

ENTIDADE NACIONAL PARA O SETOR ENERGÉTICO, E. P. E.

ARC Ratings, S.A. (ARC Ratings) has affirmed the final public "BBB-" long-term issue rating assigned to the EUR 360.0 million bond issued by Entidade Nacional para o Setor Energético, E.P.E. (ENSE), on 6 August 2008, with Stable outlook.

| ISSUER | ISSUE | AMOUNT | RATING CLASS | RATING | OUTLOOK |
|---|-----------|-----------------|---------------------------|--------|---------|
| Entidade Nacional para o Setor Energético, E. P. E. | Bond Loan | EUR 360 Million | Corporate Long-Term Issue | BBB- | Stable |

| | |
|------------------|--|
| Rating Date | 9 September 2021 |
| Initial Rating | 2 June 2008 |
| Last Review | 9 September 2020 |
| Next Review Date | 9 September 2022 |
| Criteria Applied | ARC Ratings' Non-Financial Corporate Entities Rating Methodology |

This action reflects the implied support of the Portuguese sovereign and the coverage of the company's net financial debt provided by the market value of its oil reserves. ARC Ratings will monitor the determinants of the assigned rating and take action as needed.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 n° 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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ISSUER PROFILE

After the 70s oil crisis, major consuming countries agreed to assume an obligation to maintain an adequate level of oil reserves in order to mitigate the effects of potential future supply problems. The founding of ENSE, formerly designated ENMC - Entidade Nacional para o Mercado de Combustíveis, E.P.E. and before that, EGREP - Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, E.P.E., represented Portugal's assignment of the responsibility for maintaining all or part of their emergency oil reserves to a state entity. Therefore, ENSE, founded in 2004, is a State-owned entity with the following duties:

- To be the Portuguese central stockholding entity for the acquisition and maintenance of the strategic portion of national emergency reserves of oil and oil products (reserves) – this is its main activity.
- Supervision of all energy sectors.
- Management and monitoring of the storage activities for crude oil and its derivatives throughout the national territory, to guarantee the supply of crude oil and petroleum products, depending on consumption needs.

ENSE'S KEY RATING DRIVERS:

- Government ownership – ENSE's share capital is wholly owned by the Portuguese Government and the bonds being rated have a continual ownership clause regarding the maintenance of this sole ownership by the Portuguese Government. Consequently, its rating is indirectly linked to the ratings of the Portuguese Republic: BBB/Stable/A-2 by Standard & Poor's Financial Services LLC (S&P); Baa3/P-3/Positive by Moody's Investors Service, Inc. (Moody's); BBB/Stable/F2 by Fitch Ratings, Inc. (Fitch). However, there is no obligation of timely support, but the Portuguese Government, as established in the company's bylaws, is ultimately responsible for ENSE's liabilities ("in the case of dissolution of ENSE, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities").
- Favourable debt profile – ENSE's debt level remains unchanged, still comprising solely the bond that is rated in an amount of EUR 360.0 million, maturing in 2028. Above all, ENSE's expenses (including bond interest) have been, as structurally intended, totally covered by revenues, mainly originated from the Portuguese oil market operators. ENSE's cash and deposits and investments in Portuguese Government issued debt securities continued to increase to EUR 69.4 million in June 2021, reducing the company's net financial debt.
- 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), Prio Supply, S.A. (PRIO) 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 strategic role in the Portuguese oil market and of its operations leads to a very high concentration of its assets on oil and oil derivatives and renders its financial performance (in accounting terms, without cash flow impact) heavily exposed to oil price fluctuations. The drop in oil price in 2020 due to Covid-19 pandemic lead the coverage of gross financial debt by reserves to decrease to 0.82 times at the end of 2020 (from 1.21 times at the end of 2019). The coverage of net financial debt by reserves also declined to 1.0 times at the end of 2020 (from 1.45 times at the end of 2019). The recovery trend of the oil price in the first half of 2021 allowed a recovery of these coverage ratios to 1.23 times and 1.52 times respectively at the end of June 2021. After that date we saw some fluctuations, of smaller amplitude. In the long term the oil price maybe impacted by the slow energy transition trend towards energy sources with lower environmental impact.
- Concentration of customer base – The vast majority of ENSE’s revenues (88.4%) continue to be derived from five companies, with a slight increase in 2020 compared with 2019: Galp Energia (accounting for 26.7% of ENSE’s 2020 revenues), Repsol (21.2%), BP (20.9%), PRIO (10.3%) and CEPESA (9.3%). It should however be noted that ENSE maintains stable relationships with them and there is no risk of losing customers. ARC Ratings notes specifically that three of the aforementioned customers carry investment grade credit ratings (the other two are not rated).

