

ENSE

Issuer	Issue Rating	Outlook
Entidade Nacional para o Setor Energético, E.P.E.	BB+ Medium and Long Term	Positive

RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) has affirmed the "BB+" rating accorded to the EUR 360.0 million bond loan issued by Entidade Nacional para o Setor Energético, E.P.E. (ENSE), on 6 August 2008. ARC Ratings also changed the rating outlook to positive, from stable, driven by the continuous 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 that allowed to improve the coverage of net financial debt by these reserves. In addition, being a "State corporate entity", ARC assumes that if the monitoring activity of all energy sector is not self-sustaining, ENSE will benefit from Portuguese Government financing, whose rating outlook assigned by ARC has also improved to positive, from stable, on 18 May 2018.

COMPANY PROFILE

ENSE, formerly designated ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E. and EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E., that was 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 (its main activity).

Within the recent reorganization of public entities with responsibilities in the energy sector in Portugal, the company's duty of supervision was enlarged to all energy sector (including electricity and natural gas sectors). ENSE still managing and monitoring of the storage activities of crude oil and its derivatives throughout the national territory, in order to guarantee and ensure the conditions of supply of crude oil and petroleum products, depending on consumption needs.

ENSE'S KEY RATING DRIVERS INCLUDE:

- Government ownership – ENSE's share capital is wholly owned by the Portuguese Government. Consequently, its rating is indirectly linked to the ratings of the Portuguese Republic (BBB- / Positive / A-3), however there is no obligation of timely support, but the Portuguese Government is ultimately responsible for ENSE's liabilities, as is established in law ("in the case of dissolution of ENSE, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities").

RATING DATE
7 September 2018

RATING VALIDITY
9 September 2019

INITIAL RATING
2 June 2008

LAST REVIEW
7 September 2017

NEXT REVIEW DATE
9 September 2019

PERIOD OF ANALYSIS
Historic: 2013 to 1Q 2018
Forecast: 2018 and 2019

INFORMATION ANALYSED
ENSE Reports and Accounts
ENSE Interim Accounts
ENSE 2018 and 2019 Budget
Details on ENSE'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

11 Hollingworth Court
Turkey Mill, Ashford Road
Maidstone, Kent ME14 5PP
UNITED KINGDOM
Phone: +44 (0) 1622 397350
Website: www.arcratings.com

- Financial improvement and favourable debt profile – In 2017, as a result of the recovery of oil prices, part of the impairment in inventories was reversed with positive impact on the company's equity. Above all, ENSE'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.
- 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 ENSE'S CREDIT RATING ARE:

- Oil price volatility and the coverage of the loan by reserves – The nature of ENSE'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 slightly improved to 1.12 times at the end of 2017 (from 1.07 times at the end of 2016) and remained at that level at the end of March 2018. Given the significant amount of investments in debt securities issued by the Portuguese Government and cash and deposits held by ENSE, the coverage of net financial debt by reserves increased to 1.31 times at the end of 2017 and at the end of March 2018 (compared with 1.20 times at the end of 2016).
- Concentration of customer base – The majority of ENSE's revenue continues to be derived from just four companies: Repsol (that represented 28% of ENSE's revenues in 2017), Galp Energia (26%), BP (19%) and CEPSA (12%).

SHAREHOLDER AND CORPORATE GOVERNANCE

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

ENSE 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. Until 1st September of 2018 the company's additional responsibilities include the supervision of the National Petroleum System, monitoring the markets for crude oil, oil products, liquefied petroleum gas (LPG), biofuels, promotion of technical safety and fuel quality, as well as prospection, research, development and exploitation of oil resources.

Within the reorganization of public entities with responsibilities in the energy sector in Portugal, by the Decree-Law 69/2018 (published on 27 August 2018 and in force since 1st September of 2018), ENSE (formerly designated ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E.), became also responsible for monitoring electricity and natural gas sectors. Therefore, in addition to its main activity, ENSE was also assigned with the duty of supervision and prevention of compliance with legislation regulating the exercise of economic activities in the energy sector. On the other hand, ENSE still managing and monitoring of the storage activities of crude oil and its derivatives throughout the national territory, in order to guarantee and supply of crude oil and

petroleum products, depending on consumption needs. Within this reorganization, the prospection, research, development and exploitation of oil resources were transferred to another entity.

