity required by fuel oil driven thermal power plants, and more recently to the gradual replacement of fuel oil for natural gas in industrial units. The other categories showed lower average declines in quantities introduced for consumption: category A (gasoline) dropped by 6.8%, category D (liquefied petroleum gases – LPG) by 5.6%, and category B (diesel) by 3.0%. The smaller drop in diesel consumption is mainly explained by the increase in diesel engine vehicles as a percentage of total vehicles in Portugal.

In 2013 the volume of oil products introduced for consumption declined in all categories but in the case of category A (gasoline), category B (diesel) and category D (liquefied petroleum gases – LPG)) products the decreases were lower than the average decreases in the period of 2009 to 2013 – with a difference of 4.8 percentage points (pp) in category A (gasoline), 2,1 pp in category B (diesel), and 1.6 pp in category D (liquefied petroleum gases – LPG)).

ENMC'S ACTIVITY

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 EGREP 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. Note that the crude oil stocks sold by ENMC in 2013 were bought by PETRÓLEOS DE PORTUGAL – PETROGAL, S.A. (PETROGAL), impacting ENMC's trade receivables at the end of that year.

Hence at the end of 2013 ENMC's stocks of crude oil totalled 503.8 thousand tonnes (313.3 thousand tonnes less than at the end of 2012), corresponding to 41.7% of the total equivalent finished products held by the Company on that date (69.3% at the end of 2012). To fill in the reduction in stocks and thus avoid breaching agreements with the operators and disruptions in the Portuguese reserves system, it was decided to enter a Compulsory Stock Obligation

(CSO) agreement with PETROGAL for 313.5 thousand tonnes of crude oil, which had a EUR 0.3 million impact on the 2013 costs. Concerning this agreement's conditions, we note the possibility to acquire the equivalent quantity of finished products in the categories for which emergency reserves must be set up at market price at the time of acquisition.

TABLE 2.1.
EVOLUTION OF RESERVES UNDER ENMC'S RESPONSIBILITY

TYPE	LOCATION	NATURE	2009	2010	2011	2012	2013
QUANTITIES AND PRODUCTS EFFECTIVELY HELD							
Crude Oil			**817 297**	**817 297**	**817 297**	**817 297**	**817 297**
	Germany	Own	397 297	397 297	397 297	397 297	83 818
	Petrogal - Sines	Own	420 000	420 000	420 000	420 000	420 000
	Petrogal	CSO Tickets	0	0	0	0	313 479
Finished Products							
Category A (Gasoline)			**51 400**	**51 400**	**51 400**	**51 400**	**51 400**
	Petrogal - Sines	Own	51 400	51 400	51 400	51 400	51 400
Category B (Diesel)			**248 768**	**248 768**	**248 338**	**248 338**	**247 880**
	Petrogal - Sines	Own	105 768	105 768	105 064	116 153	108 386
	POL NATO - Lisboa	Own	143 000	143 000	143 274	132 185	139 494
Category C (Fuel Oil)			**0**	**0**	**0**	**0**	**0**
Category D (LPG)			**9 000**	**9 000**	**9 000**	**9 000**	**9 000**
	Petrogal - Sines	Own	9 000	9 000	9 000	9 000	9 000
DISTRIBUTION OF CRUDE OIL EQUIVALENT FINISHED PRODUCTS BY QUANTITY (1)							
Finished Products			**1 069 458**	**1 021 118**	**1 032 046**	**1 042 318**	**1 066 126**
Category A (Gasoline)			**199 138**	**198 148**	**226 302**	**209 956**	**195 442**
	Germany	Crude Oil	67 938	70 308	85 022	77 076	16 428
	Petrogal	Crude Oil	79 800	76 440	89 880	81 480	82 320
	Petrogal - Sines	Own	51 400	51 400	51 400	51 400	51 400
	Petrogal	CSO Tickets	0	0	0	0	45 294
Category B (Diesel)			**666 927**	**629 443**	**659 438**	**694 229**	**748 643**
	Germany	Crude Oil	192 292	185 140	199 840	211 362	45 597
	Petrogal	Crude Oil	225 867	195 720	211 260	223 440	228 480
	Petrogal - Sines	Own	105 768	105 064	105 064	116 153	108 386
	Petrogal	CSO Tickets	0	0	0	0	226 686
	POL NATO - Lisboa	Own	143 000	143 519	143 274	143 274	139 494
Category C (Fuel Oil)			**163 290**	**153 652**	**111 152**	**107 883**	**78 891**
	Germany	Crude Oil	75 090	74 692	54 032	52 443	50 400
	Petrogal	Crude Oil	88 200	78 960	57 120	55 440	10 058
	Petrogal	CSO Tickets	0	0	0	0	18 433
Category D (LPG)			**40 103**	**39 875**	**35 154**	**30 250**	**43 150**
	Germany	Crude Oil	14 303	15 495	12 714	10 330	1 844
	Petrogal	Crude Oil	16 800	15 380	13 440	10 920	9 240
	Petrogal - Sines	Own	9 000	9 000	9 000	9 000	9 000
	Petrogal	CSO Tickets	0	0	0	0	23 066

