ENMC

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

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. Despite the partial recovery and stabilization of oil prices and oil product prices and, thus, the recovery of the financial debt's coverage by the oil reserves (at market value), the rating outlook continues to be Negative reflecting the Negative outlook recently accorded to the rating of the Portuguese Republic that is the sole shareholder of ENMC and has ultimate indirect responsibility for ENMC's liabilities.

COMPANY PROFILE

ENMC, founded in 2001 and headquartered in Portugal, is 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- / Negative / A-3), however there is no implicit timely support, but the Portuguese Government is ultimately responsible for ENMC's liabilities, as is established in law ("in the case of dissolution of the ENMC, the State assumes any losses arising from the liquidation of assets, as well as the residual responsibilities").
- Financial stability and favourable debt profile – Despite losses incurred due to the impairment in inventories (due to adverse oil price fluctuations, in part already reversed), and the consequent negative equity, ENMC's expenses (including bond loan interests) have been totally covered by revenues, mainly from the oil market operators. In addition, the entity's debt levels remain largely unchanged, still comprising the bond loan that is rated (EUR 360 million, repayable in 2028), and also maintain a positive cash position.
- 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).

RATING DATE
15 September 2016

RATING VALIDITY
15 September 2017

INITIAL RATING
2 June 2008

LAST REVIEW
22 February 2016

NEXT REVIEW DATE
15 September 2017

PERIOD OF ANALYSIS
Historic: 2011 to 1Q 2016
Forecast: 2016

INFORMATION ANALYSED
ENMC Reports and Accounts
ENMC Interim Accounts
ENMC 2016 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

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THE KEY CONSTRAINTS ON ENMC'S CREDIT RATING ARE:

- Oil price volatility and the coverage of loan by reserves – The nature of ENMC's operations and concentration of its assets render its financial performance heavily exposed to oil price fluctuations. After a strong decrease from 1.4 times at the end of 2013 to 0.66 times at the end of 2015 and to 0.62 times at the end of January 2016, the coverage of financial debt by reserves recovered in the last months to 0.7 times at the end of March 2016 and to 0.89 times at the end of June 2016. Please note that ENMC also held a significant amount of cash and deposits and investments in debt securities issued by the Portuguese Government, thus the coverage of net financial debt by reserves was 0.77 times at the end of March 2016.
- Concentration of customer base – The majority of ENMC's revenue derives from just four companies: Galp Energia (represented 31% of ENMC's revenues in 2015), Repsol (26%), BP (16%) and CEPSA (14%).

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 by the end of 2013 and they were applied in steps 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.

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, 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 reserves' acquisition cost (at the end of March 2016 the provision fund corresponded to 5.9% of reserves' acquisition cost, compared with 3.7% at 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.

On 7 July 2015 ENMC's Statutory Auditor renounced (due to having achieved the maximum period of seven years for entities of public interest) and only in July 2016 the new Statutory Auditor (Moore Stephens & Associados, SROC, S.A.) was appointed by the Government. Thus, the auditor's report on the 2015 accounts was not issued yet. ENMC's 2014 accounts were audited by the previous Statutory Auditor, Caiano Pereira, António e José Reimão, SROC, and also by Moore Stephens & Associados, SROC, S.A., both auditor's reports were issued without qualifications.

ARC Ratings adjusted ENMC's accounts for the first quarter of 2016, recording an impairment reversal considering the market value of ENMC's reserves at 31 March 2016. ARC Ratings also adjusted ENMC's forecasts for the completed year of 2016, considering the impairment recorded at the end of 2015 (ENMC's 2016 budget was completed before the year-end) and recording an impairment reversal in 2016 considering the market value of ENMC's reserves at 30 June 2016. For all periods 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.

CASH FLOW GENERATING CAPACITY AND RECENT DEVELOPMENTS

In 2015, the total volume of oil products introduced for consumption in Portugal increased 2.6%, to 7.7 million tonnes (Mton), reverting the decline tendency (in 2014 it stabilized). Increases in the B (diesel) and C (fuel oil) categories compensated for decreases registered in A (gasoline) and D (liquefied petroleum gases – LPG) categories. Thus national's emergency reserves required (90 days) and ENMC' strategic reserves required (30 days) also increased 2.6%, in aggregate, to 1 904.5 thousand tonnes (tton) and 634.8 tton, respectively.