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 ENSE (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 ENSE:

- 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.
- ENSE 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 2018 the provision fund corresponded to more than 10.0% 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 ENSE 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 ENSE, Moore Stephens & Associados, SROC, S.A.. The 2016 and 2017 auditor's reports were issued without qualifications.

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

CASH FLOW GENERATING CAPACITY AND RECENT DEVELOPMENTS

The total volume of oil products introduced for consumption in Portugal increased 2.9% in 2017, to 8.1 million tonnes (Mton), compared with a 1.5% increase in 2016. Increases in the B (diesel) and D (liquefied petroleum gases - LPG) more than offset decreases registered in A (gasoline) and C (fuel oil) categories. The volume mix of oil products introduced for consumption in Portugal did not change materially, with the B category representing close to 78% and the A category 13%, while the C and D categories accounting for 5% each. In the context of increase in the total volume of oil products introduced for consumption in Portugal, the required national's emergency reserves (90 days) and ENSE's strategic reserves (30 days) increased 3.2% in 2017, in aggregate, to 1 989.4 thousand tonnes (tton) and 663.1 tton, respectively.

ENSE increased its own reserves to 1 088.1 tton at the end of 2017, while its reserves contracted under CSO Tickets (Compulsory Stockholding Obligation) increased to 303.5 tton, from respectively 938 tton and 249 tton at the end

of 2016. Therefore, ENSE reinforced the substantial headroom between its mentioned own reserves and the legally required strategic reserves (663.1 tton), with significant headroom in all categories, allowing ENSE to continue replacing part of the operators' own obligation. CSO Tickets are contracted according to the market demand for ENSE to replace the market operators.

The analysis of the composition of the reserves held by ENSE at the end of 2017 shows that: ENSE continues to own the majority of the reserves (78.2%), with the remainder being contracted under CSO Tickets; the majority of ENSE's reserves were stored in Portugal, while 18.4% were stored outside Portugal (percentage that increased compared to previous years, in order to further optimize the cost structure to constitute reserves); and finished products represented 44.3% of the total stocks (compared with one third required by law and 42.1% at the end of 2016).

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

	2013	2014	2015	2016	2017
OWN RESERVES	812,098	948,325	938,273	938,192	1,088,078
CRUDE OIL	503,818	548,081	538,082	538,082	538,082
GASOLINE	51,400	51,400	51,400	51,400	51,400
DIESEL	247,880	297,844	297,791	297,710	297,597
FUEL OIL	0	45,000	45,000	45,000	195,000
LPG	9,000	6,000	6,000	6,000	6,000
UNDER CSO TICKETS	313,479	396,401	140,000	249,000	303,500
CRUDE OIL	313,479	324,501	110,000	149,000	153,500
GASOLINE	0	0	10,000	0	0
DIESEL	0	31,900	20,000	100,000	0
FUEL OIL	0	40,000	0	0	150,000
LPG	0	0	0	0	0
TOTAL ENSE'S RESERVES	1,125,577	1,344,726	1,078,273	1,187,192	1,391,578
CRUDE OIL	817,297	872,582	648,082	687,082	691,582
GASOLINE	51,400	51,400	61,400	51,400	51,400
DIESEL	247,880	329,744	317,791	397,710	297,597
FUEL OIL	0	85,000	45,000	45,000	345,000
LPG	9,000	6,000	6,000	6,000	6,000
TOTAL ENSE'S RESERVES - FINISHED PRODUCTS EQUIVALENT	1,374,406	1,344,726	1,078,273	1,187,192	1,249,994
GASOLINE	246,842	176,733	151,883	145,073	102,800
DIESEL	996,523	987,799	808,510	921,356	595,194
FUEL OIL	78,891	113,150	75,744	78,105	540,000
LPG	52,150	67,045	42,136	42,658	12,000
TOTAL ENSE'S RESERVES IN DAYS OF CONSUMPTION					
GASOLINE	57	60	51	50	45
DIESEL	44	64	50	47	45
FUEL OIL	57	170	75	43	112
LPG	25	46	36	55	55

Source:
ENSE.

