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 affirmed the "BB+" rating accorded to the EUR 360.0 million bond loan issued by ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E. (ENMC), on 6 August 2008. ARC Ratings also changed the rating outlook to stable, from negative, driven by the recovery in oil prices, that is expected to be sustainable according to consensus forecasts, and, consequently, the recovery of the coverage of financial debt by the oil products reserves at market value, and increase of investments in debt securities issued by the Portuguese Government. In addition, ARC assumes that, in the under-study reorganization of public entities with responsibilities in the energy sector in Portugal, ENMC will maintain its main duty of being the Portuguese central stockholding entity in the constitution and maintenance of the strategic portion of national emergency reserves of oil and oil products and, as a consequence of this role, should also remain a "State corporate entity".

COMPANY PROFILE

ENMC, founded in 2001 and headquartered in Portugal, remains a State-owned entity and was assigned by law with the duty of being the Portuguese central stockholding entity in the constitution and maintenance of the strategic portion of national emergency reserves of oil and oil products. Additional responsibilities include the supervision of the National Petroleum System, monitoring the markets for crude oil, oil products, liquefied petroleum gas, biofuels, promotion of technical safety and fuel quality, as well as prospection, research, development and exploitation of oil resources.

ENMC'S KEY RATING DRIVERS INCLUDE:

- Government 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 obligation of timely support, but the Portuguese Government is ultimately responsible for ENMC's liabilities, as is established in law ("in the case of dissolution of ENMC, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities").
- Financial stability and favourable debt profile – In 2016, as a result of the recovery of oil prices, the impairment in inventories was reversed with positive impact on the company's equity (which became positive). Above all, ENMC's expenses (including bond loan interests) have been totally covered by revenues, mainly originated from the oil market operators. In addition, the entity's debt levels remain largely unchanged, still comprising the bond loan that is rated in an amount of EUR 360 million, maturing in 2028, the investments in Portuguese Government issued debt securities increased and the cash position remained positive.

RATING DATE
7 September 2017

RATING VALIDITY
7 September 2018

INITIAL RATING
2 June 2008

LAST REVIEW
15 September 2016

NEXT REVIEW DATE
7 September 2018

PERIOD OF ANALYSIS
Historic: 2012 to 1Q 2017
Forecast: 2017 and 2018

INFORMATION ANALYSED
ENMC Reports and Accounts
ENMC Interim Accounts
ENMC 2017 and 2018 Budget
Details on ENMC's Reserves
World Bank's Commodity Markets Outlook
Peers Reports and Accounts

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

ARC CONTACT DETAILS

Isabel Fernandes
Lead Analyst
isabel.fernandes@arcratings.com

Emma-Jane Fulcher
CRO & Panel Chairperson
emma.fulcher@arcratings.com

Maidstone Studios
New Cut Road, Vinters Park
Maidstone, Kent ME14 5NZ
UNITED KINGDOM
Tel: +44 (0)1622 684548
Website: 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: Galp Energia, SGPS, S.A. (Galp Energia), Repsol, S.A. (Repsol), BP p.l.c. (BP) and Compañía Española de Petróleos S.A. (CEPSA).

THE KEY CONSTRAINTS ON ENMC'S CREDIT RATING ARE:

- Oil price volatility and the coverage of the loan by reserves – The nature of ENMC's operations and concentration of its assets render its financial performance heavily exposed to oil price fluctuations. However, the coverage of financial debt by reserves recovered to 1.07 times at the end of 2016 (from 0.66 times at the end of 2015) and remained above 1.0 times as at 24th April 2017. Given the significant amount of investments in debt securities issued by the Portuguese Government and cash and deposits held by ENMC, the coverage of net financial debt by reserves increased to 1.20 times at the end of 2016.
- Concentration of customer base – The majority of ENMC's revenue continues to be derived from just four companies: Repsol (that represented 27% of ENMC's revenues in 2016), Galp Energia (24%), BP and CEPSA (16% each).

SHAREHOLDER AND CORPORATE GOVERNANCE

ENMC's share capital is wholly owned by the Portuguese Government, being a "State corporate entity" with administrative, financial and patrimonial autonomy.

