Saras S.p.A.

"Full Year and Q4 2021 Results Conference Call"

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MODERATORS: DARIO SCAFFARDI, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER

FRANCO BALSAMO, CHIEF FINANCIAL OFFICER

ILARIA CANDOTTI, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Saras Full Year and Q4 2021 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Ilaria Candotti, Head of Investor Relations of Saras. Please go ahead, madam.

ILARIA CANDOTTI: Good afternoon, everybody, and thank you for joining us today for this conference call. As usual, I want to remind you that investor presentation and the press release are available on the IR section of our website. The agenda today will mainly cover the Q4 and full year 2021 results. I'm here with Dario Scaffardi, CEO and General Manager of Saras Group, and Mr. Franco Balsamo, our CFO.

We will start today with the highlights of the year, followed by the results of the two Saras business segments. Afterwards, we will look at the outlook. Due to the current outbreak and uncertainty on the oil and gas market which follow the current Ukrainian crisis and the consequent volatility of related commodity prices, we are not going to present today the Business Plan that we had prepared based on the prevailing market analysts assumptions. Nevertheless, Dario will describe the main impacts that we are observing on the reference markets and our current positioning in this context. At the end, there will be the usual Q&A session.

At this time, I would like to handover to Dario.

DARIO SCAFFARDI: Good afternoon, Ilaria. And good evening, good afternoon, everybody. Thank you for joining us. So I think that we have changed a little bit the way we are presenting, so we are going to first concentrate on the results, and then we will give a little bit more detail on the outlook and our future prospects toward the end of the presentation. So we'll talk about the market, in specific in the second part of the call.

If we look at the highlights of 2021, it's been an extremely challenging year, but also a year of change. It is a first year post-COVID. We had anticipated last year that we were accepting the scenario in the margin, particularly the refinery margin scenario to improve gradually over 2021, and this has happened. It has actually happened even more than what we were anticipating because we were all expecting a normalization of air travel, which did not occur for reasons that you are all very much aware of. This notwithstanding, the diesel crack improved significantly over 2021, moving from about $4 at the beginning of the year to over $10 towards the end of the year.

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This very positive aspect from the oil point of view has been counterbalanced by a large surge in power cost, and of course CO_2 cost. So, in absence of these last 2 effects, we would have a very, very positive second half of the year compared to what it has been, because it has been offset by these costs. Saras in the meantime, has focused on its Resiliency Plan, which involves the ESTI program to improve refinery efficiency and cost reduction.

The last year has also been extremely important in terms of what the power sector means for us and for the system. 2021 was the last year of our CIP6 system that was substituted by a new system basically, which has slowly matured over time. This system is the so-called essentiality. It means that the power that we produce is considered essential for the safe maintenance of the power grid in Sardinia and in terms of request from the grid operator, we are constantly at the maximum levels of production above what is considered our reference power output. 2021 has been the year of transition in this respect, because we had to adjust to this new system which basically is a system which fully covers all costs related to power production and gives a fixed remuneration on the investment.

Of course, what also happened in this year is that for the very first time in over 2 decades, the production of power through our IGCC plant has been more competitive than producing it through gas or other means. This has altered a little the dynamics of course because of the situation that's never anticipated, but if anything it proves how important it is particularly today to have diversity of supply and the diversification of sources, so if anything, it confirms our industrial structure.

During 2021, we also significantly increased our renewables power. We have acquired 45 million megawatts of wind and also we completed the authorization process to install 80 megawatts of PV power which will be completed hopefully within this year, in terms of construction. And we have made also advances of all the various energy transition projects.

If we look at the financial highlights, the reported EBITDA is almost €350 million above that of the full year of 2020, this due to inventory effects and other aspects that Franco will be able to explain in more detail, but also at the comparable level, there has been significant improvement compared to the full year of 2020 with a positive number compared to the negative one that we had last year. Net financial position also has improved compared to that of last year, notwithstanding the increase in the prices of oil products in general.