KEY TIPPING POINTS

| <u>Positive Turning Points</u> | <u>Negative Turning Points</u> |
|--|---|
| <p>Triggers for a potential rating upgrade would come from:</p> <ul style="list-style-type: none"> - an upgrade of the Portuguese Sovereign rating; or - a significant long-standing increase of the coverage of the net financial debt by the market value of its oil reserves. | <p>Triggers that could prompt a rating downgrade would include:</p> <ul style="list-style-type: none"> - a downgrade of the Portuguese Sovereign rating; or - a significant long-standing decrease of the coverage of the net financial debt by the market value of its oil reserves. |

SHAREHOLDERS AND 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 its foundation, with the duty of being the Portuguese central stockholding entity in the acquisition and maintenance of the strategic portion of national emergency reserves of oil and petroleum products. The company is responsible for maintaining the required level of strategic reserves and a continuously updated record of emergency reserves containing the information necessary for its respective control.

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 acquisition and maintenance are an obligation of oil market operators, distributed according to each company's market share. The share of reserves to be held by ENSE (strategic reserves), in substitution of oil 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 to 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 oil market operators which are obliged to build-up emergency reserves.
- ENSE is obliged to create a provision fund (recorded in equity), funded in annual increments, aiming to achieve at least an amount corresponding to 25% of the oil reserves' acquisition cost. At the end of June 2021, the provision fund was equivalent to 14.1% of the oil reserves' acquisition cost, a percentage that has been increasing. The company intends to annually continue to reinforce this provision fund to reach at least 25% of the oil reserves' acquisition cost, with the cost being supported by the oil market operators.
- 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 acquisition cost of product, less the amount resulting from the proportional use of the provision fund, the State assumes the corresponding loss by making an extraordinary contribution to the fund.

On 6 August 2021 ARC Ratings conducted a tele-conference call with ENSE's senior management of as part of the analytical review process. In summary, the impact of the decrease of the oil products introduced for consumption in 2020 on reserves of crude oil and oil products, the storage of reserves, the doubtful accounts receivables, the investment carried out, the 2021 budget and the oil prices volatility were discussed.

CASH FLOW GENERATION CAPACITY

OIL PRODUCTS INTRODUCED FOR CONSUMPTION AND RESERVES OF CRUDE OIL AND OIL PRODUCTS

The Covid-19 pandemic, that led to several periods of lockdown of the Portuguese economy and to a significant economic contraction, had a very limited impact on ENSE's operational activity.

In 2020 the Portuguese Gross Domestic Product dropped by 7.6% due to the Covid-19 impact, since mid-March. As consequence of this severe decline in the economic activity and the restrictive effects of the lockdowns on the movements of people, the total volume of oil products introduced for consumption in Portugal decreased year-on-year by 20.9%, to 6.62 million tonnes (Mton), against a 1.4% increase in 2019. All categories of oil products recorded drops in demand, with the most significant drop in B category (diesel), with a decrease of -23.4%, followed by -16.0% in A category (gasoline) and -4.2% in C category (fuel oil and liquefied petroleum gas).

Since March 2021, as a result of the gradual withdrawal of the restrictive measures imposed to contain the spread of Covid-19, there has been a progressive resumption of the total volume of oil products introduced for consumption in Portugal. Even so, in the 1H2021 there was a modest 3.4% year-on-year decrease, to 3.04 Mton. In ENSE's view, subject to the maintenance of the current scenario of progressive deconfinement and the recovery of the economy, it is expected the continuation of the trajectory of recovery in the total volume of oil products introduced for consumption in Portugal.

The volume mix of oil products introduced for consumption in Portugal did not change materially in 2020 and in 1H2021. The B category accounted for 76.3% of the total in 2020 (78.8% in 2019) and 76.6% in 1H2021. The A category accounted for 13.5% (12.8% in 2019) and 13.4%, while the C category accounted for 10.2% (8.4% in 2019) and 9.9% respectively.

It should be noted that the drop in the total volume of oil products introduced for consumption in Portugal in 2020 only impacts the calculation of the required oil products emergency reserves level in the 2H2021 and in the 1H2022. However, the reduction of the emergency reserves of crude oil and oil products in these periods will not have impact on the physical reserves owned by ENSE. In fact, ENSE flexible model of reserves, combining a level of physical reserves owned by the company for the long term and CSO tickets (Compulsory Stockholding Obligation), short-term contracts that the company buys in the market (usually from European peers with excess of physical reserves), as required to achieve the necessary level of emergency reserves, was particularly beneficial in the context of decreased consumption (and therefore decreased need of reserves) due to the pandemic. The level of physical reserves covered a large part of the needs, and the company just had to adjust the level of CSO tickets. This avoided the need to sell CSO tickets (at very low prices, given the excess of reserves in the market) on the excess of physical reserves that many of its peers had to do (obtaining some revenues to partially cover costs with the excess of physical reserves) in the context of decrease of emergency reserves of crude oil and oil products due to the reduction of volume of oil products introduced for consumption.