ENMC was assigned by law, since the end of 2001, with the duty of being the Portuguese central stockholding entity in the constitution and maintenance of the strategic portion of national emergency reserves of oil and petroleum products. Additional responsibilities, including the monitoring the markets for crude oil, petroleum products, liquefied petroleum gas, biofuels, promotion of technical safety and fuel quality, as well as prospection, research, development and exploitation of oil resources, were assigned to ENMC at the end of 2013 and they were gradually implemented during 2014 and the first half of 2015. New duties in the supervision of the National Petroleum System were assigned by Decree-Law 244/2015, published on 19 October 2015, being applicable in 2016. In 2017 ENMC's reorganization process with all its new duties was concluded. This process also involved changes in the Board of Directors of the company which occurred in December 2016.

National emergency reserves of oil and petroleum products comprise ninety days of the nation's average daily net imports of crude oil and oil products from the preceding year and its constitution and maintenance are an obligation of oil market operators, distributed according to each market share. The share of reserves to be held by ENMC (strategic reserves), in substitution of market operators, corresponds to "one-third of the reserves which the bound operators are obliged to maintain", i.e. 30 days of the nation's average daily net imports of crude oil and oil products from the preceding year.

According to the terms of the law, the following continues to apply for ENMC:

- 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 expenses associated with the build-up and maintenance of strategic reserves by the Company are fully supported by operators obliged to constitution of emergency reserves.
- ENMC is obliged to constitute a provision fund (recorded in equity) by annual increases, aiming to achieve at least an amount corresponding to 25% of the oil reserves' acquisition cost (at the end of March 2017 the

provision fund corresponded to 8.0% of oil reserves' acquisition cost, a percentage that has been increasing since the end of 2014).

- In the case of an energy crisis or severe supply disruption, if ENMC sells strategic reserves 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 provision fund, the State assumes the corresponding loss by making an extraordinary contribution to the fund.

In July 2016 was appointed, by the Government, the new Statutory Auditor of ENMC, Moore Stephens & Associados, SROC, S.A.. The 2015 auditor's report was issued without qualifications.

For all periods analysed ARC Ratings considered the costs with the provision fund as non-current, not affecting EBITDA and EBIT.

On 30 March 2016 was published the Law 7-A/2016, that approves the Portuguese State Budget for 2016, and has included a change to the ENMC's by-law exempting it from corporate taxes on ENMC's profits on the activity of managing strategic reserves of oil products.

A reorganization of public entities with responsibilities in the energy sector in Portugal is under study. ENMC is expected to maintain its main duty of being the Portuguese central stockholding entity in the constitution and maintenance of the strategic portion of national emergency reserves of oil and oil products and, as a consequence of this role, should also remain a "State corporate entity", a premise assumed by ARC Ratings.

CASH FLOW GENERATING CAPACITY AND RECENT DEVELOPMENTS

In 2016, the total volume of oil products introduced for consumption in Portugal increased 1.5%, to 7.8 million tonnes (Mton), compared with a 2.6% increase in 2015 and a stabilization in 2014. Increases in the B (diesel) and C (fuel oil) categories continued to compensate decreases registered in A (gasoline) and D (liquefied petroleum gases – LPG) categories. The volume mix of oil products introduced for consumption in Portugal did not change, with the B category representing more than three quarters and the A around 14%. The required national emergency reserves (90 days) and ENMC's strategic reserves (30 days) increased 1.2% in 2016, in aggregate, to 1 928.2 thousand tonnes (tton) and 642.7 tton, respectively.

In 2016, ENMC increased its reserves contracted under CSO Tickets (Compulsory Stockholding Obligation) to 249 tton at the end of 2016, from 140 tton at the end of 2015, while its own reserves stabilized at 938 tton. Thus, ENMC still maintained at the end of 2016 a substantial headroom between its mentioned own reserves and the legally required strategic reserves (642.7 tton), with significant headroom in all categories, allowing ENMC to continue replacing part of the operators' own obligation. CSO Tickets are contracted according to the market demand for ENMC to replace the market operators.

The analysis of the composition of the reserves held by ENMC at the end of 2016 shows that: ENMC continues to own the majority of the reserves (79%), with the remainder being contracted under CSO Tickets; the totality of ENMC's reserves were stored in Portugal (while at the end of 2015 7.4% were stored outside Portugal); and finished products represented 42.1% of the total stocks (compared with one third required by law and 39.9% at the end of 2015).