On the margin, this is an area in which of course there has been some significant changes. First, we'll talk about 2021, then we'll talk a little bit more about the current situation. 2021 showed an average integrated industrial and marketing margin of $4.5 per barrel. This includes a contribution from the marketing size of about $0.60 per barrel. In 2020, this number was $4.7 per barrel, so broadly in line

The value of the premium must also be considered on the basis of the runs of the period, which were 94.7 million barrels in 2021, compared to 83 in 2020. The reason of the higher premium of about $0.30 compared to the number that we gave as a guidance in the segment analysis industrial and marketing are attributable to the performance of the fourth quarter, in particular from the marketing channel, thanks to a very, very positive contribution from this sector both in Italy and in Spain, and to the higher sales which is attributable to the improvement in the whole scenario, which offset the appreciation in energy cost.

One thing though that should be noted about the EMC would be that today this EMC benchmark is no longer dependable and representative of the actual situation in the market. And remember that EMC is based on a pool of crude which is 50% Brent and 50% Urals. The Urals premium actually became a Urals discount which in recent times, went to $25, $28 discount, so clearly, based on this EMC benchmark it went up very significantly and it is simply not representative of actual market conditions.

Furthermore, EMC takes a standard value of power cost because it uses just a percentage of the fuel oil. CO_2 is not considered, so, all-in-all, we believe that today and by today, I mean exactly today, the EMC has not represented, so we suspended the publication. We are studying of course what other benchmark might be suitable for Saras, but we were debating whether we should continue presenting EMC benchmark and then presenting a whole bunch of indicators that could compensate but we thought that this would be too complicated and too confusing, so we just preferred to withhold for the moment. This does not mean that we might not reinstate something in the coming weeks or months, as hopefully the situation normalizes.

So, if we go into the various sectors, first of all, industrial and marketing, we processed in the fourth quarter of 2021 3.39 million tons of crude, which is 25.5 million barrels. This is higher than the same period in 2020, of course, 2020 was deeply affected by the COVID emergency. There was also increase in the processing of complementary charges, meaning feedstocks and other products. The comparable EBITDA in Q4 was €25.2 million with a margin of $5 per barrel. And the contribution of the marketing channel was $0.70 per barrel in this period, all this, of course has net of the impact of maintenance activity carried out during the period. This compares with a comparable EBITDA of minus €34.5 million during 2020, where also the contribution of the marketing channel was significantly lower about €0.30.

In Q4/21 the impact of the oil scenario margin generation was positive by almost €75 million. And this is confirmation of the fact that the oil part is looking decidedly more positive than the previous year. So the main drivers behind that are the strengthening of the diesel crack $11.1 per barrel versus $4.8 in Q4/20, and gasoline, which was the star of 2021which was $10 per barrel versus slightly more than $3 in Q4/20. This, of course, was offset by a strengthening of the absolute price of oil of Brent.

The operating performance in the same period was about €12 million higher than the previous year, including the impact on the return on the guaranteed capital through the mechanism of essentiality for approx. 16M€.

This change includes lower contribution from supply & trading, of approximately €18 million. This deviation is mainly due to the lower results achieved in trading in 2021 was less than in 2020; 2020 was a great year for trading due to the volatility of the market and the conditions for trading became a lot more challenging in 2021. Then we had significant impacts from production planning, which means the optimization of the mix of raw materials, the management of semi-finished products and so forth. And this gave a positive contribution of about €6 million, mainly in connection with the optimization of the product mix. The execution of production activities outperformed last year by approximately +EUR 7 million due to lower impacts related to maintenance shutdowns.

The variable costs of industrial nature, net of the components relating to the essentiality regime increased by almost €55 million in Q4 '21. This is due for about €34 million for the increase of the cost of electricity and €16 million to the increase in cost of CO2.

In Q4, the industrial fixed costs, thanks to container initiatives launched during the year recorded a reduction of almost €5 million compared to the same period of the previous year. It should also be noted that within the final costs probably €16 million is the amount subject to reimbursements relating to this essentiality regime.

