ENMC

Issuer	Issue Rating	Outlook
ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E.	BB+ Medium and Long Term	Stable

RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) has downgraded to "BB+" Stable outlook from 'BBB-' Negative outlook the rating accorded to the EUR 360.0 million bond loan issued by EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP), now ENMC – Entidade Nacional para o Mercado de Combustíveis, E.P.E. (ENMC), on 6 August 2008 under the terms identified in the Rating Report dated 2 June 2008. The rating outlook has been revised to Stable.

COMPANY PROFILE

Following the oil crises of the 1970s, major consuming nations agreed (by international treaty) to maintain a suitable volume of reserves, so as to mitigate the impacts of future critical supply shortages. Through Decree Law (DL) no. 165/2013, dated 16 December, the Portuguese State assigned to ENMC (a State-owned enterprise) the duties of developing, managing and maintaining strategic reserves of oil products. Additional responsibilities include prospecting, research, the development and exploitation of petroleum resources, monitoring of the fuel market, petroleum products, biofuels and piped LPG, as well as the National Petroleum System.

Council Directive 2009/119/EC of 14 September 2009 requires combined emergency reserves comprise ninety days of the nation's average daily net imports of crude oil and petroleum products from the preceding year. According to Portaria 126/2014, of 25 June 2014, effective as from 1 January 2014, "the share of reserves to be held by ENMC corresponds to one-third of the reserves which the bound operators are obliged to maintain' - thus requiring ENMC to hold 30 days of the level of the average daily consumption of the previous year. According to the terms of the aforementioned Decree Law, the following continues to apply for ENMC:

- The entity is a public corporate entity with administrative, financial and patrimonial autonomy;
- In the case of dissolution of the Company, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities;
- The entity's responsibility is to set up and maintain strategic reserves of oil products;
- 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 the case of an 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.

RATING DATE
18 September 2015

RATING VALIDITY
16 September 2016

INITIAL RATING
2 June 2008

LAST REVIEW
24 September 2014

NEXT REVIEW DATE
16 September 2016

PERIOD OF ANALYSIS
Historic: 2010 to 1H 2015
Forecast: 2015

METHODOLOGY APPLIED
ARC Ratings Non Financial Corporations' Rating Methodology available at www.arcratings.com

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Portugal is highly dependent on imported energy, with oil maintaining a prominent place in the supply structure, which bolsters ENMC's strategic role.

ENMC'S KEY RATING DRIVERS INCLUDE:

- State ownership - ENMC's share capital is wholly owned by the Portuguese Government. Consequently, the rating accorded to ENMC is heavily connected to the ratings of the Portuguese Republic. At the time of publication, the issuer ratings assigned to the Portuguese Republic by ARC Ratings were: for medium and long-term obligations, BBB- with stable outlook; and for short-term obligations, A-3. Furthermore, given ENMC's strategic importance, and the nation's on-going duty to maintain oil products reserves, there is good reason to believe the Portuguese State will continue to retain full control over ENMC. At the time of publication, there is also no indication of future change to the broader legal framework.
- Financial stability and debt profile - Although ENMC experienced notable losses in 2014 (due to adverse oil price fluctuations), the entity's capacity to meet its financial commitments remains adequate. Besides having full financial backing from the Portuguese State, ENMC's major sources of income remain stable, and the entity continues to maintain a strong net cash position whilst fulfilling its obligations. In addition, the entity's debt levels remain largely unchanged, still comprising almost entirely (>99%) of the bond loan being rated. Importantly, the interest on said loan is payable by the oil operators, not by ENMC.
- Positive economic trends (Portugal) – A comprehensive evaluation of the latest developments in the Portuguese economy can be found in ARC Ratings' Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com.
- Stable, long-term relationships with key customers - The entity has developed strong, mutually beneficial relationships with the main distributors of oil products in Portugal (PETROGAL, Repsol, BP, CEPSA).
- Staff, premises and technological developments - In 2013, Decree Law no. 165/2013 assigned further responsibilities to ENMC. The entity has since grown its workforce, hiring staff with new skills, expanded its premises, and upgraded its software. In these contexts, it is well-positioned moving forward.