The storage of ENSE'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). ENSE 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 ENSE is done under an agreement dated 1 July 2016 for a 25 years period. Under this agreement, ENSE 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 ENSE in the management and improving investments of the infrastructure. This was an important agreement for ENSE due to the lack of investments made by the Portuguese Government in the infrastructure. Under this agreement ENSE also has the obligation to make additional investments, initiated in 2017. According to ENSE's 2019 forecasts, in the 2018-2021 period this investment could achieve EUR 5.6 million (with annual investment effort between one million and two million of Euros). 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. ENSE plans to finance these investments with its own funds (its short-term financial investments stood nearly EUR 44 million at the end of March 2018 and are expected to stabilise at this level).

ENSE'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 ENSE. Occasionally ENSE may sell oil reserves, as occurred in 2013 and 2014. Until now, expenses with the other activities (much lower) needs to be covered by these activities' revenues.

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

- Repsol (in 2017 represented 28% of ENSE's revenues), which is not rated by ARC (BBB / Stable / A-2 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 (26% of ENSE's revenues), the market leader; Galp Energia is not rated; Galp Energia is also ENSE's main supplier of reserves' storage;
- BP (19%), 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 (12%), which is not rated.

ENSE's financial performance in 2017 was positively affected by the reversal of part of the impairment losses recorded in the previous years (EUR 85.3 million in 2015 and EUR 54.3 million in 2014). The 2017 reversal of impairment loss amounted to EUR 5.3 million (although less significant than EUR 107.6 million in 2016), as a result of the recovery of oil price in 2017. Thus, ENSE recorded a net profit of EUR 5.5 million (compared with EUR 107.5 million in 2016). Without the impact of the reversal of part of the impairment losses the Company's net profit would be slightly positive by EUR 0.2 million, mainly as a result of its remaining activities, despite the monitoring activity of the petroleum products still did not generate revenue.

ENSE - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2013	2014	2015	2016	2017	2017 Jan to Mar	2018 Jan to Mar	2018 (F)	2019 (F)
TURNOVER	219,427	79,747	24,562	24,331	25,398	6,645	5,988	24,771	26,980
EBITDA	126,816	32,839	8,519	6,857	7,722	2,541	935	3,024	2,735
EBIT	126,812	(21,927)	(76,845)	114,371	12,744	2,541	855	2,675	2,153
FINANCIAL RESULT	(125,300)	(859)	(41)	625	659	172	169	647	611
NON-CURRENT RESULTS	(1,509)	(4,067)	(7,802)	(7,518)	(7,931)	(983)	(1,005)	(4,020)	(2,257)
NET PROFIT	(11,894)	(26,869)	(84,707)	107,477	5,460	1,730	19	(697)	506
OPERATING CASH FLOW (OCF)	127,852	7,208	9,425	9,825	11,912	n.av.	3,260	2,876	1,115
CASH FLOW	(3,988)	(12,670)	14,605	9,417	12,086	n.av.	3,198	3,557	1,801
FREE CASH FLOW	(4,063)	(12,736)	14,335	9,053	11,788	n.av.	3,089	2,568	(99)
RESERVES' BOOK VALUE	279,692	321,091	235,750	343,337	348,590	343,337	348,590	348,590	348,590
RESERVES' MARKET VALUE	505,098	333,087	237,087	385,418	403,831	355,035	399,233	403,831	403,831
TOTAL ASSETS	387,140	350,867	270,790	387,783	404,310	394,632	406,915	407,412	410,218
NET WORKING CAPITAL (NWC)	359,990	335,221	256,289	370,532	383,543	372,655	384,436	386,378	388,189
NET WORKING CAP. REQUIREMENTS (NWCRC)	350,177	321,212	234,817	343,341	348,233	343,810	346,385	347,949	349,206
NET CASH POSITION (NCP)	9,813	14,009	21,473	27,191	35,310	28,845	38,050	38,429	38,983
FINANCIAL DEBT	360,019	360,013	359,676	359,539	359,583	359,539	359,583	359,595	359,605
NET FINANCIAL DEBT*	331,239	343,971	329,298	320,098	308,357	314,766	305,100	305,801	305,911
RESERVES' MARKET VALUE / FINANCIAL DEBT	1.40	0.93	0.66	1.07	1.12	0.99	1.11	1.12	1.12
RESERVES' MARKET VALUE / NET FINANCIAL DEBT	1.52	0.97	0.72	1.20	1.31	1.13	1.31	1.32	1.32
Contribution Margin (%)	57.7%	41.8%	35.7%	31.4%	34.3%	43.1%	20.8%	18.0%	15.7%
EBITDA Margin (%)	57.8%	41.2%	34.7%	28.2%	30.4%	38.2%	15.6%	12.2%	10.1%
Operating Return on Turnover (%)	57.8%	(27.5%)	(312.9%)	470.1%	50.2%	38.2%	14.3%	10.8%	8.0%
Operating Return on Assets (%)	32.8%	(6.2%)	(28.4%)	29.5%	3.2%	2.6%	0.8%	0.7%	0.5%
Gross Cost of Borrowed Funds (%)	33.5%	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Return on Turnover (%)	(5.4%)	(33.7%)	(344.9%)	441.7%	21.5%	26.0%	0.3%	(2.8%)	1.9%
Payout Ratio (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Coverage of Interest Costs by EBITDA (x)	1.0	20.7	11.6	80.3	206.3	-	-	80.8	37.0
Coverage of Net Interest Costs by EBITDA (x)	1.0	38.2	209.8	-	-	-	-	-	-
CASH FLOW Coverage of Net Interest Paid (x)	1.0	(11.0)	27.2	-	-	-	-	-	-
Financial Debt / EBITDA (x)	2.8	11.0	42.2	52.4	46.6	35.4	96.2	118.9	131.5
Net Financial Debt/ EBITDA (x)	2.6	10.5	38.7	46.7	39.9	31.0	81.6	101.1	111.8
Equity / Assets (%)	2.7%	(4.7%)	(34.4%)	5.6%	8.7%	6.2%	8.9%	9.4%	10.0%
NET GEARING (Net Debt to Equity) (x)	31.5	(21.0)	(3.5)	14.7	8.8	12.9	8.4	8.0	7.4
Financial Debt Struct. (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%
Interest-Rate Risk (%)**	100.0%	99.5%	99.8%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
Current Assets Ratio	2,269.5%	6,728.0%	7,162.6%	6,163.7%	4,118.9%	3,605.5%	3,542.4%	4,230.4%	4,235.8%
Acid Test Ratio	583.9%	379.4%	666.0%	545.0%	466.3%	375.8%	421.0%	504.0%	521.9%