The marketing sector in 2021, as previously mentioned, was extremely well.

If we look at the crude slate and the production in the following slide, we see an increase in overall runs in 2021, of course, to the fact that 2020, they were particularly low because of COVID. Then, there is also a change in the slate, of course, due to the fact that there was a very high demand for gasoline, the slate was geared towards the light sweet crudes in order to maximize gasoline production and minimize other products. So, this is the reason why we have an increase from 26% to 42% in the light, extra sweet. The other crudes remain marginally the same, I mean, this change is mainly due to the various families within, and you can see this in the results in almost a 3% increase in the yield of gasoline and a corresponding 2% decrease in the middle distillates.

We have trade-offs to maximize the production of VLSFO which is very low-sulphur fuel oil for bunker and ship consumption has increased by 2%. And this is part of the program on the crude slates, which tend to maximize production of gasoline and VLSFO. Electricity production has been slightly lower in 2021 compared to 2020, because of the breakdowns that we had in the beginning of the year and the turbines, due to the operators.

On the fixed and variable cost, I would skip this slide, which is full of numbers, and we will be able to answer your questions during the Q&A sector.

On Renewables, the results in Q4/21 have been significantly higher than those of the previous year mainly due to the power tariffs, which increased by more than 4 times and went from an average of in the last quarter from €0.05 to more than €0.23 per kilowatt. So, this is the main reason why also the production is higher. Thanks to the fact that we acquired the new wind farm in the second part of the year, and we already applied our maintenance protocols, with a significant increase in the availability of the plants and of the power produced. We also completed the activities of reblading on the existing wind farm, which does not change the nominal power, but increases the efficiency of the farm. So just to explain, given the same amount of wind we are able to produce more power by about 9%, roughly speaking, so extraordinary results from the renewables segment.

If we move on to the outlook and a market overview, the initial part was written before the Ukrainian crisis. So I think it's worthwhile to split a little bit the discussion in 2 parts. One pre-Ukrainian crisis and one post-Ukrainian crisis also all the uncertainties of the outcomes of what might happen.

So from an oil point of view, we saw a strong resilience in oil demand. The 2022 was expected to surpass €100 million barrels per day. I don't know if this is still actual with what is happening today. So but definitely there is a continuous growth and demand for oil prices, Brent prices were expected to be in the $80, $90 range, with a slight decline over time. This of course, again has been put in the center of discussions once again. Distillate crack spreads improved in 2021 pre-Ukrainian crisis compared and further improvement was expected when finally, the long anticipated return of air travel would kick-in in terms of contributing to the demand of distillates, this, again, the current situation, let's put this under discussion.

Electricity prices were expected to rebalance higher than pre-COVID levels, of course, but definitely to rebalance that to the Nord Stream 2 pipeline, this is no longer seems the case. So sort of things will need to be reconsidered and fought over again. We were expecting to return to improve cash flow from operation at pre-COVID levels in 2023, and we have been able to reduce debt in '23 and '24.

This was the plan confirmed also by the prevailing outlook if we look at this classical graph on distillates, and you will see that the current levels of gasoline are in the high range. Well, we're in the high range in the last part of the year, the beginning of this year maybe the picture is slightly different still extremely constructed. Diesel showed a constant improvement in all through year going from below the 5 year average to smack in the middle of the 5 year average. And today it's in the upper part of the 5 year average.

What are the effects of…due to the Ukrainian crisis? Well, the obvious effect is extreme volatility on commodity prices, we experienced an incredible speculation and volatility on the March and April ICE gasoil contracts, particularly around the expiry on the 10th of March, we saw an incredible backwardation of over $150 per ton between the March and April contracts due to the short covering and the rolling of positions.

What we should expect from the Ukrainian crisis at the moment? Well, first of all, the overall domino effect overall based on the fact that a lot of crude oil coming from Russia is not purchased by the traditional buyers. So we will have to see a rebalancing of the flows to our certain companies that are…or countries that have no problem in purchasing Russian crude, while the majority of Europe tends to be shy about this, at least for the time being although it is not…it has not been outflows in anyway. So we are going to expect a rebalancing. I don't think that there will be an outright ban in Russian crude, so this happened of course, the effect on the market will be extremely significant particularly if we don't see signs of the traditional oil production producers increasing.