The storage of ENMC's own reserves in Portugal is carried out under agreements with Galp Energia (mostly stored near Galp Energia's oil refineries in Matosinhos, near Porto in the North of Portugal, and Sines, in the South of Portugal), and with the Portuguese Government (for the POL NATO deposits near Lisbon). ENMC is studying the possibility of future storage in caverns in Portugal, which presents some advantages due to their underground location.

The use of the POL NATO deposits by ENMC is done under a new agreement dated 1 July 2016 for a 25 years period. Under this agreement, ENMC pay an annual fee of EUR 1.1 million (annually updated by the inflation rate of previous year) that can be reduced, with a low of EUR 0.4 million, if the remaining is spent by ENMC in the management and improving investments of the infrastructure. This was an important agreement for ENMC due to the lack of investments made by the Portuguese Government in the infrastructure, besides having been allowed to lower the previous annual fee (EUR 1.7 million). Under this agreement ENMC also has the obligation to make additional investments, initially estimated at EUR 15 million. According to more recent estimates, in the 2017-2020 period this investment could achieve EUR 16.8 million (with the largest investment effort concentrated in 2020, of EUR 12.9 million). The realization of this priority investment plan will allow significant improvements in the conditions of those strategic facilities and aim to provide them with greater operationality, maintenance and mobilization capacity where part of the strategic reserves are located. ENMC plans to finance these investments with its own funds (its short-term financial investments surpass EUR 34 million at the end of March 2017 and are expected to increase).

ENMC'S RESERVES OF CRUDE OIL AND OIL PRODUCTS (IN TONNES AT END OF THE PERIOD)

	2012	2013	2014	2015	2016
OWN RESERVES	1,126,035	812,098	948,325	938,273	938,192
CRUDE OIL	817,297	503,818	548,081	538,082	538,082
GASOLINE	51,400	51,400	51,400	51,400	51,400
DIESEL	248,338	247,880	297,844	297,791	297,710
FUEL OIL	0	0	45,000	45,000	45,000
LPG	9,000	9,000	6,000	6,000	6,000
UNDER CSO TICKETS	0	313,479	396,401	140,000	249,000
CRUDE OIL	0	313,479	324,501	110,000	149,000
GASOLINE	0	0	0	10,000	0
DIESEL	0	0	31,900	20,000	100,000
FUEL OIL	0	0	40,000	0	0
LPG	0	0	0	0	0
TOTAL ENMC'S RESERVES	1,126,035	1,125,577	1,344,726	1,078,273	1,187,192
CRUDE OIL	817,297	817,297	872,582	648,082	687,082
GASOLINE	51,400	51,400	51,400	61,400	51,400
DIESEL	248,338	247,880	329,744	317,791	397,710
FUEL OIL	0	0	85,000	45,000	45,000
LPG	9,000	9,000	6,000	6,000	6,000
TOTAL ENMC'S RESERVES - FINISHED PRODUCTS EQUIVALENT	1,351,056	1,374,406	1,344,726	1,078,273	1,187,192
GASOLINE	261,356	246,842	176,733	151,883	145,073
DIESEL	942,567	996,523	987,799	808,510	921,356
FUEL OIL	107,883	78,891	113,150	75,744	78,105
LPG	39,250	52,150	67,045	42,136	42,658
TOTAL ENMC'S RESERVES IN DAYS OF CONSUMPTION					
GASOLINE	56	57	60	51	50
DIESEL	37	44	64	50	47
FUEL OIL	64	57	170	75	43
LPG	17	25	46	36	55

Source:
ENMC.

ENMC's revenues from the main activity (holding and managing reserves of crude oil and oil products), corresponds to the recovery of its expenses on this activity from oil market operators, aiming to have a net profit in this activity tending to zero (except for gains or losses in the valuation or in the sale of reserves), and the amounts to be received are calculated every year based on the expenses forecasted by ENMC. Occasionally ENMC may sell oil reserves, as occurred in 2013 and 2014. Expenses with the other activities (much lower) needs to be covered by these activities' revenues.