Notes:

Figures rounded.

^e Accounts adjusted by ARC Ratings for analysis purposes.

¹ 2013 to 2017 annual accounts audited by Moore Stephens & Associados, S.R.O.C., S.A..

^s *Financial debt net from cash and deposits and also from investments in debt securities issued by the Portuguese Government.

**Assumed by oil operators, not ENSE.

Sources:

ENSE.

Since 2016, by the Law 7-A/2016, ENSE's profits on the activity of managing strategic reserves of oil products became exempt from corporate taxes.

Regarding the 2017 ENSE's operational expenses, it should be noted the favourable deviation, compared with the forecasted, in subcontracts expenses in the main activity (by EUR 2.7 million), mainly as a result of lower costs with CSO Tickets (in the context of fewer tickets contracted and lower unit costs) and absence of rotation of the of diesel stocks in the POL NATO infrastructures.

Interest costs, which are allocated to the activity of managing oil reserves (the financial debt was contracted to finance the acquisition of oil reserves), were not significant in 2017. In effect, in the context of negative 6-months Euribor, ENSE has not paid interest in 2017, as occurred for most of the year 2016. In these conditions, the Company continued to present positive financial result, mainly reflecting interest gains from the investments in debt securities issued by the Portuguese Government. Thus, the coverage of interest costs by EBITDA increased to 206.3 times in 2017, compared with 80.3 times in 2016.

Benefiting of a favourable context, in 2017, as in 2016, ENSE made an extraordinary increase in the provision fund in the amount of EUR 7.9 million (comparing with EUR 3.9 million forecasted and EUR 7.5 million made in 2016), 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 2017 ENSE's assets totalled EUR 404.3 million, which represents an increase of EUR 16.5 million, equivalent to 4.3%, comparing to the end of 2016. The Company's oil reserves, after the referred impairment reversal of EUR 5.3 million, were accounted for EUR 348.6 million, which was EUR 55.2 million below its market value at the closing of 2017. The total amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government increased by EUR 11.8 million, to EUR 40.8 million at the end of 2017, while the amount invested in medium and long-term debt securities issued by the Portuguese Government was maintained at EUR 10.5 million.

In the first quarter of 2018 ENSE's assets slightly increased to EUR 406.9 million, mainly reflecting the increase of total amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government to EUR 43.8 million.