In the short-term, there is definitely a shortage of high-sulphur crude in the Mediterranean due to the reluctance of many companies in purchasing Russian crude. So this is really an incredible in which the discount for Urals has gone to levels, which are absolutely unrealistic like minus 28, which has been quoted as some…during last week. At the same time there are certainly, a lot of positives for companies like Saras. I think that one of the first effects of this crisis will be that there will be less oil products coming out of Russia, Russia is a launched producer of diesel. And the majority of diesel that's imported into Europe actually does come from Russia.

We expect this flow to slow down, and this, of course, creates a window of opportunity for refiners, such as Saras. I think that this view [technical difficulty] geography of operators. At the same time, there are concerns on the independence of oil supply to Europe and to Italy in particular. And I think this indicates the fact that refineries do have a role in the energy transition until there is a full transition in place.

Saras is well placed, since it has no dependency on gas, there is no gas in Sardinia, so we use for internal power consumption. Basically, gas which comes from the petroleum process and low-sulphur fuel oils from the petroleum process. So we are not exposed to any increase in gas price. At the same time, the market has fully recognized the importance of our power production. And this is something extremely comforting.

What I just said is exemplified in the slides that follow. Urals, of course has done incredible things, so it's not worthwhile to comment on it. At the same time, the official selling price of the alternative crudes, while they should have diminished due to the fact that the cracks on fuel oil has gone down, have maintained high due to the fact that there was no Urals.I mean, these crudes have come to substitute Urals that is not purchased any longer by the operators.

The same sort of effect has been on [indiscernible], which has had a volatile trend, but has remained on the strong side. So strong demand for alternative crudes, some pressure on not only on the Russian crude, but also on crudes coming from the Black Sea, because there are worries that the supply might be disrupted.

And if we look at the distillate prices, we had an extraordinary run in the last weeks of the ULSD and unleaded cracks, strongly linked to these phenomena that I mentioned before on the futures contract. So we spiked to an incredible level of cracks that reached almost $50 and have since rebalanced, but still the cracks that we are seeing today on diesel are double the value that we're seeing before the Ukrainian crisis. So we are technically above the $20 mark, and this is an extremely constructive view.

While in the oil [ph] side in my opinion, is…presents a very constructive scenario for Saras. The reasons to be worried are the power cost, power cost is basically linked to the gas price. The surge in gas price created a surge in power price. Now, since we published these graphs, there's been a little bit of rebalancing, but still the power price in Italy is around €350 per megawatt after having reached more than 500, which is 7 times. Well, let's say the standard price…let's say standard price, I mean, prior to the beginning of the surge in the spring of last year for many, many years, the price hovered around the 50 year old level.

Similarly, the same thing has happened to CO2. So the surge in the power price also reflects the fact that the surge in CO2 price, which has leveled off since the market is expecting that there might be some easing of the ETS regulations. Therefore speculators who went long on ETS contracts, offloaded their positions creating this drop in price.

If we summarize in the outlook for Saras, we see that our strategic position and our flexibility continues to be a very strong asset. So the location is crucial we are in the center of the crossroads of oil demand, which is becoming even more essential if the flux from the important flux from the Black Sea is cut off or reduced or whatever might happen. I think it's reasonable to assume that even if a total cut off does not happen, and reduction certainly will happen.

Product demand is extremely healthy. We see this in our everyday activity in which the premiums for diesel and gasoline and other products is extremely strong and has risen significantly in the past weeks, or talking about in the period of 2024, our OPEX and CAPEX plan for the refinery not for renewables is aimed at improving efficiency and maintaining the assets we have. We have few improvement projects, which are concentrated on energy efficiency while Europe sector is well covered because our plans are absolutely in line with what the market requires at the moment.