THE KEY CONSTRAINTS ON ENMC'S CREDIT RATING ARE:

- Continued oil price volatility - The nature of ENMC's operations and concentration of its assets render its financial performance heavily exposed to oil price fluctuations. The extent and significance of this exposure was illustrated in 2014, when the entity recorded substantial trading losses following a dramatic oil price decline of almost 50%. Further declines will also reduce the extent to which ENMC's reserves cover the bond loan under review, which has now fallen to below 1 times, at 0.93 times.
- Threats to Portuguese economy – Please see ARC Ratings' Sovereign Rating Report for the Republic of Portugal for more information, available at: www.arcratings.com.
- Concentration of customer base - The majority of ENMC's revenue derives from just four companies: PETROGAL, REPSOL, BP and CEPSA. Though considered unlikely, should ENMC's revenue from one or more such customers cease to continue (irrespective of cause), the impact on the entity's financial performance might be material (especially in the case of PETROGAL, which by itself contributes 42% of ENMC's revenue). The financial commitments of PETROGAL and CEPSA are currently unrated, rendering the credit risk presented by these two entities less transparent.

- Coverage of bond loan by reserves - Standing at 2.0 times in 2011 and 2012, 1.6 times in 2013, and now just 0.93 times in 2014, the coverage of the bond loan by reserves continued its downward trajectory last year. For the first time, the value of the reserves is not by itself sufficient to cover the value of the bond loan.

CASH FLOW GENERATING CAPACITY AND RECENT DEVELOPMENTS

Market for Petroleum Products

Developments within the market for petroleum products can directly and significantly impact the value of ENMC's oil products reserves, and are therefore critically important.

According to the International Energy Agency's Oil Market Report of January 2015, global oil supply increased by approximately 2.1% year-on-year in 2014 while demand increased by roughly 0.7%. Following almost five years of stability, oil prices experienced significant volatility throughout the second half of 2014, declining almost 50% in just six months - and ultimately closing 45% below the opening price for the year.

Several factors are thought to have contributed to the significant decline in oil prices experienced in 2014:

- **Suppressed Global Demand:** Economic slowdown in China and some European regions persisted. In the US, the rising efficiency of vehicles, coupled with a growing shift towards other fuels/energies continued to represent a bleed on demand (as it has for a number of years).
- **Excess Supply:** China's rapid expansion had seen global oil demand surge in the mid-late 2000s, leading to supply shortages and ultimately high oil prices throughout 2010-2014. Such high prices had rendered it profitable for companies to begin extracting from less-accessible locations, particularly in the US, which added considerable supply to the market during this period. Simultaneously, geopolitical conflicts in key oil regions (Libya and Iraq) that had previously caused significant production outages had eased, boosting global production to unprecedented levels.
- **OPEC Meeting:** In November 2014, the Organisation of Petroleum Exporting Countries (OPEC), a collection of oil-producing nations that controls approximately 40% of world production, failed to agree production curbs (as it has previously). Within days of the meeting, the price of Brent crude fell more than $10/barrel.

Notwithstanding these short-term cyclical and structural developments, in the long-term, ARC expects that a prolonged supply/demand imbalance and the resulting low price will force those producers with higher extraction costs out of business (mainly in the US), ultimately causing the oil price to stabilize.

At the time of writing, oil prices have declined approximately 10% since the start of 2015. Three projections are provided in the U.S. Energy Information Administration's (EIA) Annual Energy Outlook 2015. In the reference case, real oil prices (in 2013 USD) rise from USD 56 per barrel in 2015 to USD 141 per barrel in 2040. In the low case, oil prices reach USD 76 (in 2013 USD) per barrel in 2040; whilst in the high case, prices reach USD 252 per barrel (in 2013 USD) in 2040.