Notes:
(1) According to the national refineries' production programmes for the year in question.

Souce:
ENMC.

The analysis of the composition of the stocks held by ENMC at the end of 2013 shows that: ENMC owed 70.6% of the stocks (100.0% at the end of 2012), the remainder concerning stocks contracted under CSOs; 10.7% of the stocks held by ENMC were stored in Germany (33.7% at the end of 2012); and finished products represented 32.0% of the total stocks, the same as at the end of the previous year.

In the period already elapsed of 2014 ENMC sold the remaining crude oil stocks which it had stored in Germany, and did not renew the corresponding storage agreement with IVG Logistik, Gmbh (IVG), which expired in June 2014. Hence ENMC's stocks of crude oil and other categories of oil products are currently stored in Portugal alone, namely under agreements with PETROGAL (for crude oil, gasoline and diesel), and with the Portuguese State, through the Ministry of National Defence's Directorate-General for Infrastructures ("DGIE") (for diesel, with a maximum storage capacity of 178 098 m^3, in Zones II and III of the POL NATO deposit).

ENMC's turnover continues to originate essentially from the main distributors of oil products in Portugal, namely: PETROGAL, the market leader, whose financial commitments are not rated; REPSOL, whose parent company's short-term financial commitments are rated F-3 by Fitch Ratings, Inc. (FITCH), P-2 by Moody's Investors Service, Inc. (MOODY'S) and A-3 by Standard & Poor's Financial Services LLC (STANDARD & POOR´S); and BP, whose parent company's short-term financial commitments are rated A-1 by STANDARD & POOR´S.

As a result of the new functions attributed to the Company under Decree-Law (DL) no. 165/2013, there have been the following developments: the Company is recruiting staff with new skills and it is in the process of moving to new headquarters, to be shared with other public sector entities, and in December 2013 initiated the acquisition/development of software, for an estimated investment of EUR 71.2 thousand over three years.

PORTUGUESE REPUBLIC

From mid-2011 to May 2014 the Portuguese State was under a programme of international financial assistance (Programme of Economic and Financial Assistance to Portugal) provided by the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB) under which it undertook to implement an extensive programme of fiscal consolidation measures and structural reforms. The reviews of compliance with this programme were positive and in recent months the Portuguese State has been obtaining funding from the markets at increasingly better interest rates and maturities, setting a funding reserve that helped its exit from the programme.

In 2012 the Portuguese economy remained in the situation of deep recession from which it was suffering in the second half of 2011, after the country requested external financial assistance. This situation further worsened throughout 2012 and up to the first quarter of 2013. During the remaining quarters of 2013 the downturn softened and the last quarter saw a year-on-year increase in GDP. Thus, according to the Portuguese National Statistics Institute (INE), the Portuguese GDP declined year-on-year by 3.2% in 2012 and by 1.4% in 2013.

The rate of unemployment in Portugal kept rising up to the first quarter of 2013 (according to INE statistics, from 14.9% in the first quarter of 2012 to 17.7% in the first quarter of 2013), subsequently dropping to 15.3% in the fourth quarter of 2013.

The Portuguese banking system was seriously impacted by the situation of the Portuguese Republic and of other Sovereign States, as well as by the economic recession. Moreover, the main Portuguese banks had to be recapitalised as a result of the tighter capital requirements imposed by the regulators. The Economic and Financial Assistance Programme to Portugal included a specific financial component for this purpose.

Hence, despite the heavy losses reported by the main Portuguese banks in recent years, the recapitalisation processes already undertaken (in part with the support of the Portuguese State), the sharp reduction in lending (combined with an increase in deposits acquisition) and the measures taken by the ECB to rekindle the interbank market supported a stabilisation trend in the Portuguese financial system in recent months.

