



First Quarter 2012 Results

15 May 2012

Welcome

Massimo Vacca

Head of Investor Relations

Thank you very much. Good afternoon ladies and gentlemen. This evening we will like to welcome you for our first quarter 2012 conference call results. We trust that you have all received a copy of the analyst presentation that we will be discussing today. However if you still don't have a copy of it please download it from our website either directly on the homepage or in the section reserved for the investor relations.

Our agenda today will be as usual we will start with our General Manager, Mr Dario Scaffardi. He will start with the overview of the group results and then he will cover the highlights of the period. Subsequently the CFO, Mr Corrado Costanzo, will provide a detailed review of the results of each business segment and will discuss the group key financials. Then back to Mr Scaffardi for the market outlook and the group strategy. And finally we will be very glad to take your questions. Thank you very much. Dario.

Overview

Dario Scaffardi

General Manager, SARAS

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen. Thank you for joining us for our Q1 results. These three months of the year have been quite poor in terms of refining. The tension in crude oil prices and relative value of heavy light crudes have been heavily affected by the political tensions due to Iran but not only Iran we have other situations by which crude has been pressurised so we had record high prices here and this has been coupled with a poor economic scenario which has seen record high retail prices for oil products gasoline and diesel namely and in Europe we've seen a sharp decline in demand.

As a company we have largely anticipated this scenario for Q1 which we think will probably extend partially also into Q2 and we've concentrated in this period on our large maintenance programme. In particular we had in Q1 and partially overlapping into Q2, the maintenance of two important units, a reformer and a hydrocracker which together produce gasoline and diesel and are an important piece in the value chain of our refinery. We're pleased that the turnaround has gone quite well. We've had zero accidents which has been an important achievement and the time



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schedule between the period of maintenance on the reformer has been extended by almost one year from five to six which is quite an achievement.

We believe that the market in refining is going to be still challenging in the forthcoming months but we do see some signs of encouragement, mainly due to the fact that we are seeing a decline in demand of crude and an increase in production. These two effects together should achieve a softening in prices if we are not affected by political factors that can, of course, alter this situation. So with lower crude base and less spikes we believe that we will have a situation in which refinery margins should stabilise.

The other sectors have generated a stable EBITDA, mainly from Power and for the Marketing Sector. Furthermore we'd like to underline very important results, in a moment of record high crude oil prices and low margins we have been able to reduce significantly the net debt from €550m to about €470m. This is due to a variety of factors that Corrado will explain but I would like to underline that partially this result is also due to our self-improvement programme called Focus and throughout the company we have worked hard to lower our need for working capital with a direct effect on the results.

In terms of the markets we've seen a predictable decline in the crack spread for diesel and a rise in the gasoline one that has been an anomaly of the market because due to a very peculiar event in the American market which has seen a high demand of products on the US east coast, not met by local refining, which actually has been shut down. So a very peculiar situation as the US market has gotten us used to in the last year with the WTI Brent spread and so forth, so anomalies of the American market which extend into the rest of the world.

As an encouraging sign, at least for the medium term, is the fact that the market has moved sharply into backwardation so we are seeing much less oil products coming into the Mediterranean from both the US and the Far East and this is helping the spot demand in the Mediterranean.

As an effect also of the tensions we were mentioning about Iran, we've seen, particularly in February, with the differential of Urals which is the heavy-light spread indicator in the Mediterranean that went in February to zero but has moved around quite a bit due to the speculations that are present on the market.

The EMC benchmark in the quarter has been on the low side minus five, improving compared to the previous quarter but mainly due to this anomaly of the gasoline market which has spiked in February/March but which is of a temporary nature. Further penalising us in this period we've had conversion spread which has stood at around \$300 compared to almost \$350 in 2011. So this of course is penalising for a high conversion plant such as ours. If you look at the overall margin of the group though we have managed to maintain almost \$5 of overall refining and power margin in line with the previous quarters.

Corrado will now go into more detail on the various sectors.



Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Thank you Dario and hello to everybody. Well definitely Q1 was a difficult quarter for SARAS when we focus on the refining division. As Dario pointed out margins were disappointing and we went through a major maintenance cycle for a number of key units. As a result, as you can see, the upgrade vis-à-vis the EMC benchmark that we could achieve was rather low. EMC margin was at minus \$0.5 per barrel on average in the quarter and the average this time was a bit complex to assess because of this spike in the price of gasoline during the last month but what we could do was add in about \$1 which is clearly well below what we can do normally. I would not even compare Q1 of this year with Q1 of last year which was a bit of a different animal, totally different situation, no major maintenance, the markets moved in a totally different way, so I think it would be a waste of time to make this comparison and maybe a more meaningful comparison is with Q4 and as you can see in Q4 we could add over \$3 per barrel compared to \$1 during Q1 of this year. So this maintenance cycle clearly had an impact and also in terms of EBITDA we also incurred additional costs. On average, however, as you can see for the last few quarters minus 49 is we believe a negative which will be just limited to one quarter and has a clear link with the major maintenance cycle.

2. Production and Crude Oil Slate

We usually take a look at crude oil slates and product yields but I don't think this will be particularly productive in a quarter like Q1 this year because of this major maintenance. It is too obvious that our conversion abilities were somewhat diminished during the quarter. So also those matters don't make any particular sense and should clearly not be used for any other quarter.

3. Fixed and Variable Costs

And the same goes for fixed and variable costs. Fixed costs this year are going to be front ended, a lot of maintenance and we obviously account for maintenance whenever this is incurred and also variable costs were somewhat higher, bearing in mind that we changed some catalysts which also are completely accounted for during the quarter in which the change was performed. So even in this case we were having a number of negatives which we will not see in the next quarters and therefore also the guidance for the year remains unchanged.

4. Power Generation

Let's move on to Power Generation and clearly we're all familiar with the equalisation procedure which is required for IFRS recording purposes and therefore I will not spend much time commenting on IFRS data. What is certainly encouraging from our point of view is the Italian GAAP EBITDA which stood around €5m as a result of absolutely flawless operations and a certainly rewarding tariff. Some of you might remember that the CIP6/92 tariff has a look back formula which takes into consideration the last nine months of Brent crisis. It's a complicated formula but that's more or less the bottom line. So with the nine month time lag eventually any rise



in the price of crude oil does get embedded in the tariff. So we believe for the year 2012 Sarlux which doesn't have any major maintenance schedule should produce free cashflow between €180m and €200m which is more than sufficient to support the group's operations and investment plans.

5. Fixed and Variable Costs (IT GAAP)

Fixed and variable costs here are probably in line, if slightly better than usual. So as you can see when there's no major maintenance programme it is clear that these factors are under tight control.

II. Marketing

Marketing, clearly we're talking about much smaller numbers here. The markets were difficult. Consumption is going down about 10%, even possibly more in Italy and that is also reflected especially in Spain in the costs that we have been selling. However again in Spain we have been very selective and basically got rid of all the low margin sales. There's no point in increasing your working capital just to add hardly anything to your P & L. So we're continuing with this programme and we believe it is the right plan.

On top of that in terms of EBITDA the results are somewhat comparable to the same quarter of last year and bear in mind that this, to an extent, is also a seasonal business. So in spite of a very challenging environment in the marketing sector also we believe that we posted pretty good results and as I say also were able to contribute to the control of working capital.

III. Wind Power

Wind Power there's not much to say. Wind conditions were decent, nothing spectacular but finally our upgrade to 96 megawatts is starting to pay off. Again here about €6m EBITDA and that basically means about €25m per year of free cashflow again because there's no investment needed for that particular site. Then we might be able to finalise the permitting process for other comparable and we believe very exciting sites but that's a different story and we'll be more specific once we get there, we believe, by the end of the year.

IV. Financial Overview

1. Key Income Statement Figures

I think that we should spend a little time on the financials. When we look at the P & L the net financial expense, I mean just focusing on below EBITDA items, the net financial expense stood around €36m and about two thirds are derivatives in both oil and foreign exchange mostly realised but also with some unrealised.

Then on cashflow as you can see the cashflow from operations was extremely encouraging €60m working capital contributed €160m. Then as I said before about €50m came from operations so the two power divisions, the CIP6/92 Sarlux and the Wind segments are expected to contribute about €20m in terms of free cashflow overall during the year so about €50m per quarter and that's pretty much reflected in the numbers here.