ENMC - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2012	2013	2014	2015	2016	2016 Jan to Mar	2017 Jan to Mar	2017 (F)	2018 (F)	2018 (F) B Scenario
TURNOVER	37,922	219,427	79,747	24,562	24,331	8,154	6,645	25,455	25,504	25,504
EBITDA	16,240	126,816	32,839	8,519	6,857	4,240	2,541	6,375	4,324	4,324
EBIT	16,234	126,812	(21,927)	(76,845)	114,371	18,532	2,541	6,115	3,677	(31,326)
FINANCIAL RESULT	(16,135)	(125,300)	(859)	(41)	625	120	172	(136)	(154)	(154)
NON-CURRENT RESULTS	(41)	(1,509)	(4,067)	(7,802)	(7,518)	(524)	(983)	(3,931)	(4,020)	(4,020)
NET PROFIT	27	(11,894)	(26,869)	(84,707)	107,477	18,128	1,730	2,048	(497)	(35,500)
OPERATING CASH FLOW (OCF)	13,495	127,852	7,208	9,425	9,825	4,039	n.av.	8,101	3,538	3,538
CASH FLOW	976	(3,988)	(12,670)	14,605	9,417	3,548	n.av.	8,372	3,617	3,617
FREE CASH FLOW	972	(4,063)	(12,736)	14,335	9,053	3,452	n.av.	6,814	2,031	2,031
RESERVES' BOOK VALUE	349,601	279,692	321,091	235,750	343,337	251,401	343,337	343,338	343,338	308,334
RESERVES' MARKET VALUE	725,834	505,098	333,087	237,087	385,418	251,401	355,035	385,418	385,418	308,334
TOTAL ASSETS	390,912	387,140	350,867	270,790	387,783	290,053	394,632	396,162	399,243	364,240
NET WORKING CAPITAL (NWC)	377,009	359,990	335,221	256,289	370,532	275,671	372,655	374,794	377,378	342,374
NET WORKING CAP. REQUIREMENTS (NWCR)	351,677	350,177	321,212	234,817	343,341	251,232	343,810	342,632	342,757	307,753
NET CASH POSITION (NCP)	25,331	9,813	14,009	21,473	27,191	24,439	28,845	32,162	34,621	34,621
FINANCIAL DEBT	366,567	360,019	360,013	359,676	359,539	359,504	359,539	359,539	359,539	359,539
NET FINANCIAL DEBT*	333,689	331,239	343,971	329,298	320,098	326,047	314,766	313,113	311,253	311,253
RESERVES' MARKET VALUE / FINANCIAL DEBT	1.98	1.40	0.93	0.66	1.07	0.70	0.99	1.07	1.07	0.86
RESERVES' MARKET VALUE / NET FINANCIAL DEBT	2.18	1.52	0.97	0.72	1.20	0.77	1.13	1.23	1.24	0.99
Contribution Margin (%)	42.0%	57.7%	41.8%	35.7%	31.4%	56.0%	43.1%	28.2%	20.1%	20.1%
EBITDA Margin (%)	42.8%	57.8%	41.2%	34.7%	28.2%	52.0%	38.2%	25.0%	17.0%	17.0%
Operating Return on Turnover (%)	42.8%	57.8%	(27.5%)	(312.9%)	470.1%	227.3%	38.2%	24.0%	14.4%	(122.8%)
Operating Return on Assets (%)	4.2%	32.8%	(6.2%)	(28.4%)	29.5%	25.6%	2.6%	1.5%	0.9%	(8.6%)
Gross Cost of Borrowed Funds (%)	4.6%	33.5%	0.4%	0.2%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Net Return on Turnover (%)	0.1%	(5.4%)	(33.7%)	(344.9%)	441.7%	222.3%	26.0%	8.0%	(1.9%)	(139.2%)
Payout Ratio (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Coverage of Interest Costs by EBITDA (x)	1.0	1.0	20.7	11.6	80.3	77.3	-	46.9	28.1	28.1
Coverage of Net Interest Costs by EBITDA (x)	1.0	1.0	38.2	209.8	-	-	-	46.9	28.1	28.1
CASH FLOW Coverage of Net Interest Paid (x)	1.1	1.0	(11.0)	27.2	-	16.4	-	-	-	-
Financial Debt / EBITDA (x)	22.6	2.8	11.0	42.2	52.4	21.2	35.4	56.4	83.1	83.1
Net Financial Debt/ EBITDA (x)	20.5	2.6	10.5	38.7	46.7	19.2	31.0	49.1	72.0	72.0
Equity / Assets (%)	5.4%	2.7%	(4.7%)	(34.4%)	5.6%	(25.3%)	6.2%	7.0%	7.8%	(1.0%)
NET GEARING (Net Debt to Equity) (x)	15.9	31.5	(21.0)	(3.5)	14.7	(4.4)	12.9	11.3	10.0	(83.0)
Financial Debt Struc. (S.T. Fin. Debt as a % of Total Fin. Debt)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest-Rate Risk (%)**	0.0%	100.0%	99.5%	99.8%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
Current Assets Ratio	11,117.8%	2,269.5%	6,728.0%	7,162.6%	6,163.7%	7,309.4%	3,605.5%	4,313.8%	4,564.4%	4,150.3%
Acid Test Ratio	901.0%	583.9%	379.4%	666.0%	545.0%	734.7%	375.8%	453.7%	502.7%	502.7%