In refinery improvement plans, we have launched this plan called ESTI, which mean which is an acronym for Energy Sustainability Transition Inclusion, and also in the Sardinian dialect is also mean also we are here is concentrated as a little bit of a bottom up plan in which within from inside of the company. So something growing internally, we are concentrating on optimizing industrial operations. So using the assets to the best possible way putting in place all those changes organizational and others to face the future and the future projects that will…that we need to cover. 2 main items are digitalization and atomization, which is absolutely necessary to be able to put in place the instrument to create a sustainable improvement plan and obviously, energy efficiency projects, which are ever the more on the top of the agenda.

In terms of hardware upgrade, there are possible projects that we might decide to follow, which is an increase in the production of petrochemicals. We could have the possibility to revamp our reformer in order to increase Benzene and Xylene production, which has been in high demand from the market and convert more refinery grade propylene, which is discounted in the market to the much more valuable polymer grade propylene which is used in petrochemicals to produce polypropylene and all the other base chemicals which are used in the industry. Other areas where we plan to make investments is in storage capacity, particularly in this crisis, we see how important it is to have adequate storage in order both to face disruptions in the market and also take advantage fully of any opportunities that there might be giving full flexibility to the supply chain.

In our journey through energy transition, we maintained our plan to have over 500 megawatts of renewable capacity installed by 2024. We are going to reach already 260,270 in 2022 and hopefully, there has been a lot of hype in the press from the government that wants streamline the process of granting provisions. So hopefully, the authorization process which is extremely long will be shortened hopefully, and we might even be able to anticipate some of the pipeline of projects that we have, but this remains to be seen.

We are waiting for the assignment of funds to go ahead with our green hydrogen production, which will use renewable electricity to produce hydrogen and oxygen, which will be used inside the plant. This is modular project, so it is done as an experiment that is positive that can scaled up. We continue our monitoring of the CCS developments in the markets. These are still in the study phase, but we want to be able to move quickly if and when the technological advances and the regulatory framework will enable these projects. Instead, we are concentrating also on increasing the co-processing of vegetable oils in our existing units. We could scale up. This is strongly dependent on the availability of suitable feedstock's, of course, and we keep on looking at waste-to-fuel which is a small niche but significant in terms also of the service that we can provide to the community in terms of taking care of issues regarding waste.

The renewables, I think we already more or less went through, so we have 170 megawatts installed, 80 are going to be installed this year and hopefully 140 are going to be authorized this year. And therefore, this is the reason why we are confident in being able to reach 500 megawatts which is sizable and looking forward, we see basically a similar quantity for the period beyond 2025. One of the key points of our company is a very, very strong integration with the local community who…and the fact that we manage internally full operational maintenance aspects.

On green hydrogen, I already mentioned we are ideally suited because we are the largest user of hydrogen in Italy. The use of hydrogen is a very complex gas to use, not only dangerous but it also means special skill. So we have the skills and the knowhow to manage this gas. On CCS, we are currently in partnership with Air Liquide to explore new avenue, which is extremely processing, which is the cryogenic treatment of CO2 that means liquefying it and then shipping it on vessels to areas which can absorb the CO2 like the North Sea basically in existing wells. There is also a [technical difficulty] area of using it as a CO2 hub. So the investment on this type of unit is something that still needs to be defined.

Biofuels, we are able with, let me say investments which are not so significant to reach almost 450 million ton…thousand tons a year of vegetable…vegetable oils being used, cooking oils or palm oil or [technical difficulty] so the challenge here is being able to find a dependable and economical partner to develop this type of activity because the access to the feedstock's is absolutely crucial and at the same time being able to secure outlets for these products. For instance, the production of sustainable aviation fuel in a location like Saras will be ideal because we can be able to mix it with fossil jet which is absolutely necessary. I think I am done and we are…will be pleased…I am sorry, if I went a little bit long, to answer any questions you might have.

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Joshua Stone with Barclays. Please go ahead.