2. Key Cashflow Figures & CAPEX

Working capital, big numbers. Every time there's big movement in the price of crude oil and in the price of products which move in terms of working capital management not in terms of margins, pretty much in sync. You can expect big changes in working capital so we had clearly a very sizeable rise in receivables, payables, but we did not have a sizeable increase in the value of inventories because, as Dario was saying we have laid exceptional emphasis on inventory control and also as part of our Focus continuous improvement programme we were able to optimise quantities so you might have expected an increase in the value of inventories which did not materialise because quantities were reduced.

On top of that we are now enjoying more favourable payment conditions from the tax authorities when it comes to VAT and that is in particular VAT payable on oil imports and that is going to be something structural and will, this quarter you see the big change but it's not going to be reversed and therefore also on that part there was a big improvement. More improvements could be made, as I said we're placing a lot of emphasis on receivables and payables and management although we do pay everybody in time but there's a lot of things that can be done and more can be done at inventory level, however, I have to say that it is still not particularly easy to predict working capital movements on a quarter to quarter basis because it's big numbers, because there's many factors, oil prices going up, going down, and other operational factors but as I said a lot of emphasis there and it shows. So debt is entirely under control.

Also CAPEX €36m but broadly in line, again this was front ended with our guidance of €100m to €120m for the year. And as I said this is totally consistent with a cashflow which the group is creating on a yearly basis even in today's extremely challenging market conditions for refining.

Now we're going to take a look at the foreseeable future with Dario.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. 2012 Maintenance Schedule

Thank you Corrado, which means the next 30 seconds, that's the foreseeable future. Our Maintenance schedule has already been shown to you in the last conference call and there are no major changes to this. One of the things I would like to underline is that the maintenance that we have performed on our hydrocrackers in this quarter as part of the investment programme which has been decided to be taken out on this unit and which will be completed in the first half of next year the result of which will be the capability of producing about 600,000 more tonnes of ultra low sulphur diesel instead of heating oil and also increase crude runs in the refinery and also, depending on the sort of crude slate that will become more convenient next year in the increase the amount of sour crude which can be used but this will depend very largely on the market conditions and the differentials that we will see and at the moment it's largely dependent more on political conditions than technical ones.



2. Strategy & Outlook

We are continuing full speed ahead with our project Focus. As Corrado showed we've extended this to our planning and supply trading departments. We have started to see immediate effects in terms of our working capital and in terms of the amount of inventory that we keep and crude selection process. We have also decided to ask our strategic planning people to reappraise investments because in this particularly challenging moment we believe that there is a lot of value to be added with energy efficiency programmes which need some investment and we will take a second look at the things that we already had planned and see those projects which have a very short pay back time and consider them to re-enact in the forthcoming future in order to be able to take full advantage of a position which we expect over time to improve.

We have received authorisation to go forward with two Wind projects, sort of surprisingly because they were stuck for quite a long time in the bureaucratic process and these have been freed up so we will start with these projects shortly, either by ourselves or with partners and that's something that needs to be decided. It's not going to be decided too soon because the full authorisation procedure will be completed towards the end of this year.

Our Gas project is more or less in line. We have the authorisation process, local government has asked for some further documentation so this will probably push forward the actual start up of the exploratory wells by four or six months. So we expect maybe to be able to start drilling towards the end of this year, hopefully.

Thank you we'll now be ready to answer any questions you might have.

Questions and Answers

Alex Topouzoglou, Exane BNP Paribas

Hi there thanks for taking my questions. First of all well congratulations for the working capital improvement but because it's largely thanks to the deferral of VAT payments you say that it won't reverse, so just to confirm that this 90 day deferral will be a permanent arrangement with the Customs authorities or maybe if you can say if there's going to be a timeframe for this, maybe the next couple of years or so on?

Secondly with the deadline for the early withdrawal from the CIP6/92 agreement approaching what is your latest plan for the power stations and what level of compensation have you, or would you expect for withdrawing from the agreement early? Thank you very much.

Corrado Costanzo

Well thank you for the questions. Certainly these are two hot topics. The VAT is a permanent agreement with the authorities and bearing in mind that any such agreement could in theory be reversed but once they have been granted in practice they tend to be stable for decades. We're not talking quarters we're talking decades. Also because it's been granted on the basis of negotiation and factual considerations.