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
Annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C.. in 2012 - 2014 period and by Moore Stephens & Associados, S.R.O.C..in 2015.
****Financial debt net from cash and deposits and also from investments in debt securities issued by the Portuguese Government.***
*****Assumed by oil operators, not ENMC.***

Sources:
ENMC.

Hence, ENMC's turnover continues to be mainly originated from the main distributors of oil products in Portugal, namely:

- Repsol (in 2016 represented 27% of ENMC's revenues), which is not rated by ARC (BBB-/Positive/A-3 by Standard & Poor's Financial Services LLC (S&P); Baa2/Stable by Moody's Investors Service, Inc. (Moody's); and BBB/Stable/F3 by Fitch Ratings, Inc. (Fitch));
- Galp Energia (24% of ENMC's revenues), the market leader; Galp Energia is unrated; Galp Energia is also ENMC's main supplier of reserves' storage;
- BP (16%), which is not rated by ARC (A-/Stable/A-2 by S&P; A1/Positive by Moody's; and A/Stable by Fitch), and
- CEPSA (16%), which is unrated.

ENMC's financial performance in 2016 was positively affected by the reversal of a significant part of the impairment losses recorded in the previous years (EUR 85.3 million in 2015 and EUR 54.3 million in 2014). The 2016 reversal of impairment loss amounted to EUR 107.6 million, as a result of the recovery of oil price since January 2016, although with fluctuations. Thus, ENMC recorded a net profit of EUR 107.5 million in 2016, reversing the net losses recorded in 2015 (EUR 84.7 million) and in 2014 (EUR 26.9 million, wherein the impairment of EUR 54.3 million was in part compensated by a gain of EUR 27.3 million obtained in the sale of reserves).

In 2016 ENMC registered an increase in operational expenses due to the new duties in the supervision of the National Petroleum System. However, these expenses were lower than those forecasted mainly due to not needing to make the forecasted rotation of diesel stocks, lower costs of maintenance and safety of the POL NATO infrastructures and the reduction of costs with CSO Tickets (in the context of more tickets contracted, but at lower unit costs).

Interest costs, which are allocated to the activity of managing oil reserves (the financial debt was contracted to finance the acquisition of oil reserves), stood at EUR 0.1 million in 2016 (compared with EUR 0.7 million in 2015) due to the downward trend of 6-month Euribor. In effect, in the context of negative 6-month Euribor, ENMC has not paid interest for most of the year 2016. In these conditions, the interest costs were more than compensated by interest gains, from the investments in debt securities issued by the Portuguese Government. Thus, the coverage of interest costs by EBITDA increased to 80.3 times in 2016, from 11.6 times in 2015.

Benefiting in a favourable context, in 2016, as in 2015, ENMC made an extraordinary increase in the provision fund in the amount of EUR 7.5 million (comparing with EUR 2.0 million forecasted and EUR 7.8 million made in 2015), compensating the lower increases made in the previous years (including none in 2014) and in order to present a pre-tax result nil before recording the impairment loss reversal on inventory.

FINANCIAL POLICY

At the end of 2016 ENMC's assets totalled EUR 387.8 million, which represents an increase of EUR 117 million, or 43%, comparing to the end of 2015, mainly reflecting the referred impairment reversal on oil reserves, valuing these reserves in the company's accounts at EUR 343.3 million (which is EUR 42.1 million below its market value at the close of 2016). In addition, it should be highlighted the increase of EUR 9.1 million, to EUR 29.0 million, in the total amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government. The amount invested in medium and long-term debt securities issued by the Portuguese Government was maintained at EUR 10.5 million.

In 2016 ENMC made investments in fixed assets in the total amount of EUR 0.4 million, compared with EUR 0.3 million in 2015, including namely the costs with a transfer price dossier and several investments in IT systems.