Despite the increase in the volume of oil products introduced for consumption in Portugal, ENMC reduced its reserves contracted under CSO Tickets (Compulsory Stockholding Obligation), from 396.4 tton at the end of 2014 to 140 tton at the end of 2015, while its own reserves decreased from 948.3 tton to 938.3 tton, respectively. Thus, ENMC still maintained at the end of 2015 a large headroom between its own reserves (938.3 tton) and the legally required strategic reserves (634.8 tton), with significant headroom in all categories, allowing ENMC to continue replacing in part 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 2015 shows that: ENMC owed 81.5% of the reserves (70.5% at the end of 2014), with the remainder being contracted under CSO Tickets; 7.4% of ENMC's reserves were stored outside Portugal (6.1% at the end of 2014) and held entirely under CSO Tickets; and finished products represented 39.9% of the total stocks (35.1% at the end of 2014).

All ENMC's own reserves are currently stored in Portugal, under agreements with Galp Energia (mostly stored near Galp Energia's oil refineries of 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 plans to study the possibility for future storage in caverns in Portugal.

On 2015 ENMC and the Portuguese Government made an amendment to the agreement for the use of the POL NATO deposits near Lisbon, reducing the annual fee to EUR 0.4 million from EUR 1.7 million, being the difference spent by ENMC in the management and improving investments of the infrastructure. On 1 July 2016 ENMC and the Portuguese Government made a new agreement for the use of the POL NATO deposits for

25 years, paying an annual fee of EUR 1.1 million (annually updated by the inflation rate of previous year). Although this annual fee can be reduced, with a low of EUR 0.4 million, being the remaining 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. Under the new agreement ENMC has also the obligation to made additional investments at the forecasted amount of EUR 15 million, being planned to be started in late 2016 and concluded in 2017. ENMC plans to finance these investments with its short-term financial investments (amounted to EUR 18.1 million at the end of March 2016).

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

	2011	2012	2013	2014	2015
OWN RESERVES	1,126,035	1,126,035	812,098	948,325	938,273
CRUDE OIL	817,297	817,297	503,818	548,081	538,082
GASOLINE	51,400	51,400	51,400	51,400	51,400
DIESEL	248,338	248,338	247,880	297,844	297,791
FUEL OIL	0	0	0	45,000	45,000
LPG	9,000	9,000	9,000	6,000	6,000
UNDER CSO TICKETS	0	0	313,479	396,401	140,000
CRUDE OIL	0	0	313,479	324,501	110,000
GASOLINE	0	0	0	0	10,000
DIESEL	0	0	0	31,900	20,000
FUEL OIL	0	0	0	40,000	0
LPG	0	0	0	0	0
TOTAL ENMC'S RESERVES	1,126,035	1,126,035	1,125,577	1,344,726	1,078,273
CRUDE OIL	817,297	817,297	817,297	872,582	648,082
GASOLINE	51,400	51,400	51,400	51,400	61,400
DIESEL	248,338	248,338	247,880	329,744	317,791
FUEL OIL	0	0	0	85,000	45,000
LPG	9,000	9,000	9,000	6,000	6,000
TOTAL ENMC'S RESERVES - FINISHED PRODUCTS EQUIVALENT	1,340,784	1,351,056	1,374,406	1,344,726	1,078,273
GASOLINE	277,702	261,356	246,842	176,733	151,883
DIESEL	907,776	942,567	996,523	987,799	808,510
FUEL OIL	111,152	107,883	78,891	113,150	75,744
LPG	44,154	39,250	52,150	67,045	42,136
TOTAL ENMC'S RESERVES IN DAYS OF CONSUMPTION					
GASOLINE	54	56	57	60	51
DIESEL	37	37	44	64	50
FUEL OIL	64	64	57	170	75
LPG	17	17	25	46	36

Souce:
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 from 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 its own revenues.