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

| | FYE Dec 2015 | FYE Dec 2016 | FYE Dec 2017 | FYE Dec 2018 | FYE Dec 2019 | FYE Dec 2020 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| OWN RESERVES | 938,273 | 938,192 | 938,018 | 938,603 | 938,459 | 938,476 |
| CRUDE OIL | 538,082 | 538,082 | 538,082 | 538,082 | 538,082 | 538,082 |
| GASOLINE | 51,400 | 51,400 | 51,400 | 51,400 | 51,400 | 51,400 |
| DIESEL | 297,791 | 297,710 | 297,536 | 298,122 | 297,978 | 297,994 |
| FUEL OIL | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| LPG | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| UNDER CSO TICKETS (*) | 140,000 | 249,000 | 303,500 | 301,500 | 356,250 | 363,500 |
| CRUDE OIL | 110,000 | 149,000 | 153,500 | 246,500 | 320,000 | 363,500 |
| GASOLINE | 10,000 | 0 | 0 | 0 | 30,000 | 0 |
| DIESEL | 20,000 | 100,000 | 0 | 55,000 | 0 | 0 |
| FUEL OIL | 0 | 0 | 150,000 | 0 | 6,250 | 0 |
| LPG | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL ENSE'S RESERVES | 1,078,273 | 1,187,192 | 1,241,518 | 1,240,103 | 1,294,709 | 1,301,976 |
| CRUDE OIL | 648,082 | 687,082 | 691,582 | 784,582 | 858,082 | 901,582 |
| GASOLINE | 61,400 | 51,400 | 51,400 | 51,400 | 81,400 | 51,400 |
| DIESEL | 317,791 | 397,710 | 297,536 | 353,122 | 297,978 | 297,994 |
| FUEL OIL | 45,000 | 45,000 | 195,000 | 45,000 | 51,250 | 45,000 |
| LPG | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| TOTAL ENSE'S RESERVES IN DAYS OF CONSUMPTION | | | | | | |
| GASOLINE | 51 | 50 | 45 | 48 | 60 | 51 |
| DIESEL | 50 | 47 | 45 | 50 | 49 | 50 |
| OTHER | 75 | 43 | 112 | 54 | 60 | 59 |

Notes: (*) CSO Tickets = Compulsory Stockholding Obligation Tickets, which are international contracts for the maintenance at order of oil reserves owned by third parties.

Source: ENSE.

As a rule, the calculations of the required emergency reserves are only carried out at the end of the year, although their evolution is monitored by ENSE during the year. Therefore, the analysis of ENSE's own physical reserves in the table below is reported as at the end of 2020.

ENSE's own physical reserves stabilised at 0.94 Mton at the end of 2020, while its reserves contracted under CSO Tickets somewhat increased by 2.0% to 0.36 Mton. CSO Tickets are contracted according to market demand for ENSE to replace the oil market operators (namely small oil operators). In 2020, strategically, ENSE acquired in advance CSO Tickets for part of 2021 benefiting from the decrease in the CSO tickets market prices that arose from the reduction in consumption. ENSE continued to present substantial headroom between its own reserves and the legally required strategic reserves, with significant headroom in all categories, allowing ENSE to continue to replace part of the operators' own obligation.

The analysis of the composition of the reserves held by ENSE at the end of 2020 shows that: ENSE continues to own the majority of the reserves in physical products (72.1%), with the remainder being contracted under CSO Tickets; the totality of ENSE's own physical reserves were stored in Portugal, while the 27.9% of reserves contracted under CSO tickets were stored outside Portugal (in European countries); and finished products, without considering the CSO Tickets, accounted for 42.7% of the total stocks (as at the end of 2019), i.e. above one third required by law. The percentage of finished products does not represent a concern in ARC's view, given there is oil refining capacity installed in Portugal. In addition, according to ENSE most reserves owned directly by oil market operators are finished products.

The storage of ENSE's own reserves in Portugal continued to be carried out under agreements with Galp Energia (mostly stored near Galp Energia's oil refineries in Sines, in the South of Portugal, and in Matosinhos, near Porto in the North of Portugal), and with the Portuguese Government (for the POL NATO deposits near Lisbon,

which initially served to supply North Atlantic Treaty Organization operational assets). ENSE continues to study storage alternatives with the goal of further reducing the operational cost structure of storing reserves of crude oil and oil products. However, this cost reduction goal will always be subordinated to the company main priorities: the safety and quality of products and conditions of use in case of need.

The maintenance of the quality of oil reserves stored under the agreements with Galp Energia is ensured by this company, while the quality of diesel reserves stored in POL NATO deposits is monitored by an external entity, the Bureau Veritas – Oil & Petrochemicals Laboratory.

Storage costs, which are passed on to the oil market operators, are updated according to the inflation rate of the previous year. In addition, in 2020 a renewal of an agreement with Galp Energia was coupled with a major increase of storage costs. This increase reflects the rise in storage costs due to larger stocks of petroleum products, because of the fall in demand.

The annual utilisation fee paid for the POL NATO deposits can be reduced if the difference is spent by ENSE in the management and improvement of this infrastructure. Under this agreement ENSE has the obligation to make additional investments. The investment carried out in 2020 was EUR 0.1 million, a decrease compared with EUR 0.4 million carried out in 2019, due to constraints arising from Covid-19 and the approval of the ENSE's 2020 budget only at the end of September 2020. According to ENSE's 2021 budget the investment amount could reach EUR 0.9 million in 2021, EUR 1.1 million in 2022 and EUR 1.3 million in 2023. The realization of this investment plan will allow significant improvements in the conditions of those strategic facilities and aims to provide them with greater operational, maintenance and mobilization capacity where part of the strategic reserves are located. ENSE plans to finance these investments with its own funds (more than enough considering the strong liquidity position at the end of June 2021).