ENSE made investments in fixed assets in the total amount of EUR 0.4 million in 2017 (the same level made in 2016), including namely several investments in IT systems. In the first quarter of 2018 the amount of investments carried out in fixed assets was not significant.

ENSE's equity was reinforced to EUR 35.1 million at the end of 2017 and to EUR 36.2 million at the end of March of 2018, from EUR 21.8 million at the end of 2016, mainly as a result of the positive net profit and the increase of the provision fund. The provision fund increased from EUR 29.1 million at the end of 2016 to EUR 37 million at the end of 2017 and to EUR 38.1 million at the end of March 2018 (corresponding to 10.1% of reserves' acquisition cost, compared with 7.8% at the end of 2016). At that date, the provision fund was totally covered (130.5%) by a portfolio of debt securities issued by the Portuguese Government (the medium and long-term debt securities covered 28% of the provision fund).

The equity / assets ratio of ENSE remains positive and increased to 8.7% at the end of 2017 (8.9% at the end of March 2018), from 5.6% at the end of 2016. In the context of net financial debt decrease and reinforcement of ENSE's equity, the net gearing improved to 8.8 times at the end of 2017 (8.4 times at the end of March 2018), from 14.7 times at the end of 2016.

At the end of March 2018, ENSE's borrowed funds continued to be almost entirely related with its financial debt (EUR 359.6 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 ENSE improved to 1.12 times at the end of 2017 (and stabilised at that level at the end of March 2018), from 1.07 times at the end of 2016. Considering the net financial debt, this coverage ratio improved to 1.31 times at the end of 2017 and at the end of March 2018, from 1.20 times at the end of 2016.

To provide additional insight and enable useful comparison, the coverage ratios of two of ENSE's European peers were also evaluated. The Spanish entity, Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), had a coverage ratio of 1.46 times at the end of 2017 (1.84 times considering the net financial debt), comparing with 0.93 times at the end of 2015. CORES is not rated by ARC, being rated A- / Positive / A-2 by S&P (the same level assigned to the sovereign), and A- / Stable / F1 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 1.45 times at the end of 2017 considering the financial debt and the net financial debt). 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 ENSE, and the significant amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government, ENSE'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 ENSE 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 ENSE. In addition, due to the negative values assumed by this index, ENSE has not paid interest costs since February 2016.

The prevailing legal framework requires the reserves held by ENSE to be protected by insurance. Oil products owned by ENSE 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), ENSE has also contracted with AIG an insurance to protect against the environmental risks facing these stocks. The insurance coverage of oil products owned by ENSE that are stored with Galp Energia is contracted by Galp Energia and the respective cost included in the storage costs paid by ENSE. ENSE also maintains insurance policies covering its exploration civil liability and environmental liability. The Company aims to strengthen the mentioned insurance coverage of these risks, namely related to the POL NATO infrastructures, having launched a new international public tender.

FORECASTS

ENSE prepared its 2019 forecasts based on its 2018 estimates (which already incorporate real data for the first half and an extrapolation until the end of the year).

ENSE's 2019 forecasts was prepared prior to the publication of the Decree-Law 69/2018, therefore considers the competencies attributed to the Company until the end of August 2018.

Regarding the main activity, ENSE assumed the maintenance of the 2017 value of inventories (EUR 348.6 million) at the end of 2018 and at the end of 2019. Thus, without including any impact from changes in the market value of oil reserves, considering no significant interest costs and an increase of EUR 4 million in the provision fund, ENSE

estimates a net profit of EUR 0.4 million in 2018 for its main activity. Globally, given that the activity of monitoring the petroleum products market still does not generate revenue, ENSE estimates a net profit of EUR -0.7 million in 2018.

According to ENSE's 2019 forecasts, without including any impact from changes in the market value of oil reserves and assuming interest costs of EUR 0.1 million (considering some recovery of 6-months Euribor) and an increase of EUR 2.3 million in the provision fund, the net profit from the main activity will be EUR 0.2 million (i.e. tended to be nil as provided by law). Globally, the company forecasts a net profit of EUR 0.5 million in 2019, assuming that the activity of monitoring the petroleum products market will continue to generate no revenue, the activity of biofuels remains generating positive result, as well as, the research, development and exploration of oil recourses activity. The latter activity was transferred, since 1st September 2018, to another entity within the framework of the reorganization of public entities with responsibilities in the energy sector in Portugal.