However, according to the Bank of Portugal's Economic Bulletin of June 2014, the future growth of the Portuguese economy will remain conditioned by a number of structural constraints, namely: the postponement of investment decisions in the past, which limited the incorporation of new technologies and improved skills in the productive process; the high indebtedness in the economy and need for deleveraging, especially within the corporate sector (private companies' indebtedness reached 185.3% of GDP at the end of 2013, up from 162.3% at the end of the second quarter of 2008); the decreasing labour force (down by 1.9% in 2013 after contracting by 0.2% in 2011 and 0.9% in 2012); and high long-term unemployment (60% of total unemployment in 2013). The Bank of Portugal also stresses the need to move forward with the fiscal consolidation process, despite the progress already made (excluding temporary measures and special factors, the fiscal deficit dropped from 7.1% in 2011 to 6.0% in 2012 and to 5.3% in 2013). With the public debt representing 129.0% of GDP at the end of 2013, compliance with the commitments made by the authorities under the Stability and Growth Pact (SGP) of the "Fiscal Treaty" will entail correcting the excessive deficit until 2015, converging towards a structural budget balance of -0.5% of GDP at a pace of at least 0.5 pp of GDP per year and reducing the public debt ratio to the reference value of 60.0% of GDP at an average rate of one twentieth per year of the difference of the debt ratio to the reference value (i.e., 3.5 pp reduction each year).

The issuer ratings assigned to the Portuguese Republic by credit rating agencies registered with or certified by the European Securities and Markets Authority (ESMA) are currently as follows (medium and long term / outlook / short term):

– A / stable, by Japan Credit Rating Agency, Ltd. (JCR);
– BBB low / stable / R-2 mid, by DBRS Ratings Limited (DBRS);
– BB+ / positive / B, by FITCH;
– Ba1 / stable / NP, by MOODY´S;
– BB / stable / B, pela STANDARD & POOR´S.

ECONOMIC AND FINANCIAL ANALYSIS

ENMC 2013 accounts have the legal certification of the official auditing firm ("SROC") of Caiano Pereira, António e José

Reimão and audited by Moore Stephens & Associados, which made a reservation concerning the fact that in 2014 ENMC was subject to a corporate income tax inspection related to 2009 to 2011 fiscal years from which resulted a proposal for a EUR 9.1 million correction of the tax. ENMC has exercised its right to a prior hearing and is currently waiting the tax authority's decision. This inspection focused on the deductibility of the costs of setting up the provision fund and on the deferral to 2009 of interest charges. We call attention to the following: no provision has been created to provide for the proposed correction, while, as the auditors state in their reservation, at the end of March 2014 it was not possible to foresee the result of the hearing, and if the correction were to be applied on the 2012 and 2013 financial years it would have an additional impact of EUR 0.4 million.

TABLE 2.2.
ENMC PROFIT AND LOSS ACCOUNT (THOUSAND EUROS)

	2009	2010	2011	2012	2013
TURNOVER	36 283	32 020	31 089	37 922	219 427
Variable Expenses	23 317	20 012	20 329	22 000	92 733
Cost of Goods Sold and Materials Consumed	0	0	0	0	69 987
Suppliers and External Services	23 317	20 012	20 329	22 000	22 746
GROSS CONTRIBUTION MARGIN	12 966	12 008	10 761	15 921	126 694
Sundry Operating Income	453	443	414	541	458
Supplementary Income	453	441	413	541	458
Other Operating Income	0	1	0	(0)	0
OPERATING CONTRIBUTION MARGIN	13 418	12 451	11 174	16 462	127 152
Fixed Operating Expenses	1 601	3 036	2 901	222	336
Staff Expenses	282	281	238	222	335
Taxes	1 869	0	0	0	0
Other Operating Expenses	(551)	2 755	2 664	0	0
EBITDA (a)	11 818	9 415	8 273	16 240	126 816
Depreciation and Amortisation	6	22	16	6	5
Allocation of Investment Subsidies	0	0	0	0	0
Provisions	0	0	0	0	0
Impairments and Fair Value Change	0	0	1	0	0
Equity Accounted Income and Expenses	0	0	0	0	0
EBIT (b)	11 811	9 393	8 256	16 234	126 812
FINANCIAL RESULT	(9 544)	(8 895)	(8 242)	(16 135)	(125 300)
Financial Income	828	270	921	954	766
Financial Expenses	10 371	9 165	9 162	17 089	126 067
CURRENT RESULT	2 267	498	15	99	1 511
NON-CURRENT RESULTS	(0)	(47)	205	(41)	(1 509)
Non-Current Income	0	0	273	0	0
Non-Current Expenses	0	48	68	41	1 509
EARNINGS BEFORE TAXES	2 267	450	220	58	3
Income Tax for the Year	3	134	62	31	11 896
NET PROFIT FOR THE PERIOD	2 264	317	158	27	(11 894)
Distribution of Profits	0	0	0	0	0
NET RETAINED PROFITS (LOSSES)	2 264	317	158	27	(11 894)