ENSE'S OPERATIONAL PERFORMANCE

ENSE's 2020 financial statements were audited by Vitor Almeida & Associados, SROC Lda without qualification. The interim accounts are unaudited.

ENSE's revenues increased year-on-year by 9.2% in 2020, to EUR 28.5 million, and by 11.6% in the 1H2021, to EUR 15.5 million. ENSE's revenues primarily comes from its main activity (holding and managing reserves of crude oil and oil products), which accounted for 98.9% of total revenues in 2020 and 96.1% in the 1H2021. ENSE's revenues from its main activity corresponds to the recovery of its expenses on this activity (operating and financing expenses) from oil market operators (see below for the respective ratings of these counterparties). The amounts to be received monthly are calculated every year based on the expenses forecasted by ENSE with the aim 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). The growth of its main revenue was primarily related to the increase of CSO Tickets sales to the main oil market operators, at their request. ENSE's other revenues come from its other duties, and it aims to cover its expenses with them. These revenues included the issuing of biofuel tickets of EUR 0.3 million in 2020, the same value of 2019, a mechanism to facilitate the control of the compliance with the obligation to incorporate biofuels in fuels.

ENSE's turnover continues to be mainly originated from the leading distributors of oil products in Portugal. In 2020 the five main customers accounted for 88.4% of its total turnover (compared with 87.6% in 2019). The breakdown of total turnover by its main customers did not change significantly compared to 2019:

- Galp Energia (26.7% in 2020; 26.1% in 2019), the market leader; Galp Energia is not rated; Galp Energia is also ENSE's main provider of oil reserves storage;
- Repsol (21.2%; 21.7%), which is not rated by ARC (BBB / Stable / A-2 by S&P; Baa2 / Stable / P-2 by Moody's; and BBB / Stable / F2 by Fitch);
- BP p.l.c. (20.9%; 20.2%), which is not rated by ARC (A- / Negative / A-2 by S&P; A2 / Stable by Moody's; and A / Stable / F-1 by Fitch);
- Prio Supply, S.A. (10.3%; 10.5%), a Portuguese company not rated; and
- CEPESA (9.3%; 9.1%), which is not rated by ARC (BBB- / Stable / A-3 by S&P; Baa3 / Stable by Moody's; BBB- / Stable by Fitch).

ENSE's operational expenses mainly comprise supplies and services and staff costs. In 2020, supplies and services rose by 4.5% against the 2019 figure, due to the increase of subcontractors' costs related to storage costs, as before mentioned. On the contrary, the subcontractors' costs related to the acquisition of CSO Tickets reduced by 12.9%, to EUR 4.6 million. Staff costs almost stabilised in EUR 1.6 million. The company's internal skills and resources allowed it to replace some external specialized services. In 1H2021 supplies and services costs decreased by 8.7% year-on-year, to EUR 9.4 million, thanks to the decrease of subcontractors' costs related to the acquisition of CSO Tickets, which partially offset the increase of storage costs. Staff costs rose by 58.2% in 1H2021, to EUR 1.2 million mainly as a result of increase of staff to perform the supervision duty.

It is worth mentioning the absence of rotation of diesel stocks in the POL NATO infrastructure, as occurred in 2019, because it was not necessary to ensure its quality due to the very good storage qualities of this infrastructure. This absence of rotation represented a cost saving of EUR 2.0 million against the forecast.

In 2020 the company recorded impairment costs of EUR 1.0 million to fully cover doubtful customers (small market operators), compared with EUR 0.9 million in 2019. In the 1H2020 and in the 1H2021 the company has not recorded any impairment costs. There were no impairments regarding its main customers.

The oil price volatility (an external factor) impacted ENSE's financial statements due to the book value of its reserves being recorded at the lower of its market value or the acquisition cost. Thus, based on the oil price at the end of 2020, which was lower than the one at the end of 2019, the company recorded an impairment loss of EUR 74.9 million. In opposite, in 2019 the company recorded a reversal of impairment recorded in previous years of EUR 45.3 million. Usually, ENSE only records an impairment loss or reversal of prior impairment losses in its inventories at the end of the year, which limits significantly the comparison between the annual and semi-annual accounts.

In 2020 ENSE increased the provision fund by EUR 5.6 million, more than 18% growth over the 2019 figure. In the 1H2021 the increase in the provision fund was EUR 1.2 million, compared with EUR 1.3 million in the 1H2020. Usually, over the year the provision fund increase is equivalent to 10% of the company's operational costs, including depreciation, and financial expenses net of financial income. At the end of the year the company makes an additional increase depending on the net profit of its main activity. As aforementioned, excluding the possible impairment (or reversal of impairment) on the book value of its reserves, the net profit tends to be close to zero. ARC Ratings considers the provision fund credit positive and the costs of the provision fund as non-current, not affecting EBITDA and EBIT.