The assumptions made by the Company (in the base scenario) lead to improvements in the equity / assets ratio, to 10%, and in the net gearing ratio, to 7.4 times, at the end of 2019. The coverage of net financial debt by reserves (at market value, assuming stabilisation compared to the end of 2017) will stabilise in 1.32 times, given that ENSE forecasts cash and deposits and investments in debt securities issued by the Portuguese Government of EUR 53.7 million at the end of 2019 (close to the level already reached at the end of March 2018).

It should be noted that, following the reorganization of public entities with responsibilities in the energy sector in Portugal, ENSE, keeping its forecasts for the main activity, will amend its global 2019 forecasts. Its main activity is self-sustaining by law. Although it is still to be defined, ARC assumes that if the monitoring activity of all energy sector is not self-sustaining, ENSE will benefit from Portuguese Government financing, its sole shareholder and ultimately responsible for its liabilities.

Oil prices (Brent crude) have recovered since the low of 27.88 USD/bbl at the end of 20 January 2016, breached the 60 USD/bbl level in the last quarter of 2017 and has been fluctuating in the 70 and 80 USD/bbl band since April 2018. According to the World Bank report issued on April 2018, crude oil is expected to rise to an average price of 65 USD/bbl in 2018 and in 2019 (i.e. an increase of 23% compared with the 54.4 USD/bbl average in 2017 and nearly 64.6 USD/bbl average in the first quarter of 2018), in the context of robust demand and continued production restraint by Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers, notwithstanding increases in U.S. shale oil production. Upside risks to the forecasts include potential supply losses arising from geopolitical events, a deterioration in República Bolivariana de Venezuela, deeper cuts by OPEC and non-OPEC countries or an extension of the agreement to a longer-term horizon. Conversely, a weakening of the agreement, or further efficiency gains among U.S. shale producers could depress prices.

Also relevant for the valuation of ENSE's oil reserves is the EUR/USD exchange rate. The appreciation trend of the EUR against the USD since the beginning of 2017, wherein the first half 2018 average USD/EUR exchange rate stood at 1.21 USD/EUR (compared with 1.13 USD/EUR in full 2017 year and 1.11 USD/EUR in full 2016 year) has a significant negative impact in the EUR denominated value of ENSE's oil reserves. However, this appreciation trend reversed slightly since May 2018 to a band between 1.16 and 1.17 USD/EUR. In the 2019 forecasts, ENSE assumed 1.199 USD/EUR in 2018 and in 2019.

As referred above, ENSE plans to invest EUR 5.6 million in the POL NATO infrastructure over the 2018–2021 period (in an annual amount between one million and two million of Euros), to improve their operating conditions and ensuring compliance with the industry's most stringent safety, monitoring and operation standards. In addition, it should be highlighted the investment to be held in the IT area in an amount of EUR 1.6 million in the 2018-2020 period. These investments are planned to be financed by cash and deposits and short-term investments in debt securities issued by the Portuguese Government.

SENSITIVITY ANALYSIS

ENSE's credit quality is mainly dependent on the Portuguese Government's credit quality, given its sole ownership of ENSE and its ultimate responsibility for ENSE'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 ENSE 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.

ARC Ratings considered an alternative scenario in 2019, built on the base scenario, considering a possible 20% decrease in the market value of oil reserves (equivalent to EUR -80.8 million). Given that in the base scenario the book value of oil reserves is EUR 55.2 million below its market value (like at the end of 2017), the possible impact on the ENSE's equity would be EUR -25.5 million. Therefore, even in these unfavourable circumstances, everything else constant, the Company would continue to have positive equity and would present at the end of 2019 an equity / assets ratio of 4.1% (compared with 10% in the base scenario). In this scenario the coverages of financial debt and net financial debt by oil reserves would be, respectively, 0.90 times and 1.06 times (compared with 1.12 times and 1.32 times in the base scenario).

ISSUANCE CONDITIONALITY

The rating assigned applies specifically to the EUR 360.0 million bond loan issued by ENSE (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.

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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 – 1º B

1150-321 Lisbon

PORTUGAL

Phone: +351 213 041 110

Fax: +351 213 041 111

E-mail: arcratings@arcratings.com

Site: 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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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.

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