In Portugal, in all periods spanning 2010 to 2014, all categories of oil products for which the creation of emergency stocks is compulsory registered consistent annual decreases in the quantities introduced for consumption - with the exception of category B between 2013 and 2014. This decrease was sharpest in category C products (fuel oil), which experienced an average annual decline of 22.3%. Though previously, such volatility was largely attributable to fluctuations in the quantity required by oil driven thermal power plants, the gradual replacement of fuel oil for natural gas in industrial units is becoming increasingly significant. The other categories showed lower average annual declines in quantities introduced for consumption: category D (liquefied petroleum gases – LPG) by 6.1%, category A (gasoline) by 5.5%, and category B (diesel) by 2.8%. As previously noted, the smaller decline in diesel consumption is primarily a function of the increase in diesel engine vehicles as a percentage of total vehicles in Portugal.

In the most recent period (2014), the volume of oil products introduced for consumption declined in all categories except category B, which experienced an increase of 2.0%. The decreases registered by category A (gasoline), category C (fuel oil) and category D (liquefied petroleum gases – LPG) products were lower than the average decreases spanning the period of 2009 to 2013 – at 1.7%, 19.0%, and 3.9%, respectively.

ENMC's Activity

The evolution of reserves governed by ENMC between 2010 and 1H 2015 is as follows:

EVOLUTION OF RESERVES UNDER ENMC'S RESPONSIBILITY (IN TONNES AT END OF THE PERIOD)

TYPE	LOCATION	NATURE	2010	2011	2012	2013	2014	2015 Jan to Jun
QUANTITIES AND PRODUCTS EFFECTIVELY HELD								
Crude Oil			**817,297**	**817,297**	**817,297**	**817,297**	**872,582**	**771,728**
	Germany	Own	397,297	397,297	397,297	83,818	0	0
	Petrogal - Sines	Own	420,000	420,000	420,000	420,000	218,081	210,100
	Petrogal - Leixões	Own	0	0	0	0	320,000	327,982
	Portugal - Torrejana / Cimpor		0	0	0	0	10,000	
	Petrogal	CSO Tickets	0	0	0	313,479	312,501	183,646
	Netherlands	CSO Tickets	0	0	0	0	12,000	0
	Germany	CSO Tickets	0	0	0	0	0	50,000
Finished Products								
Category A (Gasoline)			**51,400**	**51,400**	**51,400**	**51,400**	**51,400**	**51,400**
	Petrogal - Sines	Own	51,400	51,400	51,400	51,400	27,423	21,279
	Petrogal - Aveiras		0	0	0	0	4,205	7,080
	Petrogal - Matosinhos		0	0	0	0	19,406	23,041
	Petrogal - Tanquisado		0	0	0	0	366	0
Category B (Diesel)			**248,768**	**248,338**	**248,338**	**247,880**	**329,744**	**347,791**
	Holland	CSO Tickets	0	0	0	0	30,000	50,000
	Portugal - Torrejana	CSO Tickets	0	0	0	0	1,900	0
	Petrogal - Sines	Own	105,768	105,064	116,153	108,386	146,290	129,615
	POL NATO - Lisboa	Own	143,000	143,274	132,185	139,494	139,458	139,405
	Petrogal - Matosinhos		0	0	0	0	8,371	14,201
	Petrogal - Aveiras		0	0	0	0	0	14,570
	Petrogal - Tanquisado		0	0	0	0	3,725	0
Category C (Fuel Oil)			**0**	**0**	**0**	**0**	**85,000**	**45,000**
	Holland	CSO Tickets	0	0	0	0	40,000	0
	Petrogal - Sines	Own	0	0	0	0	32,110	29,207
	Petrogal - Matosinhos	Own	0	0	0	0	12,890	15,793
Category D (LPG)			**9,000**	**9,000**	**9,000**	**9,000**	**6,000**	**6,000**
	Petrogal - Sines	Own	9,000	9,000	9,000	9,000	6,000	6,000
DISTRIBUTION OF CRUDE OIL EQUIVALENT FINISHED PRODUCTS BY QUANTITY (1)								
Finished Products			**1,021,118**	**1,032,046**	**1,042,318**	**1,066,126**	**872,582**	**771,728**
Category A (Gasoline)			**198,148**	**226,302**	**209,956**	**195,442**	**125,333**	**107,958**
	Germany	Crude Oil	70,308	85,022	77,076	16,428	0	0
	Petrogal	Crude Oil	76,440	89,880	81,480	82,320	125,333	107,958
	Petrogal - Sines	Own	51,400	51,400	51,400	51,400	0	0
	Petrogal	CSO Tickets	0	0	0	45,294	0	0