ENSE - FINANCIALS AND RATIOS I/II (THOUSAND EUROS)

| | FYE Dec 2016 | FYE Dec 2017 | FYE Dec 2018 | FYE Dec 2019 | FYE Dec 2020 | 1H 2020 | 1H 2021 | 2021 (F) |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|---------|---------|----------|
| TURNOVER | 24,331 | 25,398 | 24,266 | 26,116 | 28,514 | 13,874 | 15,477 | 27,718 |
| EBITDA | 6,857 | 7,722 | 2,958 | 4,938 | 6,352 | 2,810 | 4,873 | 3,075 |
| EBIT | 114,371 | 12,744 | (23,684) | 48,971 | (69,894) | 2,622 | 4,682 | 2,446 |
| FINANCIAL RESULT | 625 | 659 | 647 | 654 | 276 | 293 | (18) | (37) |
| NON-CURRENT RESULTS | (7,518) | (7,931) | (20) | (4,745) | (5,639) | (1,295) | (1,177) | (2,353) |
| NET PROFIT | 107,477 | 5,460 | (23,386) | 44,862 | (75,272) | 1,620 | 3,487 | 55 |
| OPERATING CASH FLOW (OCF) | 9,825 | 11,912 | 3,219 | 5,439 | 6,287 | 4,274 | 4,256 | 3,167 |
| CASH FLOW | 9,417 | 12,086 | 3,372 | 5,945 | 6,968 | 4,769 | 4,251 | 3,315 |
| FREE CASH FLOW | 9,053 | 11,785 | 2,690 | 5,149 | 16,764 | 14,750 | 4,075 | 1,920 |
| Contribution Margin (%) | 31.4% | 34.3% | 18.5% | 24.6% | 27.8% | 25.5% | 39.0% | 17.7% |
| EBITDA Margin (%) | 28.2% | 30.4% | 12.2% | 18.9% | 22.3% | 20.3% | 31.5% | 11.1% |
| Operating Return on Turnover (%) | 470.1% | 50.2% | (97.6%) | 187.5% | (245.1%) | 18.9% | 30.3% | 8.8% |
| Net Return on Turnover (%) | 441.7% | 21.5% | (96.4%) | 171.8% | (264.0%) | 11.7% | 22.5% | 0.2% |
| Payout Ratio (%) | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Coverage of Interest Costs by EBITDA (x) | 80.3 | 206.3 | 79.0 | 131.9 | 169.7 | 150.1 | 260.3 | 82.2 |
| Coverage of Net Interest Costs by EBITDA (x) | - | - | - | - | - | - | - | - |

Notes: Figures rounded. Accounts adjusted by ARC Ratings for analysis purposes. 2016 - 2017 period annual accounts audited by Moore Stephens & Associados, S.R.O.C.. 2018 - 2020 annual accounts audited by Vitor Almeida & Associados, S.R.O.C., S.A..The interim accounts are unaudited.

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

n.av. = Not available ; F = Forecasts.

Source: ENSE.

INTEREST COSTS AND COVERAGE RATIO

In the context of negative 6-months Euribor (noting that this is not floored), 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 2020. ENSE has not had to pay interest in 2020, as occurred in 2019. In these conditions, the company continued to present a positive financial result until 2020, mainly reflecting interest gains from the investments in debt securities issued by the Portuguese Government. In the 1H2021 the interest gains were nil, due to the 0% interest rate, and therefore the financial result was very moderately negative. The coverage of interest and other associated bond costs (fees) by EBITDA remained extremely high, at 169.7 times in 2020 (compared with 131.9 times in 2019) and at 260.3 times in the 1H2021.

NET PROFIT

ENSE registered a loss of EUR 75.3 million in 2020 fundamentally due to the impairment losses on its reserves. The impact of the oil price volatility has been crucial for the level and volatility of the company's results, but the relevance of this volatility is clearly subdued by the strategic nature of its activity and the reason why it maintains oil products stockholdings for the long term. The 2020 loss follows a very positive 2019 year when the company recorded a net profit of EUR 44.9 million, mainly due to the reversal of previous impairment losses on its reserves. In the 1H2021 ENSE showed a net profit of EUR 3.5 million, more than doubled the 1H2019 figure, benefiting from the drop of CSO tickets prices, compared to the one considered in the ENSE forecasted expenses being recovered from operators.

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

ENSE - FINANCIALS AND RATIOS II/II (THOUSAND EUROS)