CIP6/92 we're actively evaluating whether or not we should take advantage of this early withdrawal provision. We're obviously talking, as you might already now, about sizeable upfront payments on the part of whatever government agency GSE but that might not be very familiar to you so



hundreds of millions, somewhere between 300 or 400 if we exit in 2016 and six plus hundred if we exit in 2013, unfortunately subject to upfront taxation including the infamous 10.5% so called Robin Hood additional surcharge on income for energy companies. So however we still have a month and a half to go. The composite decision CIP6/92 has been working very well for us, Sarlux is also a fantastic plant, very well operated, so we'll take a long and hard look and we'll take a decision at the end.

Alex Topouzoglou

And just in terms of if you were to go ahead with it what would be your plan for that money? Would you just reinvest it into the refinery or would you be looking at a special dividend or something like that?

Corrado Costanzo

No I think it is early to comment on anything like that. First of all we need to decide whether or not we are interested in taking advantage of this provision.

Ioanna Exarchou, Citigroup

Thank you and good afternoon everyone. I have two questions please. Firstly on the two Wind projects that you're planning to develop in Sardinia, provided that the environmental assessment procedure goes ahead as planned when do you expect to see these assets in operation? And have the prospect for these projects changed in view of the impending regulatory changes entered for new Wind assets in Italy?

The second question is can you give some colour around the increase in the unit's variable cost in refining this quarter? Was the entirety of the increase attributed to maintenance work or were there external factors at play there? Thank you.

Dario Scaffardi

The increases in variable costs have mainly been due to the fact that we have changed catalysts both in the hydrocracker most importantly in the reformer unit and we have changed the type of catalyst so this has been very front ended in terms of variable costs. Our catalyst goes in the variable costs so this is basically a one-off situation and overall variable costs will even out during the year.

I think instead that the cost of the catalyst is in excess of €10m. I think that Corrado can give you a little bit more colour on the Wind projects and the status of these.

Corrado Costanzo

Thank you Dario. Well as you can see, just to add a little accounting flavour we are booking as costs the whole catalyst cost. It's not being capitalised. So clearly €10m in one quarter is a lot of money and enough to change the whole different ratios for variable costs.

The Wind projects, as Dario said before it's going to take a few more months for the two projects in Sardinia and also for another exciting project in Romania but we're finally seeing the light here. Then, you might be aware of the fact, that for new projects there's quite a bit of uncertainty about the tariff structure for new projects and our project clearly cannot go in operation before 2014. It takes about 18 months to build. So some time in 2014. And the new projects will be subject to the new regulations and we will see. It's hard to say how it's going to end up. However I want to point



out that the current project, Ulassai, is not affected by this uncertainty on new regulations and new tariffs for wind power projects. Ulassai will continue to enjoy the current regulations and therefore we expect it to continue to produce about 25, or even more than €25m free cashflow. I mean in a good year, good means with a lot of wind, it might even approach 30 according to our calculations.

Matt Lofting, Nomura

Hi afternoon. Two questions please, firstly following on the balance sheet obviously from the strong progress around working capital I wonder if you could talk a little bit around refinancing progress and options around the €190m loan that I think becomes due for refinancing in June.

Secondly for a near term outlook perspective in Q2 I just wonder if you can talk in a little bit more detail around how well positioned you are to capture improved light-heavy spreads and conversion spreads in Q2 to date versus Q1, given that although there is clearly more maintenance in Q2 similar to Q1 it looks like a lot of the work on the main upgrading units completed largely during Q1. Thanks.

Dario Scaffardi

Well in Q2 we still have maintenance which is being performed mainly on one of our topping trains and vacuum trains and Visbreaking unit. So increase in heavy-light spread will not be able to benefit entirely from this increase. I mean we expect the unit, not that we expect, but the units are now back up and running since that maintenance has been finished around 10th May so from now onwards we'll be able to fully capture and increase spread but the most important thing is to have up and running the deep conversion units which are the reformer and the hydrocracker. So an increase in the light/sour spread will be reflected well by our system going forward. I think Corrado can maybe give you a little bit of detail on the refinancing.

