ARC Ratings changes ENMC's "BB+" rating outlook to Negative

ISSUERS

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

RATING DATE

22 February 2016

ISSUE RATING

BB+ Medium and Long Term (BB+, with Negative Outlook)

ARC Ratings, S.A. (ARC Ratings) has affirmed the "BB+" 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. However, ARC Ratings changed the rating outlook to Negative from Stable, due to the possible further decrease of oil and oil product prices being maintained at low levels for a long period before recovery.

COMPANY PROFILE

ENMC, a State-owned entity, was assigned by law with 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.

RATING RATIONALE

The key rating drivers for ENMC's bond loan rating are:

- State ownership – ENMC's share capital is wholly owned by the Portuguese Government. Consequently, its rating is indirectly linked to the ratings of the Portuguese Republic (BBB- / Stable / A-3), however there is no implicit timely support, but the Portuguese State is ultimately responsible for ENMC's liabilities, as is established in law ("in the case of dissolution of the ENMC, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities"). 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, however there is no obligation to do so.
- Financial stability and favourable debt profile – Despite losses incurred with impairment in inventories (due to adverse oil price fluctuations), and the consequent negative equity, ENMC's expenses (including the bond loan interests) had been totally covered by revenues, mainly from the oil market operators. In addition, the entity's debt levels remain largely unchanged, still comprising the bond loan that is rated (EUR 360 million, repayable in 2028), and also maintains a positive cash position.
- Positive economic trends (Portugal) – Please see ARC Ratings' Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com, for a complete analysis of the Portuguese economy.
- Stable, long-term relationships with key customers – The entity has developed strong, mutually beneficial

relationships with the main distributors of oil products in Portugal (Galp Energia, Repsol, BP and CEPSA).

The key constraints on ENMC's bond loan rating are:

- Coverage of loan by reserves and 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. Standing at 2.0 times in 2011 and 2012, 1.6 times in 2013, and 0.93 times in 2014, the coverage of the bond loan by reserves continued its downward trajectory to 0.66 times at the end of 2015 and to 0.62 times at the end of January 2016.
- Threats to Portuguese economy – Please see ARC Ratings' Sovereign Rating Report for the Republic of Portugal, available at: www.arcratings.com, for a comprehensive analysis of the Portuguese economy.
- Concentration of customer base – The majority of ENMC's revenue derives from just four companies: Galp Energia, Repsol, BP and CEPSA. The financial commitments of Galp Energia and CEPSA are currently unrated, rendering the credit risk presented by these two entities less transparent.

THIS DISCLOSURE SHOULD BE READ IN CONJUNCTION WITH THE RATING REPORT DATED 18 SEPTEMBER 2015.

ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.
1050-139 Lisbon
PORTUGAL
Tel: *213 041 110*
Fax: 213 041 111
E-mail: arcratings@arcratings.com
Site: www.arcratings.com

Key Contacts:

Carlos Leitão	Emma-Jane Fulcher
Lead Analyst	Panel Chairperson / CRO
+351 213 041 110	+44 (0) 203 282 7594
E-mail: carlos.leitao@arcratings.com	E-mail: emma.fulcher@arcratings.com