ENMC

Corporates Rating Report – Review

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ENMC - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2011	2012	2013	2014	2015	2015 Jan to Mar	2016 Jan to Mar	2016 (F)	2016 (F) B Scenario
TURNOVER	31,089	37,922	219,427	79,747	24,562	5,927	8,154	23,998	23,998
EBITDA	8,273	16,240	126,816	32,839	8,519	2,159	4,240	2,371	2,371
EBIT	8,256	16,234	126,812	(21,927)	(75,508)	2,152	18,532	87,944	23,870
FINANCIAL RESULT	(8,242)	(16,135)	(125,300)	(859)	(41)	(97)	120	(22)	(22)
NON-CURRENT RESULTS	205	(41)	(1,509)	(4,067)	(7,802)	(538)	(524)	(2,018)	(2,018)
NET PROFIT FOR THE PERIOD	158	27	(11,894)	(26,869)	(83,370)	1,517	18,128	85,885	21,811
OPERATING CASH FLOW (OCF)	10,470	13,495	127,852	7,208	9,425	2,761	4,039	4,455	4,455
RESERVES' BOOK VALUE	348,914	349,601	279,692	321,091	237,087	321,091	251,401	320,371	256,297
RESERVES' MARKET VALUE	710,964	725,834	505,098	333,087	237,087	-	251,401	320,371	256,297
TOTAL ASSETS	386,856	390,912	387,140	350,867	272,127	349,795	290,053	357,012	292,938
NET WORKING CAPITAL (NWC)	373,358	377,009	359,990	335,221	257,627	335,076	275,671	340,905	276,831
NET WORKING CAP. REQUIREMENTS (NWCR)	349,556	351,677	350,177	321,212	236,154	320,246	251,232	319,619	255,545
NET CASH POSITION (NCP)	23,802	25,331	9,813	14,009	21,473	14,830	24,439	21,286	21,286
FINANCIAL DEBT	362,945	366,567	360,019	360,013	359,676	359,572	359,504	359,568	359,568
NET FINANCIAL DEBT*	330,957	333,689	331,239	343,971	329,298	342,537	326,047	328,830	328,830
RESERVES' MARKET VALUE / FINANCIAL DEBT	1.96	1.98	1.40	0.93	0.66	-	0.70	0.89	0.71
RESERVES' MARKET VALUE / NET FINANCIAL DEBT	2.15	2.18	1.52	0.97	0.72	-	0.77	0.97	0.78
EBITDA MARGIN (%)	26.6%	42.8%	57.8%	41.2%	34.7%	36.4%	52.0%	9.9%	9.9%
OPERATING RETURN ON TURNOVER (%)	26.6%	42.8%	57.8%	(27.5%)	(307.4%)	36.3%	227.3%	366.5%	99.5%
OPERATING RETURN ON ASSETS (%)	2.1%	4.2%	32.8%	(6.2%)	(27.7%)	2.5%	25.6%	24.6%	8.1%
GROSS COST OF BORROWED FUNDS (%)	2.5%	4.6%	33.5%	0.4%	0.2%	0.3%	0.1%	0.2%	0.2%
NET RETURN ON TURNOVER (%)	0.5%	0.1%	(5.4%)	(33.7%)	(339.4%)	25.6%	222.3%	357.9%	90.9%
PAYOUT RATIO (%)	0	0	0	0	0	0	0	0	0
COVERAGE OF INTEREST COSTS BY EBITDA (x)	0.9	1.0	1.0	20.7	11.6	8.1	77.3	3.2	3.2
COVERAGE OF NET INTEREST COSTS BY EBITDA (x)	1.0	1.0	1.0	38.2	209.8	22.3	-	107.8	107.8
FINANCIAL DEBT / EBITDA (x)	43.9	22.6	2.8	11.0	42.2	41.6	21.2	151.7	151.7
NET FINANCIAL DEBT / EBITDA (x)	40.0	20.5	2.6	10.5	38.7	39.7	19.2	138.7	138.7
EQUITY / ASSETS (%)	5.4%	5.4%	2.7%	(4.7%)	(33.8%)	(4.1%)	(25.3%)	(2.2%)	(24.6%)
INDEBTEDNESS (%)	94.6%	94.6%	97.3%	104.7%	133.8%	104.1%	125.3%	102.2%	124.6%
INDEBTEDNESS STRUCT. (S.T. DEBT AS A % OF TOTAL DEBT)	0.8%	0.9%	4.4%	1.4%	1.0%	1.2%	1.1%	1.5%	1.5%
LIQUIDITY RISK (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
INTEREST-RATE RISK (%)**	0.0%	0.0%	100.0%	99.5%	99.8%	100.0%	100.0%	100.0%	100.0%
CURRENT ASSETS RATIO	12,481.8%	11,117.8%	2,269.5%	6,728.0%	7,199.4%	7,541.2%	7,309.4%	6,428.3%	5,238.9%
ACID TEST RATIO	910.6%	901.0%	583.9%	379.4%	666.0%	410.6%	734.7%	481.2%	481.2%