Corrado Costanzo

Well first of all I'd like to point out that this €190m facility expires at the end of June, on the 25th to be more precise. We are in active talks with our bankers. What we see are encouraging signs although we all know that we're going through very difficult times but this doesn't necessarily limit to refiners, I mean even banks are going through difficult times. However, as I said there's still a month and a half to go and the talks are encouraging. On the other hand I want to stress that we have sufficient lines of credit still available to bridge whatever might be needed to be bridged at any given point in time and we still have more room for optimising our working capital and finally we have a balanced structured cashflow coming from our power segment which totally covers whatever CAPEX programme we might be pursuing and from time to time also some, say, less than optimal results from the refining sector. So we are absolutely relaxed about the whole issue although we are actively working in order to renew this facility within time.

Matt Lofting

Okay thanks. Could you just remind us the total credit balance number at the end of the quarter? I think at the last update you had over €2bn, about 700 of which was committed. Thanks.

Corrado Costanzo

It's pretty much the same, a little bit higher perhaps but the order of magnitude is that one.



Dan Ekstein, UBS

Thanks. Matt just asked most of my questions actually but it's actually a follow up on your intentions perhaps to use the working capital facility as an alternative to the bullet loan. You said you're relaxed about that potential, are your working capital providers similarly relaxed about the potential to see that?

Could you just confirm with the details of your working capital facility? Is it secured against your assets in any way and what's the process of rolling that facility over on an ongoing or periodic basis as it may be?

Corrado Costanzo

Well thank you Dan. I think need to be more specific about working capital. We do not have any specific, let alone secure, working capital facility in place and we are not planning, for the time being, to set up one. When I made reference to possibly funding coming from working capital I was thinking about further optimisations in terms of working capital management. The number one rule when times are difficult in terms of credit availability in general as they are notoriously today, the number one rule is to optimise your own internal funding resources and that's exactly what we want to pursue to the max. Sorry for being possibly slightly confusing before.

Dan Ekstein

You're not talking about using short term credit lines?

Corrado Costanzo

Well we are yes, short term credit lines however are not structured formally as working capital type credit lines, they're more of a general corporate purpose credit lines, okay? So they're not specific and obviously they're not secured. So are we using those general purpose credit lines short term for funding our working capital? Yes. I mean from time to time absolutely, yes, but it's different from having a syndicated secure structure, cumbersome credit line full of covenants, waivers, you name it, very, very different. And also as you know we have followed a policy which maximises whenever possible one on one relationships with banks in order to be able to tell our story to each banker on a one to one basis and not having a committee making decisions behind closed doors and nobody knows who made what decision and I think that policy also is proving to be beneficial today.

Dan Ekstein

And what's the process of rolling those short term credit lines over?

Corrado Costanzo

The process for rolling over these credit lines? Well as I said we do that on an individual basis, each bank has its own deadlines and we discuss these short term general corporate purpose credit lines, their size, maturity and their margins separately on an individual basis with each bank and they don't have the same deadlines so it's an ongoing process. There's no major deadline to be met.

Dan Ekstein

How would the cost of borrowing compare?



Corrado Costanzo

The cost of borrowing to be honest with you has been going up and I believe, well in terms of margins it's been going up and you look at your screen today and the spread over bonds, of Italian treasuries is over 400 basis points so you might imagine what the cost of margin, cost of funding might be for Italian banks and we mostly rely on funding coming from Italian banks. On the other hand official interest rates, I mean Euribor and stuff are at absolute lows and therefore the combination isn't that bad. We're about, I think on the short term, we're paying a little over 4% or something like that, about 4%. As a result we're paying about 4%, something less maybe but this is a creeping increase in margins due to this massive situation on markets which is somewhat unavoidable. Clearly we're not the only casualty here.

Dan Ekstein

And how does that 4% compare to what's on offer to refinance the bullet loan at the moment, longer term financing?

Corrado Costanzo

You mean the margin on longer term?

Dan Ekstein

Yeah.

Corrado Costanzo

Well there's no firm margin yet but you might expect the margin to be somewhat higher, not necessarily that much more higher. We will see.

Thomas Adolff, Credit Suisse

Hi guys. Two quick questions, one on Wind. Once you go ahead with the project what sort of CAPEX are we talking about?

Then on refining, apart from self help is there anything else you're strategically considering or anything changed maybe from a year ago? We started to see some contrarian players buying cracking refineries on both sides of the Atlantic basin and in my humble opinion refining isn't going to get any better, if anything it will get worse over the next few years in Europe. So I really agree with your focus on working capital management but I guess with that you should really be considering third party processing contracts even if the margins aren't great because it simply reduces your inventory requirement. Is that high on the agenda?