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2010 to 2013 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C..
2009 and 2013 annual accounts audited by Moore Stephens & Associados, S.R.O.C., S.A..
(a) Earnings before interest, taxes, depreciation and amortisation.
(b) Earnings before interest and taxes.

Sources:
ENMC Annual Reports.
Additional information supplied by ENMC.

In 2013 ENMC's turnover grew by 478.6% over the previous year's, essentially through the impact of the sale of crude oil stocks in order to provide for the cost incurred with the referred early liquidation of the swap contract, which is reflected in financial results. Despite the fact that the 2013 net earnings were close to zero, in line with the Company's business model, the year's income tax was quite high due to the share of the net financial costs above 70% of EBITDA not being accepted as a tax-deductible expense.

At the end of 2013 ENMC's assets totalled EUR 387.1 million (a year-on-year decrease of EUR 3.7 million), with the impact on assets of the sale of crude oils stocks in 2013 being in part offset by the increase in trade receivables. At the end of 2013 trade receivables totalled EUR 72.7 million, of which EUR 71.0 million concerned PETROGAL. The oil products held by ENMC, which are booked under inventories at cost, totalled EUR 279.9 million at the end of 2013 (EUR 349.6 million at the end of 2012). On this date their market value was EUR 505.1 million (EUR 725.8 million at the end of 2012), which is EUR 225.4 million (EUR 376.2 million at the end of 2012) higher than their book value.

TABLE 2.3.
ENMC CASH FLOWS STATEMENT (THOUSAND EUROS)

	2009	*2010*	*2011*	*2012*	*2013*
OPERATING CASH FLOW (OCF)	12 067	12 356	10 470	13 495	127 852
CURRENT CASH FLOW (CCF)	1 202	3 347	1 624	804	(4 168)
FUNDS AVAILABLE FOR STRATEGIC DECISIONS (FASD)	1 295	3 281	1 537	976	(3 988)
Investment Activities	0	0	10 100	4	75
CASH FLOW FOR SHAREHOLDERS AND CREDITORS	1 295	3 281	(8 563)	972	(4 063)
Profits Paid	0	0	0	0	0
FINANCING BALANCE	1 295	3 281	(8 563)	972	(4 063)
Capital Inflows	0	0	0	0	0
Increase in Medium and Long Term Financing Liabilities	2 908	44	(6)	3 622	(6 548)
FINANCING BALANCE SHORT TERM	4 203	3 324	(8 569)	4 594	(10 611)
Increase in Short Term Financing Liabilities	(2 908)	(44)	6	(3 622)	6 548
Other Effects on Cash and Equivalents	(0)	150	119	(83)	(34)
Net Exchange Rate Effect	0	1	0	(0)	(0)
BANK DEPOSITS AND CASH VARIATION	1 295	3 432	(8 443)	889	(4 097)

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2010 to 2013 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C..
2009 and 2013 annual accounts audited by Moore Stephens & Associados, S.R.O.C., S.A..

Sources:
ENMC Annual Reports.
Additional information supplied by ENMC.

ENMC's equity totalled EUR 10.5 million at the end of 2013. This represents a year-on-year decrease of EUR 10.4 million that is mainly explained by the net loss posted in 2013. The Provision Fund, included in equity under other reserves, amounted to EUR 13.8 million at the end of 2013 (EUR 12.3 million at the end of 2012 and 2011, EUR 9.6 million at the end of 2010 and EUR 6.9 million at the end of 2009). At the end of 2013 ENMC's borrowed funds consisted almost entirely in the balance of its financial debt (EUR 360.0 million), corresponding to the bond loan now subject to follow up.