Category B (Diesel)		**629,443**	**659,438**	**694,229**	**748,643**	**658,055**	**580,265**
Netherlands	**CSO Tickets**	0	0	0	226,686	0	0
Germany	**Crude Oil**	185,140	199,840	211,362	45,597	0	0
Petrogal	**Crude Oil**	195,720	211,260	223,440	228,480	658,055	580,265
Petrogal - Sines	**Own**	105,064	105,064	116,153	108,386	0	0
Petrogal	**CSO Tickets**	0	0	0	0	0	0
POL NATO - Lisboa	**Own**	143,519	143,274	143,274	139,494	0	0
Category C (Fuel Oil)		**153,652**	**111,152**	**107,883**	**78,891**	**28,150**	**45,196**
Netherlands	**CSO Tickets**	0	0	0	18,433	0	0
Germany	**Crude Oil**	74,692	54,032	52,443	50,400	0	0
Petrogal	**Crude Oil**	78,960	57,120	55,440	10,058	28,150	45,196
Category D (LPG)		**39,875**	**35,154**	**30,250**	**43,150**	**61,045**	**38,309**
Germany	**Crude Oil**	15,495	12,714	10,330	1,844	0	0
Petrogal	**Crude Oil**	15,380	13,440	10,920	9,240	61,045	38,309
Petrogal - Sines	**Own**	9,000	9,000	9,000	9,000	0	0
Petrogal	**CSO Tickets**	0	0	0	23,066	0	0

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 2014 shows that: ENMC owed 70.5% of the stocks (70.6% in 2013, and 100.0% at the end of 2012), with the remainder being contracted under CSOs; 6.1% of ENMC's stocks were stored outside Portugal (14.7% at the end of 2013) and held entirely under CSOs; and finished products represented 35.1% of the total stocks, compared with 37.7% in 2013.

In the first six months of 2014, ENMC sold the remaining crude oil stocks that it had stored in Germany, and did not renew the corresponding storage agreement with IVG Logistik, Gmbh (IVG), which expired in June 2014. Thus, ENMC's own stocks of crude oil and other categories of oil products are currently stored in Portugal only, principally 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").

The majority of ENMC's turnover continues to originate from the main distributors of oil products in Portugal, namely: PETROGAL, the market leader, whose parent company's (GALP) financial commitments are not rated; REPSOL, whose parent company's short-term financial commitments are rated F-3 by Fitch Ratings, Inc. (FITCH), P-3 by Moody's Investors Service, Inc. (MOODY'S) and A-3 by Standard & Poor's Financial Services LLC (STANDARD & POOR´S); BP, whose short-term financial commitments are rated A- by STANDARD & POOR´S and FITCH, and CEPSA, whose financial commitments are not rated. Attention is drawn to the absence of credit ratings in two cases. Given the concentration of ENMC's customer base, the resulting lack of transparency leaves ENMC exposed to potentially high credit risk - particularly in the case of PETROGAL, which is unrated and accounts for 42% of ENMC's revenue.