Dario Scaffardi

Yes, to give a short answer. There's a sort of lack at this moment of people banging on the door wanting to process crude oil unfortunately. In the past there's been a lot of talk about financial institutions actually wanting to hedge refining margins by doing physical plays but this really hasn't developed. So yes, I mean third party processing has always been an important strategy for our group and potentially it still can be and could be. Of course it depends on the conditions. We believe and we have been proved right by actual results that we can do much better on our own unless we are able to secure conditions which are on average higher than the average market conditions. If we just get the average market conditions we are able, generally, to beat those average market conditions so it really doesn't make any sense to have third party processing.



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If crude oil players will change their attitude and decide to secure part of their crude through us then I think we can have some interesting development. Personally I'm reasonably optimistic in this respect because I see a world which is increasing crude oil production and a decline in demand so I think that crude oil producers sooner or later will compete for outlets and we have been used to a market which for the last ten years has been quite the opposite. There has been basically more demand than supply. If this scenario will revert and I'm reasonably confident that it will because a high rise in demand seems rather unlikely while production is going up because we are coming to fruition a huge series of investment by all the major oil companies, both the IOCs and the NOCs, that have invested immense capital over the last decade and we are starting to see the fruit of these investments in terms of crude oil production.

So I'm relatively optimistic on the fact that in a time span that I'm not able to define, anything between one to two years, we'll see more crude oil producers take a strong and hard look to refining as a hedge to their production. We are definitely going to be part of that game when that game is going to develop. If we are in a game today of handing out oil refining capacity for a very, very low return, no that is not something we are willing to do unless we have some clear advantage. Part of the clear advantage could be on the financial side. Of course we take that into account definitely but as Corrado was saying we are putting in place through our efficiency programmes we have reduced in a very, very important way, the amount of crude oil that we need to run efficiently the refinery and we have a target to further do so. We expect to be able to reduce roughly by 20% almost oil inventory between products and crude oil with a very significant impact on our working capital requirements. So that's part of the plan of self-financing.

Thomas Adolff

Okay just a quick one on where we stand on refining. I'm just curious what you are currently expect to see generally in terms of supply and demand in the Med Market how is the competition there right now? What are you seeing in the Med Market?

Dario Scaffardi

Well the Med Market has been hit first of all Italy had seen a decline on the retail side of almost 10% between diesel and gasoline. A large part of this is due to the fact that the whole world but Italy in particular due to an increase in taxes has been hit by record high prices at the retail level and this has produced a direct effect on the consumer. I don't know yet if this effect is permanent or if it will reverse. In the meantime prices have eased back a little bit and I expect during the year this to further pan out. If there is some recovery in the economy I would expect diesel demand to start picking up once again as a first indication. So the immediate is that there's a decline in demand but we expect this to rebound in the second part of the year hopefully.

On a more global market view, the structure of the market which has moved into a strong backwardation does not permit strong arbitrages either from the East or from the West. So we are seeing an increased demand of our production from the spot markets compared to what was happening before. There's also areas of very strong improvement in terms of demand which, let us not forget there's Turkey, Turkey is an increasingly important import market for diesel and also North Africa.

North Africa has some ups and downs because the Libyan situation is not really fully resolved, there are still contentions and we are seeing on the one hand their internal refineries are basically stopped so this is helping other producers but on the other hand there are a little bit less import due



to frictions and tensions and the situation not being fully secured. So I think we probably need to see the upcoming elections in Libya in June and the consensus, we have strong contacts with Libya and our company has always been in the forefront with Libya also because we always maintain a very clear position and we have not been tainted by any of the scandals that have hit other companies, our position is very clear in Libya. We're all waiting for something to happen during the summer in order to have a more balanced and clear situation there.

Lydia Rainforth, Barclays Capital

Thanks good afternoon gentlemen. I just wanted to come back to the strategy and outlook if I could. Firstly on the project Focus, I know this is relatively early days still but can you tell me what you've found has been better or what's been worse, if there is anything, from what your initial expectations are?

Secondly on this idea from the approach to refinery planning going from previously asset driven to commercially driven, are you able to give us an example of exactly what that's meant in practice and how you're dealing with the risk side associated with that?