| | FYE Dec 2016 | FYE Dec 2017 | FYE Dec 2018 | FYE Dec 2019 | FYE Dec 2020 | 1H 2020 | 1H 2021 | 2021 (F) |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|---------|---------|----------|
| RESERVES' BOOK VALUE | 343,337 | 348,590 | 322,727 | 368,021 | 293,137 | 368,021 | 293,137 | 368,021 |
| RESERVES' MARKET VALUE | 385,418 | 403,831 | 327,926 | 435,007 | 293,310 | 283,392 | 441,974 | n.av. |
| TOTAL ASSETS | 387,783 | 404,310 | 381,729 | 430,955 | 362,651 | 435,969 | 368,044 | 438,514 |
| NET WORKING CAPITAL (NWC) | 370,532 | 383,543 | 364,383 | 413,806 | 354,803 | 427,336 | 359,564 | 430,301 |
| NET WORKING CAP. REQUIREMENTS (NWCR) | 343,341 | 348,233 | 323,294 | 366,966 | 292,199 | 365,980 | 293,333 | 368,814 |
| NET CASH POSITION (NCP) | 27,191 | 35,310 | 41,089 | 46,840 | 62,603 | 61,355 | 66,231 | 61,487 |
| FINANCIAL DEBT | 359,539 | 359,583 | 359,632 | 359,675 | 359,716 | 359,692 | 359,736 | 359,750 |
| NET FINANCIAL DEBT* | 320,098 | 308,357 | 305,716 | 300,608 | 294,343 | 296,336 | 290,287 | 296,286 |
| RESERVES' MARKET VALUE / FINANCIAL DEBT | 1.07 | 1.12 | 0.91 | 1.21 | 0.82 | 0.79 | 1.23 | n.av. |
| RESERVES' MARKET VALUE / NET FINANCIAL DEBT | 1.20 | 1.31 | 1.07 | 1.45 | 1.00 | 0.96 | 1.52 | n.av. |
| Operating Return on Assets (%) | 29.5% | 3.2% | (6.2%) | 11.4% | (19.3%) | 1.2% | 2.5% | 0.6% |
| Gross Cost of Borrowed Funds (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Financial Debt / EBITDA (x) | 52.4 | 46.6 | 121.6 | 72.8 | 56.6 | 64.0 | 36.9 | 117.0 |
| Net Financial Debt/ EBITDA (x) | 46.7 | 39.9 | 103.4 | 60.9 | 46.3 | 52.7 | 29.8 | 96.3 |
| CASH FLOW Coverage of Net Financial Debt (%) | 2.9% | 3.9% | 1.1% | 2.0% | 2.4% | 3.2% | 2.9% | 1.1% |
| Equity / Assets (%) | 5.6% | 8.7% | 4.3% | 15.3% | (1.0%) | 15.8% | 0.2% | 16.7% |
| Financial Debt Struc. (S.T. Fin. Debt as a % of Total f) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| LIQUIDITY RISK (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Interest-Rate Risk (%)** | 99.9% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Notes: Figures rounded. Accounts adjusted by ARC Ratings for analysis purposes. 2016 - 2017 period annual accounts audited by Moore Stephens & Associados, S.R.O.C.. 2018 - 2020 annual accounts audited by Vítor Almeida & Associados, S.R.O.C., S.A. The interim accounts are unaudited. *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. n.av. = Not available ; F = Forecasts.

Source: ENSE.

FINANCIAL POLICY

ASSETS AND LIABILITIES

At the end of June 2021 ENSE's assets totalled EUR 368.0 million, with current assets accounting for 99.7% of total assets (97.3% at December 2019).

The book value of its reserves, of EUR 293.1 million in June 2021, was its main asset. This value is the same as in December 2020, due to the company practice of only estimating the existence of any impairment or reversal of impairment at the end of the year, comparing the acquisition cost with the oil prices at the end of December. Thus, the value of EUR 293.1 million reflected the book value at the end of 2019 of EUR 368.0 million adjusted by the EUR -74.9 million of impairment in 2020. At the end of June 2021, the market value of the company's reserves was EUR 442.0 million, which means that under the same practice has it does for the end of the year the 2020 impairment would have been widely (c. 81%) reverted.

The total amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government was EUR 69.4 million in June 2021 and continued to be ENSE's second main asset. EUR 53.1 million of which was for the coverage of the provision fund managed by the company, while the remainder EUR 16.3 million is free to use, namely, to finance the company's investments. In the current context of low interest rates the company will maintain the short-term investments in debt securities issued by the Portuguese Government (without financial gain).

The outstanding amount of accounts receivable was EUR 1.5 million in June 2021. The doubtful customers of EUR 2.0 million, related to small oil market operators, were fully covered by impairments. ENSE has proposed some changes to better supervision the applications for new oil market operators to avoid the return to the market of previously doubtful operators.

The company's tangible assets of EUR 0.8 million in June 2021, mainly related to equipment, only accounting for 0.2% of its total assets.

Due to constraints arising from Covid-19 and the approval of the ENSE's 2020 budget only in September 2020, investments in fixed assets carried out by the company were only EUR 0.2 million in 2020 (EUR 0.1 million of which in the POL NATO infrastructure), a decrease compared with EUR 1.0 million in 2019. The persistence of constraints related to Covid-19 and the need for approval led to maintain a low value of investment carried out in the 1H2021 of EUR 0.1 million. The delay in carrying out investment does not create significant risks for the company's activity. For the 2H2021 it is expected EUR 0.9 million of investment in the POL NATO infrastructure, most related to pluriannual investments.

ENSE continued to show positive free cash flow allowing it to reinforce its cash and deposits and investments in debt securities issued by the Portuguese Government.

FINANCING AND COVERAGE OF DEBT BY RESERVES

ENSE's debt level remains unchanged, still comprising solely the bond that is rated in an amount of EUR 360 million, maturing in 2028. As abovementioned, this loan was contracted to finance the investment in oil reserves and thus the respective interest costs are recovered from oil market operators.