JOSHUA STONE: Thanks. Dario Thanks Ilaria, for the presentation this afternoon. A couple of questions, please. First, let's take Russia head on. Are you buying Russian crude today? If not, what's your policy for buying Russian crudes if restrictions permit you to still take these barrels and if not, do you take a view to sort of self-sanction yourselves and not take those barrels regardless of the economics on that?

And then my second question on refining profitability, I appreciate it's been extremely volatile but maybe if you can give us some insight as how the refinery has been operating in the last several weeks. What is the utilization rate been like and how is the profitability then versus the previous quarter. Just some sort of indication have you been able to capture this very high spike in diesel cracks that we have seen.

And actually, just a final question is just on that given the move up in prices we have seen, I know it's relaxed a little bit now but…did you see any sign of any demand destruction when prices were down but they weren't? Thank you.

DARIO SCAFFARDI: Lots of questions, Joshua. First of all, we have never been buyers of Russian crude. We have said this many, many times just because Russian crude was never particularly competitive grade. So, we always had a very limited exposure to Russia. Of course, I cannot deny that the discounts that we see on Russian crude make a very compelling reason to maybe buy it but at least for the time being, we have decided together with our Board to remain on the sidelines and see how the market develops in this respect. We are by the way fully covered in terms of crude requirements for the forthcoming months. So it's not a question of immediate concern. But as a company, we have decided at least for the time being to take a pause and see how things develop and also the indications that we receive from the authorities to which we will comply to as a matter of fact, of course.

In terms of refining profitability, yes, of course, we have taken advantage of the cracks. The runs in this first part of year have not been huge because our maintenance was concentrated between February and March, now almost all of plants are back on stream of course. The diesel perspectives remain extremely favorable. We are seeing a huge demand on diesel with premiums that on the spot market have spiked incredibly.

On your question regarding demand discretion, have we seen it yet? No, because I think it's a little bit too early. Is it possible? Could be, it could be that local demand in Europe might decline slightly because of the high price of the pump. So, this…is this possible? It is possible. Historically, it has not happened very much in, at least in the last years, but it's something that needs to be monitored.

On the market, we have not seen it yet. It could come, generally, these effects take weeks to settle in, as the same way of crude. If Russian crude will remain in the Black Sea, we'll start seeing the effects in the months to come but it's not immediate, of course.

On the immediate, you have the opportunity, the crude that goes unsold or the crude that has not been lifted by the operator, because they've decided to do so. So, all of a sudden you have an opportunity on the market. But we believe that much stronger will be the impact in the medium-to-long term on Russian oil products, which are much more significant than these for us in our part of the world. Russia has consistently reduced supplies of crude and diesel from the Black Sea concentrating them more on the North Sea where there is a stronger market. So, this effect which is sucking in barrels into the north from the Mediterranean is going to have a long term positive effect on our business, I believe.

JOSHUA STONE: Thank you

DARIO SCAFFARDI: Thank you.

OPERATOR: The next question is from Niccolò Storer with Kepler. Please go ahead.

NICCOLÒ STORER: Good afternoon, everybody. I have a few questions. The first one is on electricity prices. Is there any way, you can benefit from the price both on the power generation side maybe pushing production a bit higher also considering the needs that we have for funding electricity from different sources and gas and then on the wind side.

The second one is on what you see in terms of import from overseas, the U.S., in terms of products, whether this condition of high electricity prices is kind of impairing your capability of being competitive on the market, the advantage of U.S. imports?

And the second…and the third question last one is on the expected inventory effect that we can expect for 2022 assuming oil prices remain at this level. So, a little bit above $100 per barrel, which is the inventory effect we should expect in terms of benefits to your net financial position. Thank you.

DARIO SCAFFARDI: Thank you, Niccolò. Well, on electricity, the way our system works is that we have a grid system with the authority which is based on a history of decades in which the electricity that we produce is sold on the basis of a formula, which for more than 20 years has been in our favor in the sense that our favor means that our cost of production has always been higher than the cost of production which was calculated based on gas. Now, we had a reversal of this trend in the last quarter. So, for the first time ever, our cost of production is lower than the cost of producing through gas. So, basically, with our mechanism we will reimburse the authority in the next year. Because basically, the system we have is actually a hedge. It gives a fixed return on the investment.