TABLE 2.4.
ENMC FUND GENERATING CAPACITY

	2009	2010	2011	2012	2013
Growth					
of Equity	-	20,2%	15,5%	0,1%	(49,7%)
of Turnover	-	(11,7%)	(2,9%)	22,0%	478,6%
Return					
(1) Gross Contrib. Margin as % of Turnover	35,7%	37,5%	34,6%	42,0%	57,7%
(2) Effect of Sundry Operating Income	1,035	1,037	1,038	1,034	1,004
(3) Effect of Operating Fixed Expenses	0,880	0,754	0,739	0,986	0,997
(4) TURNOVER OPERATING RETURN = (1)x(2)x(3)	32,6%	29,3%	26,6%	42,8%	57,8%
(5) Asset Turnover	0,095	0,084	0,080	0,097	0,567
(6) OPERATING RETURN ON ASSETS = (4)x(5)	3,1%	2,5%	2,1%	4,2%	32,8%
(7) Gross Cost of Borrowed Funds	2,8%	2,5%	2,5%	4,6%	33,5%
(8) Spread = (6)-(7)	0,3%	(0,1%)	(0,4%)	(0,5%)	(0,7%)
(9) Debt to Equity Ratio	24,320	20,178	17,514	17,684	35,777
(10) FINANCIAL LEVERAGE ADDITIVE EFFECT = (8)x(9)	6,5%	(1,2%)	(6,5%)	(8,2%)	(25,7%)
(11) FINANCIAL INCOME ADDITIVE EFFECT	5,5%	1,5%	4,4%	4,6%	7,3%
(12) CURRENT RETURN ON EQUITY = (6)+(10)+(11)	15,1%	2,8%	0,1%	0,5%	14,4%
(13) Non-Current Result Effect	1,000	0,905	14,969	0,586	0,002
(14) Tax Effect = (1-t)	0,999	0,703	0,717	0,471	(4 756,368)
(15) RETURN ON EQUITY = (12)x(13)x(14)	15,0%	1,7%	0,8%	0,1%	(113,0%)
Flow Structure					
EBITDA as a % of Turnover	32,6%	29,4%	26,6%	42,8%	57,8%
Operating Cash Margin	28,3%	30,4%	28,2%	30,2%	80,6%
FASD as a % of Amounts Rec. from Customers	3,0%	8,1%	4,1%	2,2%	(2,5%)
Payout Ratio	0	0	0	0	0
Coverage of Interest and Similar Payments by OCF	1,1	1,4	1,1	1,0	1,0
Coverage of Net Fin. Borrowing Costs by EBITDA + Non-Current Res.	1,2	1,1	1,0	1,0	1,0
Coverage of Net Finance Borrowing Costs by EBITDA	1,2	1,1	1,0	1,0	1,0
Coverage of Net Finance Borrowing Costs by EBIT	1,2	1,1	1,0	1,0	1,0
Average Period to Repay Financing Debts	280,2	110,6	236,1	375,6	-
Financ. Debts / (Net Retained Profits+Depreciation)	159,8	1 070,5	2 096,4	10 865,7	(30,3)
Financing Debts / Turnover	10,0	11,3	11,7	9,7	1,6
Risk					
Operating Safety Margin	87,6%	74,5%	72,9%	98,6%	99,7%
Total Safety Margin	14,0%	0,5%	-3,7%	-2,8%	0,8%
(1) Operating Leverage	1,14	1,33	1,35	1,01	1,00
(2) Financial Leverage	5,21	18,87	562,65	163,93	83,90
(3) Non-Current Leverage	1,00	1,11	0,07	1,71	604,43
(4) Combined Leverage = (1)x(2)x(3)	5,92	27,65	50,87	283,67	50 848,04

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2010 to 2013 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C..
2009 and 2013 annual accounts audited by Moore Stephens & Associados, S.R.O.C., S.A..

Sources:
ENMC Annual Reports.
Additional information supplied by ENMC.