As previously mentioned, there have been several organisational developments following the enactment of Decree-Law (DL) no. 165/2013 (which increased the functions and responsibilities of ENMC). Specifically, the entity has recruited staff with a wide array of new skills and expertise, growing its employee base to 23 at the time of publication (up from 10 in 2014) - most of which joined in 2015. The investment in new software and an upgraded web platform (as identified in the previous rating report) is now complete. Finally, although ENMC had previously communicated an intention to move to new headquarters (to accommodate for its growing workforce), the entity instead decided to expand its current premises.

A new centralized system for fuel reporting was approved and implemented on 13/08/2015, under which every gas station in Portugal must submit the quantity of fuel sold and the prices charged (with VAT included) on a daily basis - to a cloud database. ENMC has also built a ‘field force’ - a team of four individuals responsible for inspecting gas stations across the country. Station inspections involve taking fuel samples and collecting data on a wide range of variables (price, customer service, facilities, etc.). These new systems enable ENMC to better control their domestic market, and form part of their strategy for fulfilling the new responsibilities bestowed upon them in Decree Law no. 165/2013.

Portuguese Economy

A comprehensive evaluation of the latest developments in the Portuguese economy can be found in ARC Ratings’ Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com.

At the time of publication, the issuer ratings assigned to the Portuguese Republic by ARC Ratings were:

- For medium and long-term obligations, BBB- with stable outlook; and
- For short-term obligations, A-3.

Cash Generation Capacity

The following table presents key financial data and ratios for ENMC for 2010 – 2014. Figures for the first six months of 2015 are also included, as are ENMC’s forecasts for 2015.

ENMC KEY FINANCIALS AND RATIOS (THOUSAND EUROS)

	2010	2011	2012	2013	2014	2014 Jan to Jun	2015 Jan to Jun	2015 (F)
TURNOVER	32,020	31,089	37,922	219,427	79,747	61,248	12,280	25,629
EBITDA (a)	9,415	8,273	16,240	126,816	32,839	27,223	4,460	3,155
EBIT (b)	9,393	8,256	16,234	126,812	(21,927)	18,127	36,947	2,552
Financial Result	(8,895)	(8,242)	(16,135)	(125,300)	(859)	(838)	(458)	(329)
Current Result	498	15	99	1,511	(22,786)	17,289	36,489	2,223
Non-Current Result	(47)	205	(41)	(1,509)	(4,067)	(1,196)	(1,092)	(2,182)
EARNINGS BEFORE TAXES	450	220	58	3	(26,853)	16,094	35,397	41
Income Tax for the Year	134	62	31	11,896	16	0	0	689
NET PROFIT FOR THE PERIOD	317	158	27	(11,894)	(26,869)	16,094	35,397	(648)
OPERATING CASH FLOW (OCF)	12,356	10,470	13,495	127,852	7,208	4,174	3,760	5,232
Reserves' Book Value	348,914	348,914	349,601	279,692	321,091	376,595	353,593	375,508
Reserves' Market Value	599,352	710,964	725,834	505,098	333,087	-	-	-
TOTAL ASSETS	383,190	386,856	390,912	387,140	350,867	399,906	384,169	406,996
Net Working Capital (NWP)	381,027	373,358	377,009	359,990	335,221	386,780	369,656	382,886
Net Working Capital Requirements (NWCR)	350,077	349,556	351,677	350,177	321,212	376,400	353,993	375,192
Net Cash Position (NCP)	30,949	23,802	25,331	9,813	14,009	10,379	15,663	7,694
Financial Debt	362,952	362,945	366,567	360,019	360,013	360,095	359,772	359,642
NET FINANCIAL DEBT	330,423	337,096	338,996	335,818	342,588	349,094	342,919	348,325
Reserves' Market Value / Financial Debt	1.65	1.96	1.98	1.40	0.93	-	-	-
EBITDA as a % of Turnover	29.4%	26.6%	42.8%	57.8%	41.2%	44.4%	36.3%	12.3%
Operating Return on Turnover	29.3%	26.6%	42.8%	57.8%	(27.5%)	29.6%	300.9%	10.0%
Operating Return on Assets	2.5%	2.1%	4.2%	32.8%	(6.2%)	4.5%	9.6%	0.6%
Gross Cost of Borrowed Funds	2.5%	2.5%	4.6%	33.5%	0.4%	0.2%	0.1%	0.3%