Of course, in this moment, one might be tempted to try to change the mechanism. We have a long history and we believe that you know, since our plan is going to be absolutely necessary in the next decade, we are taking a long term view. So, we believe that our prices will going to rebalance one way or the other. And it's difficult to imagine, although the market in the world does extraordinary things so never say never, that the process per se can be competitive. But I think it is a lesson for the authorities and for the system to show that diversifying supplies and not looking at short term effects is actually positive, because at this moment, as a country as a system, Italy is benefiting from this and the Italian consumers benefiting from this effect.

So, we are giving back some of the things that we have acquired in previous terms. But having said that this mechanism has changed only and has become slightly negative for us, negative meaning that of course, is slightly more positive in the very last part of 2021 and we are expecting the full rebalancing in 2022 prior to this crisis. Now, of course, if gas supplies from Russia are cut off and the price of gas goes through the roof, that change, I mean, that changes everything, of course.

On the inventory, I would leave Franco. I know you were talking about the U.S., but I would like a clarification on that.

FRANCO BALSAMO: Okay. As focused on your question on the inventory, of course, when there is an upside in term of Brent a lot of variables need to be taken into consideration. First of all, the increase in Brent prices is negative for the profitability, because the cost of consumptions is about lower €20 million in yearly Ebitda every $5up the Brent.

On the other side, the increase in Brent price is positive …in term of improvement in working capital. We will see the total effect at the end of 2022. In this quarter, we had the increase in term of Brent. But we had the increase of electricity prices and this has a negative effect on the P&L due to higher cost. So, the combination of those effects is very difficult to be calculated in advance, but I do not expect a great improvement in term of debt reduction compared to the end of 2021.

NICCOLÒ STORER: Okay. Thank you. Maybe can we come back…Should we expect to see electricity sold at market prices or you have also on that a capped price?

FRANCO BALSAMO: In the case this electricity, as you know is regulated by the essentiality contract. So, we sell electricity directly to the market and we take benefit from this, and we have at the same times higher production cost. In any case there is a sort of settlement with Terna when the selling price is higher than cost of production. So the combination of those effects, as I said before, is slightly positive, but I do not expect a big changement in our net financial position in the first quarter of this year.

NICCOLÒ STORER: Thank you.

OPERATOR: The next question is from Massimo Bonisoli with Equita. Please go ahead.

MASSIMO BONISOLI: Good afternoon. Thank you for the presentation, a few questions also from my side. One on crude differential, what you are seeing on the market right now, do you believe the shift away from Russian crude may lead to tighter differential for other crudes especially for the heavier crudes maybe. Another question on the level of inventories, you were talking before about huge demand for diesel and I am curious to hear from you what's your level of inventories for middle distillates right now, if they are normal or maybe lower than average.

And the third question on the CAPEX, if you give us just an update on the renewal projects following the increase in equipment and material cost, if you expect to have some changes in the CAPEX for renewal projects? Thank you.

DARIO SCAFFARDI: Well, on crude differentials, yes, I expected this effect. The fact that on sour crudes you have Iran off, and Russia in a sort of a limbo, of course creates more demand for alternative grades like Iraq and so forth and I expect their premium to increase definitely. Although the effect up to now has not been dramatic, but it will take a little bit of time for the various effects to settle in.

And in terms of CAPEX, do we expect increase of the prices? well, yes, At the moment we have the PV farm which needs to be built during the year, solar panels are increasing although the amount of steel is not huge in the solar farm. So, if we have to build wind farms yes, I would imagine just on the basis, but the increase in cost of the construction steel, the cost would be higher. I am not sure, whether there is an inflation in wind turbines. Actually a little bit of the opposite has happened because since the prices for wind farms has been capped in 2022, there has been a drop in demand for turbines, but I expect this cap to be temporary, honestly. I don't think, it's something that is going to last forever, but I don't know.