The coverage provided by the market value of the stocks of oil products held by ENMC relative to the value of the bond loan now subject to rating was 1.4 times at the end of 2013, versus 2.0 times at the end of 2012 (the same as at the end of 2011; in 2010 it was 1.7 times and in 2009 1.3 times). According to ENMC from the end of 2013 to the end of the first semester 2014 there was no significant change in the mentioned coverage, which stood at 1.6 times on the last date. Looking at this ratio in two of ENMC's European peers we note the following: Spanish Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) presents a coverage of 2.5 at the end of 2013 while the medium and long-term financial commitments of CORES were rated BBB+ by FITCH and BBB by STANDARD & POOR´S, both with stable outlook and the same ratings assigned by these agencies to Spain's medium and long-term

TABLE 2.5.
ENMC FINANCIAL STRUCTURE

	2009	2010	2011	2012	2013
Structure of The Balance Sheet					
Equity / Assets	3,9%	4,7%	5,4%	5,4%	2,7%
Indebtedness	96,1%	95,3%	94,6%	94,6%	97,3%
Indebtedness Struc. (S.T. Debt as a % of Total Debt)	0,9%	0,6%	0,8%	0,9%	4,4%
Finantial Debts / Assets	95,2%	94,7%	93,8%	93,8%	93,0%
Financing Debts / (Financing Debts + Equity + Min. Int.)	96,0%	95,3%	94,6%	94,6%	97,2%
Net Financing Debts / (Net Financing Debts + Equity + Min. Int.)	95,7%	94,8%	94,2%	94,3%	97,0%
Liquidity Risk	0,0%	0,0%	0,0%	0,0%	0,0%
Interest-Rate Risk	0,0%	0,0%	0,0%	0,0%	100,0%
Current Assets Ratio	11 905,1%	17 868,9%	12 481,8%	11 117,8%	2 269,5%
Acid Test Ratio	1 006,4%	1 597,5%	910,6%	901,0%	583,9%
Functional Balance Sheet					
NET ASSETS	381 163	383 190	386 856	390 912	387 140
Long Term Capital	377 962	381 045	383 841	387 490	370 546
Net Fixed Assets	29	19	10 483	10 481	10 556
NET WORKING CAPITAL (NWC)	377 933	381 027	373 358	377 009	359 990
Cyclical Requirements	351 411	350 642	350 524	352 860	352 382
Cyclical Resources	1 322	565	968	1 182	2 205
NET WORKING CAP. REQUIREMENTS (NWCR)	350 089	350 077	349 556	351 677	350 177
Positive Cash Position	29 724	32 529	25 849	27 571	24 201
Negative Cash Position	1 880	1 579	2 047	2 240	14 388
NET CASH POSITION (NCP)	27 844	30 949	23 802	25 331	9 813
As a % of Turnover	76,7%	96,7%	76,6%	66,8%	4,5%
NCP deficit (in months)	-	-	-	-	-
NWC Variation	-	3 094	(7 669)	3 651	(17 019)
NWCR Variation	-	(12)	(522)	2 122	(1 501)
NCP Variation	-	3 105	(7 148)	1 530	(15 518)
As a % of Turnover	-	9,7%	(23,0%)	4,0%	(7,1%)
Operating Financial Cycle (In Turnover Days)					
Cyclical Requirements	3535	3997	4115	3396	586
Cyclical Resources	13	6	11	11	4
OPERATING FINANCIAL CYCLE	3 522	3 991	4 104	3 385	582
Average Turnover Periods (In Days)					
Trade Debtors Turnover	25	20	17	29	121
Trade Creditors Turnover	0	0	0	0	10
Materials and Goods and Biological Assets Turnover	-	-	-	-	1 459

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2010 to 2013 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C..
2009 and 2013 annual accounts audited by Moore Stephens & Associados, S.R.O.C., S.A..

Sources:
ENMC Annual Reports.
Additional information supplied by ENMC.

financial commitments; and the French Société Anonyme de Gestion de Stocks de Sécurité (SAGESS) presents a coverage of 2.1 at the end of 2013 while the medium and long-term financial commitments of SAGESS were rated AA, with stable outlook, by STANDARD & POOR´S the same rating assigned by this agency to France's medium and long-term financial commitments.

At the end of 2013 the positive cash position included liquid assets of EUR 1.2 million, almost entirely placed in deposits with the Public Revenue Department, and financial assets of EUR 17.1 million, fully placed in CEDIC - Certificados Especiais de Dívidas de Curto Prazo (special short term debt certificates) issued by the Instituto de Gestão do Crédito Público, I.P. (IGCP), as happened in previous periods, and following the instructions of the supervising ministry. In addition, at the end of 2013 ENMC also had financial investments totalling EUR 10.1 million, fully placed in CEDIM – Certificados Especiais de Dívida de Médio / Longo Prazo (special medium and long term debt certificates), also issued by the IGCP.