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2011 to 2014 annual accounts audited by Caiano Pereira, António e José Reimão, S.R.O.C.. 2015 accounts not audited yet.
****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:

- Galp Energia (in 2015 represented 31% of ENMC's revenues), the market leader; Galp Energia does not have ratings assigned; Galp Energia is also ENMC's main supplier of reserves' storage;
- Repsol (26%), which is not rated by ARC (BBB- / Negative / A-3 by Standard & Poor's Financial Services LLC (S&P); Baa2 / Negative by Moody's Investors Service, Inc. (Moody's); and BBB / Negative / F3 by Fitch Ratings, Inc. (Fitch));

- BP (16%), which is not rated by ARC (A- / Stable / A-2 by S&P; A2 / Positive by Moody's; and A / Stable by Fitch), and
- CEPSA (14%), which has not ratings assigned.

ENMC's financial performance in 2015 was heavily affected by the significant oil price decline (as occurred already in 2014), with the entity recording an impairment loss of EUR 84.0 million (EUR 54.3 million in 2014). In the first quarter of 2016 the impairment was partially reverted (adjustment made by ARC), at the amount of EUR 14.3 million (please note that prices continued to decrease until 20 January 2016, having recovered since then with fluctuations). At the end of June 2016 the impairment reversal would be EUR 83.3 million.

Thus, ENMC recorded a net loss of EUR 83.4 million in 2015 (compared with a net loss of EUR 26.9 million in 2014) and a net profit of EUR 18.1 million in the first quarter of 2016. Please note that in 2014 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.

Without considering the impairment costs and gains, ENMC recorded a net profit of EUR 0.6 million in 2015 (EUR 27.4 million in 2014, mostly from the referred gain obtained in the sale of reserves) and a net profit of EUR 3.8 million in the first quarter of 2016.

In 2015 ENMC registered significant operational expenses reductions in the management of oil reserves comparing to 2014 (EUR 8.7 million lower) and to forecasts (EUR 5.8 million lower), namely the reduction of costs with CSO Tickets (less tickets contracted and lower unit costs), the referred reduction in the fee payed for the storage in the POL NATO (in part annulated by the expenses in managing the infrastructure), not needed to made in 2015 the forecasted rotation of diesel stocks, and the reduction of storage prices contracted with Galp Energia. Interest costs, which are also allocated to the activity of managing oil reserves (the financial debt was contracted to finance the acquisition of oil reserves), also reduced in 2015 to EUR 0.7 million from EUR 1.6 million in 2014 due to the reduce tendency in the 6-months Euribor. In this context, ENMC made an extraordinary increase in the provision fund in the amount of EUR 7.8 million (comparing to EUR 2.2 million forecasted and with none made in 2014), also compensating from lower increases made in the last years.

The coverage of interest costs by EBITDA was 11.6 times in 2015 and the coverage of net interest costs by EBITDA was 209.8 times. Also interest gains in 2015 (mainly from the investments in debt securities issued by the Portuguese Government) almost covered the interest costs.

FINANCIAL POLICY

At the end of 2015 ENMC's assets totalled EUR 272.1 million, which represents a decrease of EUR 78.7 million, or 22.4%, comparing to the end of 2014, mainly reflecting the referred impairment on reserves. Other relevant developments in 2015 were the receipt of EUR 7.3 million from taxes devolution and the increase of EUR 14.3 million, to EUR 19.9 million, in the total amount of cash and deposits and short-term investments in debt securities issued by the Portuguese Government (in the first quarter of 2016 it increased to EUR 23.4 million). The amount invested in medium and long term debt securities issued by the Portuguese Government was maintained at EUR 10.5 million.

In 2015 ENMC also made investments in fixed assets in the total amount of EUR 0.3 million, compared with less than EUR 0.1 million in 2014, reflecting the new duties assigned to ENMC and that required several investments in IT systems, both hardware and software.