Thanks to the increase of cash and deposits and investments in debt securities issued by the Portuguese Government, ENSE's net financial debt has shown a decreasing trend, to EUR 290.3 million in June 2021 (a 3.4% decrease compared to December 2019).

The oil price volatility significantly impacted ENSE's reserves' market value and the coverage of debt and net debt by reserves. Therefore, according to information provided by the company, the coverage of its debt by reserves decreased to 0.82 times in December 2020, from 1.21 times at December 2019. The coverage of the company's net financial debt by reserves also declined to 1.0 times, comparing with 1.45 times at December 2019. With the recovery trend of the oil price these coverage ratios improved to 1.23 times and 1.52 times at June 2021, the highest since 2016.

To provide additional insight and enable useful comparison, the coverage ratios (financial debt by reserves) of two of ENSE's European peers, which have the same main strategic role and strong control from States, were also evaluated:

- The Spanish entity - Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) – which manages Spanish strategic oil reserves of petroleum products and assures oil and gas market had a coverage ratio of 1.35 times at the end of 2020 (1.38 times the net financial debt), a decrease compared with 2.03 times at the end of 2019 (2.06 times the net financial debt). CORES is not rated by ARC, being rated A/Negative/A-1 by S&P (the same level assigned to the sovereign), 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) – established on the initiative of oil French operators and under the aegis of public authorities with the purpose of building up and stockpiling strategic oil reserves had a coverage ratio of 1.01 times at the end of 2020 for both net and gross financial debt (a decrease compared with 1.5 times the net financial debt at the end of 2019). SAGESS is also not rated by ARC, being rated AA/Stable/A-1+ by S&P (the same level assigned to the sovereign).

CAPITAL STRUCTURE, LIQUIDITY, AND INTEREST RISK

The oil price volatility also has an accounting impact on ENSE's equity, through the full year net profit. The provision fund, also recorded in equity, was reinforced to EUR 53.1 million in June 2021, from EUR 46.3 million in December 2019. At the end of June 2021 ENSE's equity was EUR 0.9 million. The increase trend of oil prices in the 1H2021 was not recognized in the company's equity at the end of June 2021, because, as explained before the company only reflects the impact of the oil price changes on the value of its reserves at the end of each year.

The equity / assets ratio of ENSE was marginally negative at -1% at the end of 2020, worsening compared with 15.3% at the end of 2019, and slightly improved to 0.2% at the end of June 2021.

Considering the long-term maturity of the bond (due on 6 August 2028) and the significant value of cash and deposits and short-term investments, ENSE's liquidity risk is virtually nil. Furthermore, the bond bears interest indexed to 6-months Euribor, with no floor, which means that due to the negative values for EURIBOR, ENSE has not paid interest since February 2016. On top of that, as mentioned before, the interest costs of the bond are recovered from oil market operators and, thus, this risk is not assumed by ENSE.

INSURANCE

The prevailing legal framework requires the reserves held by ENSE to be protected by suitable insurance. Oil products owned by ENSE and stored in the POL NATO deposits are adequately covered by a multiple risks policy, including environmental risks. 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 entirety of its mentioned insurance policies was provided by Fidelidade - Companhia de Seguros, S.A., the major shareholder of which (with an 85% stake) is FOSUN International Limited ('BB'/Negative by S&P and Ba3/Stable by Moody's).

ARC Ratings is not aware of any significant contingent liability of the company at the end of June 2021.

FORECASTS

ENSE's 2022 budget is being prepared, however, it will not be available to be incorporated in the current review report. Therefore, for analysis purposes, ARC Ratings considers the 2021 forecast prepared in November 2020, based on 2019 real by DGO imposition, and approved by the Secretary of State for the Treasury.

Regarding its main activity, ENSE assumed an 8.1% turnover decrease in 2021, compared with the 2020 figure, related to the expected reduction of CSO Tickets to be sold to the oil market operators. This reduction comes from the need for a lower level of oil reserves due to the drop in volume of oil products introduced for consumption in 2020. The company forecasted the start of diesel stocks rotation stored in POL NATO infrastructure in 2021, with a EUR 1.0 million operational cost, however this will be postponed for 2022 because the quality of the diesel stored remains high and therefore no rotation is needed.

ENSE already acquired CSO tickets for the 3Q2021 and for the 4Q2021 replacing part of the operators' own obligation. For 2022 the company expects an increase in the acquisition of CSO tickets, because of the recovery in the oil products introduced for consumption YTD 2021.

The provision fund was expected to increase by EUR 2.4 million in 2021, to reach EUR 51.3 million at the end of 2021 (level already surpassed in June). For 2021, due to expected low interest rates, a negative, but not significant, financial result was forecasted, that will be passed on to the oil market operators. Globally, ENSE forecasted a small net profit in 2021 (having assumed the maintenance of the book value of its reserves, thus no impairment or reversal of impairment was considered). In the company's view, any possible negative deviation in the result from its other activities (beyond its main activity) should be covered by the oil market operators.