According to the legal framework the reserves held by ENMC must obligatorily be protected by insurance. The oil products owned by ENMC that are stored with PETROGAL are covered by a multiple risks policy with an insured capital sum of EUR 250.0 million per claim. The oil products owned by EGREP that are stored in the POL NATO deposit are insured by multiple risks policy, with insured capital sums corresponding to the total products stored, but with maximum indemnities of EUR 57.2 million.

According to ENMC, a national public tender is being prepared in order to contract said insurance. Due to the high seismic risk in the areas where its stocks of oil products are stored (Zones II and III of the POL NATO deposit), the Company also plans to take up insurance to cover the environmental risks to these stocks in the event of an earthquake.

3. OUTLOOK

The International Energy Outlook 2013 (IEO2013) prepared by The United States of America (USA) Energy Information Administration (EIA) dated July 2013 projects that world energy consumption will grow by 56% between 2010 and 2040. The IEO2013 reference case assumes that global gross domestic product (GDP) rises by an average of 3,6 % per year from 2010 to 2040, with an annual growth rate of 4,7% for non OCDE countries. Although many economic and geopolitical circumstances add considerable uncertainty to any long-term assessment of world energy markets.

Renewable energy and nuclear power will be the world's fastest-growing energy sources, each increasing by 2,5% per year, but fossil fuels will continue to supply almost 80% of world energy use through 2040. Given expectations that world oil prices will remain at levels that are high relative to historical experience throughout the projection, petroleum and other liquid fuels are the world's slowest-growing source of energy. Liquids consumption increases at an average annual rate of 0,9 % from 2010 to 2040, whereas total energy demand increases by 1,5 % per year.

Expectations for future world oil prices are another major source of uncertainty in the IEO2013 projections. In the reference case, real oil prices (in 2011 USD) rise from USD 110 per barrel in 2012 to USD 163 per barrel in 2040. In the low case scenario, crude oil prices are USD 75 per barrel (in 2011 USD) in 2040, case on which GDP growth in the non-OECD countries averages 4,3 % per year from 2010 to 2040, less 0,4 bp compared with Reference case growth. In the high case scenario oil prices reach USD 237 per barrel (in 2011 USD) in 2040, case in which e GDP growth in the non-OECD countries averages 5,1 % per year from 2010 to 2040, more 0,4 bp compared with reference case growth.

ENMC's budget for 2014, dated 15 May 2014, assumes the following, among others, for the Oil Reserves Unit (ORU): inflation rate of 0.9% (the same as in the State Budget for 2014); 2.0% year-on-year reduction in Category A products released for consumption, no change in Category B products and 4.0% reduction in all other all categories of oil products for which the creation of emergency stocks is compulsory; flat costs of storing oil product stocks due to the combined effect of inflation and the change in stored quantities; 39% increase in other suppliers and external services; and EUR 2.3 million contribution to the Provision Fund. The budget also assumes that ENMC's other business units will have a EUR -51.5 thousand impact on the 2014 results.

ENMC's activity plan for 2014, dated 1 November 2013, contemplates the following developments in the ORU: revision of the terms of the oil products storage agreements with third parties (this has already occurred, resulting in a reduction of ENMC's costs) and analysis of complementary funding sources to permit the acquisition of further stocks.

4. RATING

It is thus ARC Ratings opinion that ENMC has an adequate capacity to pay its obligations under the bond loan subject to follow-up, but that this capacity may be weakened by adverse changes in economic conditions or others. Therefore the rating is maintained at BBB-, but outlook is changed to negative. The change in the outlook is mainly due to reduction in the coverage provided by the market value of the stocks of oil products held by ENMC relative to the value of the bond loan now subject to rating.

ARC Ratings will maintain the following aspects under observation:

– the evolution of the international price of oil and oil products, and consequent market value of the stocks of oil products held by ENMC (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 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 ENMC, and the capacity of the Portuguese State to support ENMC if required.

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.

ENMC

Follow-up Report

ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.

1050-139 Lisbon

PORTUGAL

Phone: +351 213 041 110

Fax: +351 213 041 111

E-mail: arcratings@arcratings.com

Site: 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 Follow-up Report should preferably be read together with the 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 make all required payments on a given obligation in a timely manner.

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.

ARC Ratings historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed in the website cerep.esma.europa.eu/cerep-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

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.

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.