

ARC Ratings maintains ENMC's BBB- rating, and changed outlook to negative

ISSUER

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

ISSUES RATING

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

RATING DATE

24 September 2014

It is thus ARC Ratings, S.A. (ARC Ratings) opinion that ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. (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.

FUNDAMENTALS

Through Decree Law (DL) no. 165/2013, dated 16 December, the following apply to ENMC:

- 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;
- 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; 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.

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

ENMC's MAIN INDICATORS

	2009	2010	2011	2012	2013
Turnover	36 283	32 020	31 089	37 922	219 427
Net Profit	2 264	317	158	27	(11 894)
Assets	381 163	383 190	386 856	390 912	387 140
Equity	15 054	18 094	20 895	20 923	10 527
Financial Debt (*)	362 908	362 952	362 945	366 567	360 019

Notes:

Figures rounded.

Accounts adjusted by ARC Ratings for analysis purposes.

(*) Financial Debt totally at Medium and Long Term.

Sources:

ENMC.

Following the Portuguese Government's decision to liquidate in advance the interest rate swap contracted by ENMC (liquidated in June 2013), ENMC sold 313.5 thousand tonnes of crude oil. 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. So at the end of 2013 ENMC owed 70.6% of the stocks.

At the end of 2013 ENMC's assets totalled EUR 387.1 million, which are booked under inventories at cost, totalled EUR 279.9 million (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.

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.

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. Hence ENMC's stocks of crude oil and other categories of oil products are currently stored in Portugal alone.

The International Energy Outlook 2013 (IEO2013) prepared by The United States of America (USA) Energy Information Administration (EIA) dated July 2013, presents the following forecasts for:

- 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 Oil Price case, crude oil prices are USD 75 per barrel (2011 USD) in 2040. In this case 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 Oil Price case, oil prices reach USD 237 per barrel (2011 USD) in 2040. In this case 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.

FACTORS UNDER OBSERVATION

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

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