ENMC's equity returned to a positive value at the end of 2016, EUR 21.8 million (compared with EUR -93.2 million at the end of 2015), mainly as a result of the 2016 positive net profit. The provision fund, included in equity, increased from EUR 21.6 million at the end of 2015 to EUR 29.1 million at the end of 2016 and to EUR 30.1 million at the end of March 2017 (corresponding to 8.0% of reserves' acquisition cost, compared with 5.8% at the end of 2015). At that date, the provision fund was totally covered (114.5%) by a portfolio of debt securities issued by the Portuguese Government (the medium and long-term debt securities covered 35.4% of the provision fund).

The equity / assets ratio of ENMC, as well as, the net gearing, came back positive, by respectively 5.6% and 14.7 times at the end of 2016 and continued at the end of March 2017.

At the end of March 2017, ENMC's borrowed funds continued to be almost entirely related with its financial debt (EUR 359.5 million), corresponding to the book value of the EUR 360 million bond loan being rated and that matures in 2028. As above-mentioned, this loan was contracted to finance the investment in oil reserves and, thus, the respective interest costs are recovered from oil market operators. The coverage of financial debt by the market value of oil reserves owned by ENMC recovered to 1.07 times at the end of 2016 (and still above one times on 24th April 2017) from 0.66 times at the end of 2015.

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 1.66 times at the end of 2016 (1.72 times considering the net financial debt), comparing with 0.93 times at the end of 2015. CORES is not rated by ARC, being rated BBB+/Positive/A-2 by S&P (the same level assigned to the sovereign), Baa3/Stable by Moody's (one notch below the sovereign rating) and BBB+/Positive/F2 by Fitch (also the same level assigned to the sovereign). The French entity, Société Anonyme de Gestion de Stocks de Sécurité (SAGESS), had a coverage ratio of 1.28 times at the end of 2016 (1.39 times considering net financial debt), compared with 0.97 times at the end of 2015. SAGESS is also not rated by ARC, being rated AA/Stable/A-1+ by S&P (the same level assigned to the sovereign).

Reflecting the long-term maturity of the bond loan (due on 6 August 2028), the only financial debt of ENMC, and the significant amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government, ENMC's liquidity risk is virtually nil. On the other hand, the indicator of interest rate risk is 100% reflecting the fact that all financial debt (bond loan) bears interest indexed to 6-months Euribor and presently ENMC has no coverage contracts in force. However, as referred the interest costs with the bond loan are recovered from oil market operators and, thus, this risk is not assumed by ENMC. In addition, due to the negative values assumed by this index, ENMC has not paid interest costs since February 2016.

The prevailing legal framework requires the reserves held by ENMC to be protected by insurance. Oil products owned by ENMC and stored in the POL NATO deposits are adequately covered by a multiple risks policy provided by AIG. Due to the high seismic risk in the areas where its stocks of oil products are stored (POL NATO deposits), ENMC has also contracted with AIG an insurance to protect against the environmental risks facing these stocks. The insurance coverage of oil products owned by ENMC that are stored with Galp Energia is contracted by Galp Energia and the respective cost included in the storage costs paid by ENMC. In 2015 ENMC prepared and presented to the Portuguese Government an energy emergency plan for fuels and is preparing a plan for evaluation and minimization of risks on oil reserves. ENMC aims to strengthen the insurance coverage of some risks, namely the environmental risks.

FORECASTS

ENMC prepared its 2018 forecasts based on its 2017 estimates (which already incorporate real data for the first half and an extrapolation until the end of the year).

ENMC's 2018 forecasts includes several actions aimed at the organizational sustainability of the company and to enhance the synergies resulting from the integration of its various competencies.

Regarding the main activity, ENMC assumed the maintenance of the 2016 value of inventories (EUR 343.3 million) at the end of 2017 and at the end of 2018. Thus, without including any impact from changes in the market value of oil reserves, considering interest costs of EUR 0.1 million and an increase of EUR 3.9 million in the provision fund, ENMC estimates a net profit of EUR 2.8 million in 2017 for its main activity. The favourable deviation of EUR 2.6 million, compared to 2017 budget is mainly due to lower ticket acquisition costs, lower amortizations (due to the deferral of the beginning of the investment in POL NATO) and lower interest costs. Globally, given that the activity of monitoring the petroleum products market still does not generate revenue, ENMC estimates a net profit of EUR 2.0 million in 2017.