NET RETURN ON TURNOVER	0.99%	0.51%	0.07%	-5.42%	-33.69%	26.28%	288.26%	-2.53%
Coverage of Net Finance Borrowing Costs by EBITDA (x)	1.1	1.0	1.0	1.0	38.2	32.5	9.7	9.6
NET FINANCIAL DEBT/ EBITDA (x)	35.1	40.7	20.9	2.6	10.4	12.8	76.9	110.4
EQUITY / ASSETS	4.7%	5.4%	5.4%	2.7%	(4.7%)	7.0%	5.2%	8.4%
Indebtedness	95.3%	94.6%	94.6%	97.3%	104.7%	93.0%	94.8%	91.6%
Indebtedness Structure (S.T. Debt as a % of Total Debt)	0.6%	0.8%	0.9%	4.4%	1.4%	0.8%	1.2%	3.6%
Liquidity Risk	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest-Rate Risk (c)	0.0%	0.0%	0.0%	100.0%	99.5%	100.0%	100.0%	100.0%
CURRENT ASSETS RATIO (Current Assets / Current Liabilities)	17,868.9%	12,481.8%	11,117.8%	2,269.5%	6,728.0%	13,321.5%	8,793.0%	2,973.2%
ACID TEST RATIO ((Current Assets - Inventories) / Current Liabilities)	1,597.5%	910.6%	901.0%	583.9%	379.4%	448.1%	477.7%	155.4%

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2010 to 2014 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C..
(a) Earnings before interest, tax, depreciation and amortisation.
(b) Earnings before interest and tax
(c) Assumed by oil operators, not ENMC
Source: ENMC Annual Reports.

ENMC's 2014 accounts have the legal certification of the official auditing firm ("SROC") of Caiano Pereira, António e José Reimão, and have been audited by Moore Stephens & Associados (consistent with 2013).

ENMC's financial performance in 2014 was heavily affected by the significant oil price decline, with the entity recording an impairment loss of EUR 54.3 million during the period. At the time of producing 2015 interim accounts, oil prices had recouped some of the losses suffered in the previous period. Consequently, ENMC recorded an impairment gain for the first six months of 2015. However, prices have since reached new lows, and further impairment losses are thus likely moving forward.

The EBITDA margin, which is calculated prior to the incorporation of impairment gains/losses, fell 16.6 percentage points (pp), to 41.2% in 2014. In absolute terms, EBITDA declined 74.1%, from EUR 126.8 million in 2013 to EUR 32.8 million in 2014. It is important to note that ENMC's 2013 turnover was significantly boosted by the sale of crude oil stocks in order to provide for costs incurred in the early liquidation of a swap contract. Additional information on this event can be found in the previous rating report, at www.arcratings.com.

EBIT, which does incorporate impairment gains/losses, fell 117.3%, from EUR 126.8 million in 2013, to EUR -21.9 million in 2014. Net profit was also lower accordingly, decreasing 125.9%, from EUR -11.9 million in 2013, to EUR -26.9 million in 2014, as was net return on turnover, which declined 28.3 pp year-on-year, to -33.7%.

FINANCIAL POLICY

ENMC confirmed there have been no significant changes in accounting policies or shareholding since the last rating review.

At the end of 2014, ENMC's assets totalled EUR 350.9 million (a year-on-year decrease of EUR 36.3 million, or 9.4%). This reduction mainly reflects the referred impairment on reserves. Note that the very high amount of trade receivables at the end of 2013 (EUR 72.7 million) reflected the special sale of crude oil stocks in 2013 (to cover the swap expenses). It was reinvested in reserves in the first half of 2014.