Reflecting the referred net loss registered in 2015, ENMC's equity decreased to EUR -91.9 million at the end of 2015 from EUR -16.3 million at the end of 2014 (reverted in a small part in the first quarter of 2016 to EUR -73.3million). The provision fund, included in equity, increased from EUR 13.8 million at the end of 2014 to EUR 21.6 million at the end of 2015 and to EUR 22.1 million at the end of March 2016 (corresponding to 5.9% of reserves' acquisition cost, compared with 3.7% at the end of 2014). At the end of March 2016 the provision fund was totally covered (127.6%) by investment assets in debt securities issued by the Portuguese Government (the medium and long term debt securities issued by the Portuguese Government covered 45.7% of the provision fund).

At the end of March 2016 ENMC's borrowed funds consisted almost entirely of 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 referred above, 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 decreased from 0.93 times at the end of 2014 to 0.66 times at the end of 2015 (and to 0.62 times at the end of January 2016) and recovered to 0.7 times at the end of March 2016 and to 0.89 times at the end of June 2016. The coverage of the net financial debt by reserves (at market value) decreased from 0.97 times at the end of 2014 to 0.72 times at the end of 2015 and recovered to 0.77 times at the end of March 2016.

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 0.93 times at the end of 2015 (1.11 times considering the net financial debt), comparing with 1.45 times at the end of 2014. CORES is not rated by ARC, being rated BBB+ / Stable / A-2 by S&P (the same level assigned to the sovereign) and BBB+ / Stable / 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 0.97 at the end of 2015 (equal considering net financial debt), comparing with 1.39 at the end of 2014. SAGESS is also not rated by ARC, being rated AA / Negative / 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 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.

The prevailing legal framework requires the reserves held by ENMC 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 now preparing a plan for evaluation and minimization of risks on oil reserves.

FORECASTS

Without including any impact from changes in the market value of oil reserves, ENMC forecasts for the completed year of 2016 a net profit lower than EUR 0.1 million, considering the recovery from oil market operators of the forecasted costs in the activity of managing oil reserves (EUR 22.2 million), including the interest costs with the bond loan (net from interest gains in financial investments) and an increase of EUR 2.0 million in the provision fund (corresponding to 10% of the remaining total forecasted costs in managing oil reserves), and also the equilibrium in the total remaining activities (total forecasted operating costs in these activities amounts to EUR 1.7 million).

Considering the impairment recorded at the end of 2015 and the market value of ENMC's reserves at 30 June 2016, ARC Ratings included an impairment reversal in 2016 of EUR 85.8 million, leading to a net profit in 2016 of EUR 85.9 million.

With ENMC's forecasts and the referred ARC Ratings assumptions, ENMC would record at the end of 2016 an equity / assets ratio of -2.2% (compared with -33.8% at the end of 2015 and -25.3% at the end of March 2016) and a coverage of net financial debt by reserves (at market value) of 0.97 times (compared with 0.72 times at the end of 2015 and 0.77 times at the end of March 2016).

Oil prices (Brent crude) have recovered since the low of 27.88 USD/bbl at the end of 20 January 2016, achieving 49.68 USD/bbl at the end of June, being fluctuating since then between 40 and 50 USD/bbl. Price recovery reflected the decrease in oversupply due to some production disruptions (mainly in Nigeria) and mostly due to production shutdown, mainly in the US, reflecting the low prices, while demand continues to grow at low levels. In a report issued on July 2016, the World Bank forecasts an average price of 43 USD/bbl in 2016 for Crude oil and an increase of 23.7% in 2017 (to 53.2 USD/bbl).

As referred above, ENMC plans to invest EUR 15 million in the POL NATO infrastructure, mostly in 2017. This investment is planned to be financed by cash and deposits (totalled EUR 5.3 million at the end of March 2016) and short-term investments in debt securities issued by the Portuguese Governments (totalled EUR 18.1 million at the end of March 2016). This will reduce the coverage of the provision fund by investment assets in debt securities issued by the Portuguese Government to lower than 100% (from 127.6% at the end of March 2016). The amount to be invested will be recovered from oil market operators in the long term at an annual basis through depreciation costs.

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 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 2016 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 June 2016).

In this alternative scenario ENMC would present at the end of 2016 an equity / assets ratio of -24.6% (compared with -2.2% in the base scenario) and coverages of financial debt and net financial debt by oil reserves of, respectively, 0.71 times and 0.78 times (0.89 times and 0.97 times in the base scenario), which represents a financial situation grossly in line with the end of March 2016.

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 this 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 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.

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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.

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

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.

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