ENSE planned to invest EUR 1.4 million in 2021, followed by EUR 1.3 million in 2022 and EUR 1.6 million in 2023. Most of the investment is related to the POL NATO infrastructure (EUR 0.9 million in 2021, EUR 1.1 million in 2022 and EUR 1.3 million in 2023) to improve their operating conditions and ensure compliance with the industry's most stringent safety, monitoring and operational standards. These investments are planned to be financed by cash and deposits and short-term investments, which as aforementioned are more than enough for this purpose.

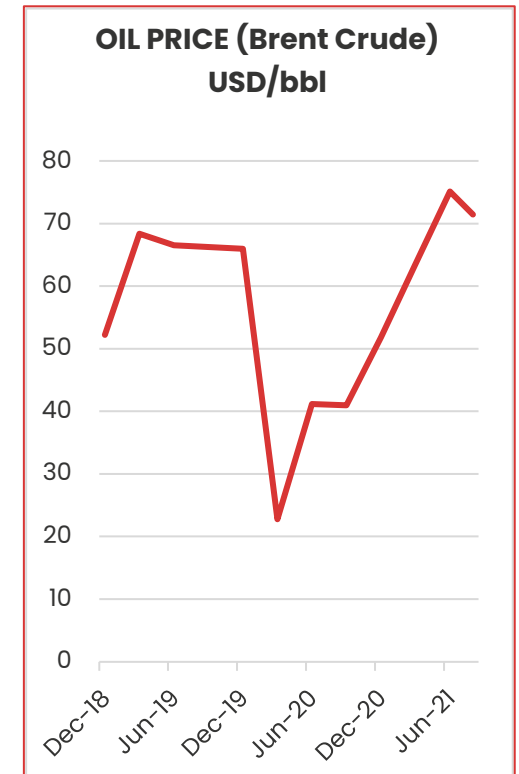
The company forecasted a net financial debt decrease in 2021, to EUR 296.3 million in 2021, through the increase of cash and deposits and short-term investments. It should be noted that, in the absence of significant investment in 2020 and in 1H2021, its net financial debt was already lower (at EUR 290.3 million in June 2021).

It should also be noted that the coverage of the company's net financial debt by the market value of its reserves will depend also on external factors, such as oil price volatility and the EUR/USD exchange rate.

According to the World Bank Commodities Price Data, the average oil price (Brent crude) showed a huge drop of 33.9% in 2020, to 42.3 USD/bbl, after a 10% reduction in 2019. This significant drop in 2020 was originated by the economic recession due to the Covid-19 pandemic impact. With the fast development of vaccines and their approval by the medical authorities that very significantly increased the prospects of controlling the pandemic, a recovery trend, with some volatility, was initiated in the 4Q 2020 and remained in YTD 2021 as per the above Chart. Per the Commodity Markets Outlook of the World Bank, dated April 2021, it is expected an average oil price of 56 USD/bbl in 2021 and a further recovery to 60 USD/bbl in 2022 (still below the 64.0 USD/bbl of 2019).

The EUR/USD exchange rate, with impact in the market value of ENSE’s oil reserves recorded in euros, increased from 1.12 on 31 December 2019 to 1.23 on 31 December 2020, followed by some decrease with fluctuations to 1.18 on 1 September 2021, per the European Central Bank.

The possible unfavourable evolution of the market value of reserves in euros would have a negative accounting impact on the company’s equity, and related ratios, but no impact on its cash flow, given that it does not trade in oil products. Although trading in oil products is not part of the company’s activities, oil reserves may need to be partially sold to respond to any strategical need or in the long term as a result of lower consumption of oil products due to the energy transition trend. Above all, 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, as well as the strategic goal the company has in the Portuguese oil market, a role assigned by the government. However, it should be noted that no formal guarantee is in place.



Source: Bloomberg.

ISSUANCE CONDITIONALITY

The rating assigned applies specifically to the EUR 360.0 million bond 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.
- Variable interest rate at EURIBOR 6 months + 0.075 percent p.a.
- The possibility of full but not partial early redemption at the issuer’s initiative, on 7 August 2023, or: “in the event the following circumstances occur cumulatively:
 - o 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;
 - o 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:
 - o 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);
 - o if any change in the 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 any residual responsibilities;
 - o non-performance of pari passu and/or negative pledge clauses;
 - o 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.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Non-Financial Corporate Entities Rating Methodology

Entidade Nacional para o Setor Energético, E. P. E Initial Rating Report (2 June 2008)

Entidade Nacional para o Setor Energético, E. P. E Previous Rating Report (9 Sep 2020)

PERIOD OF ANALYSIS AND INFORMATION ANALYSED

PERIOD OF ANALYSIS

Historic: 2016 to 1H 2021

Forecast: 2021

INFORMATION ANALYSED

Entidade Nacional para o Setor Energético, E.P.E. Annual Reports and Audited Accounts – 2016 to 2020

Entidade Nacional para o Setor Energético, E.P.E. 1H2020 and 1H2021 Interim Accounts

Entidade Nacional para o Setor Energético, E.P.E. Forecasts

Details on Entidade Nacional para o Setor Energético, E.P.E.'s Reserves

World Bank's Commodity Markets Outlook

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