At the end of 2014, trade receivables totalled EUR 1.3 million, whilst the oil products held by ENMC at book value totalled EUR 321.1 million at the end of 2014 (EUR 279.9 million at the end of 2013). On that date, the market value was EUR 333.1 million (EUR 505.1 million at the end of 2013), which is EUR 12.0 million greater than the book value (EUR 225.4 million at the end of 2013). The meaningful tightening of this gap is again reflective of the substantial oil price decline in 2014.

ENMC's equity totalled EUR -16.3 million at the end of 2014. This represents a year-on-year decrease of EUR 26.9 million that is principally explained by the large net loss posted in 2014. The Provision Fund, included in equity under other reserves, amounted to EUR 13.8 million at the end of 2014 (EUR 13.8 million at the end of 2013, EUR 12.2 million in 2012 and 2011, and EUR 9.6 million at the end of 2010).

ENMC's debt to assets ratio increased by 9 percentage points during the period, to 102.6%, though we note that such change was caused by a reduction in assets (specifically, trade receivables), as opposed to higher quantities of debt. At the end of 2014 ENMC's borrowed funds consisted almost entirely of its financial debt (EUR 360.0 million), corresponding to the bond loan being rated. It is important to note that the interest payments on said loan are met by the oil operators, and not ENMC. At the end of 2014, the coverage provided by the market value of the stocks of oil products held by ENMC relative to the value of the loan was 0.93 times, versus 1.4 times at the end of 2013, 2.0 times at the end of 2012 and 2011. For the first time, the value of the reserves is no longer sufficient to cover the entirety of the loan. To provide additional insight and enable useful comparison, the coverage ratios of two of ENMC's European peers were also evaluated. The Spanish entity, Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) had a coverage ratio of 1.5 at the end of 2014 (2.5 in 2013). At this time, FITCH and STANDARD & POOR´S rated the medium and long-term financial commitments of CORES BBB+ and BBB, respectively, both with stable outlook, and had assigned the same ratings to Spain's medium and long-term financial commitments. The French entity, Société Anonyme de Gestion de Stocks de Sécurité (SAGESS) had a coverage ratio of 1.41 at the end of 2014 (2.1 in 2013). At this time, STANDARD & POOR´S rated the medium and long-term financial commitments of SAGESS AA, with negative outlook, and had assigned the same rating to France's medium and long-term financial commitments.

At the end of 2014, the positive cash position included liquid assets of EUR 2.7 million (EUR 1.2m in 2013), placed almost entirely in deposits with the Public Revenue Department, and financial assets of EUR 2.9 million (EUR 17.1 million in 2013), placed entirely 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) - which are consistent with previous periods, and follow the instructions of the supervising ministry. In addition, at the end of 2014 ENMC also had financial investments totalling EUR 10.5 million (EUR 10.5 million in 2013), placed entirely in CEDIM – Certificados Especiais de Dívida de Médio / Longo Prazo (special medium and long-term debt certificates, also issued by the IGCP). Note that the decrease in financial assets reflects the payment of 2013 income tax (EUR 11.9 million) and the advanced payment of taxes (EUR 7.2 million), as required by Portuguese tax legislation. It is noted that such advancements are expected to be recovered by ENMC (as the entity's 2014 income tax was almost nil), and should thus positively impact the accounts upon receipt.

The prevailing legal framework requires the reserves held by ENMC be protected by insurance. Following a national tender in 2014, the oil products owned by ENMC and stored in the POL NATO deposit are adequately covered by a multiple risks policy provided by AIG. The insurance coverage of oil products owned by ENMC that are stored with PETROGAL is contracted by PETROGAL and the respective cost included in the storage costs paid by ENMC.

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), ENMC has purchased insurance to protect against the environmental risks facing these stocks. This policy is also provided by AIG.

FORECASTS

ENMC's forecasts for 2015 can be seen in the rightmost column of the financials and ratios table, presented on pages 6 and 7. ENMC has forecasted full year 2015 turnover of EUR 25.6 million (EUR 79.7 million in 2014, which included the sale of stocks), EBITDA of EUR 3.2 million (32.8 million in 2014), EBIT of EUR 2.6 million (EUR -21.9 million in 2014), and a net profit of EUR -0.6 million (compared with EUR -26.9 million in 2014).