According to ENMC's 2018 forecasts, the net profit from the main activity, without including any impact from changes in the market value of oil reserves and assuming interest costs of EUR 0.2 million and an increase of EUR 4.0 million in the provision fund, will be almost nil (as provided by law). Globally, the company forecasts a net profit of EUR -0.5 million in 2018, assuming that the activity of monitoring the petroleum products market will continue to generate no revenue.

The assumptions made by the company lead to improvements in the equity / assets ratio, to 7.8%, and in the net gearing ratio, to 10.0 times, at the end of 2018. The coverage of net financial debt by reserves (at market value) will slightly increase, to 1.24 times, through the reduction of the net debt. In effect, ENMC forecasts an increase in cash and deposits and in investments in debt securities issued by the Portuguese Government to EUR 48.3 million at the end of 2018. The increase of EUR 8.8 million, compared to the end of 2016, mainly result from the amount of collateral received in the first quarter of 2017 (EUR 4.5 million).

Oil prices (Brent crude) have recovered since the low of 27.88 USD/bbl at the end of 20 January 2016, and has been fluctuating in the 40 and 50 USD/bbl band. According to the World Bank report issued on April 2017, crude oil is expected to rise to an average price of 55 USD/bbl in 2017 (i.e. an increase of 28.5% compared with the 43 USD/bbl average in 2016) and to an average price of 60 USD/bbl in 2018 (+9.1%), in the context of production cuts agreed by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producing countries, and downward pressure from persistently high stocks, supported by the faster-than-expected rebound of the U.S. shale oil industry. The positive trend in oil prices started in 2016, closing the year at 57 USD/bbl.

Also relevant for the valuation of ENMC's oil reserves is the EUR/USD exchange rate. The recent appreciation of the EUR, which closed 2016 at 1.05 USD level and has recently crossed the 1.20 USD level, has a significant negative impact on the EUR denominated value of ENMC's oil reserves.

As referred above, ENMC plans to invest EUR 16.8 million in the POL NATO infrastructure over the 2017-2020 period (in an annual amount lower than EUR 1.5 million from 2017 to 2019 and around EUR 13 million in 2020).

This investment is planned to be financed by cash and deposits and short-term investments in debt securities issued by the Portuguese Government.

SENSITIVITY ANALYSIS

ENMC's credit quality is mainly dependent on the Portuguese Government's credit quality, given its sole ownership of ENMC and its ultimate responsibility for ENMC's liabilities defined by law, and on the oil market prices that would determine the revenue from the possible sale of oil reserves to repay the financial debt in a timely manner (in a hypothetical scenario of ENMC not being able to contract new financial debt to repay the bond loan and maintain the oil reserves). However, it should be noted that no formal guarantee is in place. Thus, ARC Ratings prepared a B scenario for 2018 forecasts considering a 20% decrease in the market value of oil reserves compared with the value considered in the base scenario (equal to those verified at the end of 2016).

In this alternative scenario ENMC would present at the end of 2018 an equity / assets ratio of -1.0% (compared with 7.8% in the base scenario) and coverages of financial debt and net financial debt by oil reserves of, respectively, 0.86 times and 0.99 times (1.07 times and 1.24 times in the base scenario).

ISSUANCE CONDITIONALITY

The rating assigned applies specifically to the EUR 360.0 million bond loan issued by ENMC (under its previous name of EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E.) on 6 August 2008, with these main terms:

- A 20-years maturity with full repayment of principal at maturity, which will occur on 6 August 2028.
- The possibility of full but not partial early redemption at issuer initiative, on 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 Government 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" (State corporate entity);
    - if any change in issuer's legal framework eliminates or restricts the Portuguese Government'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 the purpose of calculating the solvency ratio and the limits to major exposures.

DISCLAIMER

Note that ARC is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction documents / mechanics, and should form their own views in this respect. They should not rely on ARC for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

ARC Ratings, S.A.

Rua de São José, 35 – 1° B

1150-321 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).

This Review Report should be read together with initial Rating Report and with the subsequent Review 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 assigned by ARC Ratings in this report was sought by the entity whose financial commitments are being rated.

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.

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 review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list 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 being rated. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, verification and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its accuracy. 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 of the financial commitment in question.