And then finally I'm sorry I didn't quite catch on the MHC2 unit the important steps from the maintenance side, what was that and what do you still have left to do for that project? Thank you.

Dario Scaffardi

Okay Lydia, sorry the line was a bit disturbed and I didn't catch everything you said but I think I got the flavour of it at least. On the hydrocracker we announced last year that we would resume part of our development programme so we have revamped, we are in the process of revamping our main hydrocracking unit which will have the effect, once it is completed, to be able to run an increased quantity of crude and to de-sulphurise heating oil into ultra low sulphur diesel. Roughly if the situation remains more or less the same as today, let's say in the range of six - 650,000 tonnes which will be moved from heating oil, so 1,000 PPM gasoil to 10 PPM diesel. Furthermore we will be able to increase refinery runs. This is a project that was carried out during normal turnarounds of the hydrocracker to have the minimum impact on refinery runs so it will be completed in the first half of 2013 next year when we will have the usual maintenance for the hydrocracker probably will be slightly extended and all the tie-ins of the new reactors will be completed.

The other thing that you mentioned Lydia sorry? Oh project Focus yes sorry. On project Focus yes one of the first and very evident effects is on the working capital. We've had an important effect on the working capital by the way in which we choose crudes and the way in which we manage the inventory. So basically what has happened is that we take a more commercial approach to this, so taking into account a variety of factors.

Today one of the most important factors is actually foreign exchange and the working capital of course which was something that until a couple of years ago was basically neglected. So crude was purchased on a strictly technical basis. That crude is necessary or is considered the optimal for the refinery.

Now we have a much more stronger interaction between the commercial part and the financial part in which we have to make also a financial programme and not only a refinery programme. So these effects combined have generated an important result in the lower necessity of crude oil inventory or products inventory with a direct benefit on the working capital.



We have focused slightly less in this moment on trading opportunities because the market was not particularly favourable in this context. With the crisis on crude oils we have mainly concentrated on purchasing crude oils which were optimal in this difficult moment. The whole market has been completely distorted due to the sanctions on Iran which there is a little bit of light and which possibly these sanctions might be delayed by the European Union, we think this will have a very positive impact on lowering overall the crude oil market which I think would be beneficial not only to our refining sector but to the economy in general.

Domenico Ghilotti, Equita

Good afternoon. Two questions. The first, I didn't catch the impact of the VAT payment, more favourable payment terms on your net working capital.

The second question is on marketing I was surprised to see the higher volumes and also you said healthy margins in Italy so if you can elaborate a little bit more on the trend on marketing you saw in the first quarter?

Dario Scaffardi

Thank you Domenico. Well what has happened is that particularly over last year we have increased our marketing presence in Italy opening up new logistical bases in central and in southern Italy. There was a little bit of a start up period in 2011. In 2012 these logistic bases have become fully mature so our volumes which have been constantly on the increase in 2011 have stabilised in the first part of this year. So we have gained some market share against an overall market which has declined of course. So SARAS' presence is large on the wholesale market what in Italy is called "Extra Rete".

Margins are slightly worse in Italy than they were in 2011 but at the moment let's say marginally so. There hasn't been a huge change in margins but also in Q1 traditionally the retail margins tend to be pretty poor, particularly this quarter with all that has happened on the overall economy.

In Spain to the contrary we have concentrated on higher margin outlets at the expense of course on volumes. Our volumes in Spain have gone down by about 20 to 25% unfortunately, partially because we have concentrated on higher return outlets and partially because of the dramatic slowdown of the Spanish economy, I think Corrado can help. I hoped to have answered your question but I think Corrado can help you on the VAT.

Corrado Costanzo

Well yeah VAT there has been the improved VAT payment terms on oil imports show a difference of about €100m although you have to bear in mind that VAT is a percentage of an underlying amount which is linked of course to the price of crude oil. So as long as the price of crude oil stays around these levels that's the amount, otherwise it would be different. But under the current circumstances there was about €100m and that will not be reversed, it's a permanent payment terms.



First Quarter 2012 Results

Closing Comments

Massimo Vacca

Well in this case ladies and gentlemen thank you very much for your time this evening and we wish you a nice evening. Thank you. Goodbye.