Attention is drawn to the impairment gains of EUR 32.5 million recorded in the first half of 2015. Since the impairment was recorded after the preparation of the forecast, ENMC's actual financial performance is likely to differ significantly from forecasted financial performance. For example, the current impairment gain will cause net profit for the period to be greater than forecast. That being said, since the production of 2015 interim accounts, oil prices have reached new lows, which may result in the downward revision of asset values before the close of 2015.

ENMC's 2015 budget, dated December 2014, includes a significant reduction in costs of storing oil product stocks (-16.9%, or EUR 3.8 million less, to EUR 18.9 million) for the Oil Reserves Unit (ORU), due to the changes in stocks and renegotiations of contracts already concluded, while staff costs and expenses with other suppliers and external services should double (to EUR 2.0 million) in order to comply with new duties. Also included is a EUR 2.2 million contribution to the Provision Fund. Introductions for consumption of oil products in Portugal are expected to decrease 2.0% for gasoline and LPG, 0.5% for diesel and 10.0% for fuel oil. The budget also assumes that ENMC's other business units will have a positive EUR 17 thousand impact on the 2015 results. ARC expects the (net) impact of these assumptions on ENMC's 2015 bottom line to be relatively minor.

SENSITIVITY ANALYSIS

It is useful to consider the impact of oil price fluctuations on the market value of ENMC's reserves, and consequently the coverage of the loan by the reserves (coverage ratio).

The following table presents the impact varying degrees of oil price fluctuations would have on the coverage of the EUR 360.0 million loan:

COVERAGE OF BOND LOAN BY RESERVES (THOUSAND EUROS)

Oil Price Fluctuation:	40%	20%	10%	5%	0%	-5%	-10%	-20%	-40%
Reserves' Book Value (2014 Year End)	321,091	321,091	321,091	321,091	321,091	321,091	321,091	321,091	321,091
Reserves' Market Value	466,322	399,704	366,396	349,741	333,087	316,433	299,778	266,470	199,852
Financial Debt (2014 Year End)	360,013	360,013	360,013	360,013	360,013	360,013	360,013	360,013	360,013
Loan Coverage (Reserves' Market Value / Financial Debt)	1.30	1.11	1.02	0.97	0.93	0.88	0.83	0.74	0.56

As one may expect, the findings suggest that moderate fluctuations in oil price would not influence significantly the coverage ratio, though larger departures (10%, 20%, etc.) from current price levels would have an increasingly material impact. In circumstances where the full support of the Portuguese government is retained, even the larger identified price declines should place little downward pressure on the rating. However, in the event such support is relinquished, the rating may be affected considerably.

As previously mentioned, the bond loan under review comprises almost all of ENMC's financial debt, and bears interest indexed to the 6 month Euribor rate. Since the interest payments on the bond are met by the oil operators, ENMC is not directly exposed to adverse fluctuations in interest rates (this risk is instead borne by the oil operators).

ISSUANCE CONDITIONALITY

The rating assigned applies specifically to the EUR 360.0 million bond loan issued by EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E. (EGREP), now 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, of which we highlight the following:

- A maturity of 20 years with full payment of principle at maturity, which will occur on August 6 2028;
- The possibility of full but not partial early redemption at issuer initiative, on 8 August 2016 and 7 August 2023, or: "in the event the following circumstances occur cumulatively:
    - change, after the issue date, of tax regulations applicable in Portugal, or change in the official application or interpretation of such regulations, that impose upon the issuer the obligation to pay additional sums other than foreseen in the contractual documentation;
    - 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.

Additional information on the bond loan issue can be found in the Rating Report of 2 June 2008, available at: www.arcratings.com.

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated 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 being rated are taken into account by ARC Ratings in the assignment of the rating.

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

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