On inventory, we tried to maintain a balanced inventory based on the needs, the production needs and our customer needs. So, we don't play with the inventory, whatever increase or decreases are generally due to operational reasons, financing reasons or others. I mean, we consider large movements of a couple of hundred thousand tons, which seem large in absolute value, in reality are rather small, because all you need is a vessel of crude which is 130,000 tons, which delays or anticipate for inventory changes by that same amount. And there has been no request by the way by the authorities to change compulsory stocks or release compulsory stocks or other actions and needs for the time being.

MASSIMO BONISOLI: Very clear. Thank you.

OPERATOR: The next question is from James Winchester from Bank of America. Please go ahead.

JAMES WINCHESTER: Thank you, good afternoon, everyone. So, 2 from me, please. The first one is, just to kind of get an idea directionally how to kind of think about your industrial and refining EBITDA? If you kind of take the futures curve for '22, you know, you kind of got distillate cracks around $25 a barrel, PUN price of €250 per megawatt hour and then carbon and Brent. If you kind of annualize the full 4Q '21, EBITDA you get around 100 million of EBITDA for '22, you know, if…would that be a fair kind of assumption or are you thinking much higher, a little bit lower, just to kind of get an idea directionally how you are thinking about it?

And then, the second one, the €150 million of CAPEX guide for 2024, could we consider that to be kind of maintenance CAPEX? Or is there a little bit of growth in that, with the wind farms or renewables? Thank you.

DARIO SCAFFARDI: On CAPEX, 150€M in 2024 is the oil CAPEX. In 2022 €120 million are the capex on oil, and €30 million are capex in renewables. Now on the EBITA, Franco?

FRANCO BALSAMO: On the EBITDA, your calculation of €120 million is a good estimation, but coming back at the prices before crisis is a little conservative. With this market volatility is extremely difficult to make any sort of forecast, but we do expect that, as we said before, margins on the refining product will stay higher than budget for a longer time, while the volatility of the electricity prices could be lower, in this case the combination of those 2 effects could generate additional EBITDA, in case it happens.

JAMES WINCHESTER: Okay. Thank you. Can you guys follow-up on one topic that was talked about, the situation on wind farm for '22, will you still benefit from the increased power price?

DARIO SCAFFARDI: No, because under the current Italian regulations, the prices are capped at the price of €62 at megawatt hour.

JAMES WINCHESTER: Thank you.

OPERATOR: As a reminder, if you wish to register for a question please press "*" and "1" on your telephone. The next question is from Kevin Vo with Alpha Value. Please go ahead.

KEVIN VO: Yes, hi, yes, just a clarification on the last question on CAPEX especially in the long-term, so do we have to understand correctly that as let's say term-run rate of CAPEX for the company, you are looking at €150 million or €180 million or something in between? Thank you.

FRANCO BALSAMO: That is shown in the Slide 22.

KEVIN VO: Yes, correct.

FRANCO BALSAMO: Okay. This is a slide representing the segment Industrial Marketing. So, €120 million are the expected CAPEX for the year 2022 and are increasing in the year 2023, because it's due to important turnarounds that are scheduled for that period and are lowering in the year 2024, it should be in the average of €100 million until the essentiality contract is in place. So that are the expected CAPEX for the refinery. In order to take into considerations the CAPEX for the renewables, just to have a proxy this is of about €1 million per new megawatt of new capacity. So, that could be lower but we have also to see the impact of this situation in this kind of plants.

KEVIN VO: Okay. Thank you.

FRANCO BALSAMO: Okay.

ILARIA CANDOTTI: Okay, if there are no more questions…

OPERATOR: There are no more questions registered at this time.

ILARIA CANDOTTI: Okay. We thank you all, we thank you all for being with us this afternoon. If you might have any further question, we are at your disposal to answer. So, bye, and have a good afternoon.

DARIO SCAFFARDI: Thank you.

FRANCO BALSAMO: Good bye.