

Saras S.p.A.

"Full Year and Fourth Quarter 2022 Results Presentation"

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MODERATORS: **FRANCO BALSAMO, CHIEF FINANCIAL OFFICER AND GENERAL
MANAGER**
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OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras Full Year and Fourth Quarter 2022 Results Presentation. 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. Please go ahead, madam.

ILARIA CANDOTTI: Yes, good afternoon, ladies and gentlemen and thank you for joining us today for this conference call on Saras full year and fourth quarter 2022 results. I would like to draw your attention first to the analyst presentation that is already available on our website, on the home page at the investor relations section.

Our agenda today will cover the results and the outlook for 2023. We have just changed a little our speakers for our call today and I'm pleased to introduce Franco Balsamo, CFO and just been appointed as General Manager, who will start with the highlights of the period, including those related to the main trends of the scenario followed by review of our segment results. Finally, Franco will also provide an overview of the outlook and the guidance for 2023.

We have here with us today also Mr. Marco Schiavetti, Saras's Chief Commercial Officer, who will be glad to receive your questions on the market outlook.

At this time, I would like to hand over to Franco.

FRANCO BALSAMO: Okay. Thank you very much, Ilaria. Good afternoon, everybody for joining us today. First of all, I want to personally thank Matteo Codazzi for this short, but very intense period during which he has worked together with the entire team of colleagues to seize the market opportunities that we see both in the traditional energy sources and the global energy transitions.

For my part, I'm very pleased to accept this new appointment, as a general manager. I will continue to serve Saras with the same serenity and commitment with which I have served for many years, as CFO. In particular, in light of the positive results achieved last year and the favorable outlook for 2023.

Looking at Page 3, there are the full year highlights. The EBITDA comparable is at €1,137 million with a cash flow generation of more than €700 million, the net result comparable at €710 million without the effect of the windfall tax. The dividend per shares is €0.19 that is in line with our dividend policy at the 40% of the net result comparable, deducting the extraordinary cost represented by the windfall tax.

The outlook for 2023 is positive and our plan of expansion in the renewable is going ahead. We are completing the solar plant in Sardinia of 80-megawatt. And we are expecting good news in term of new projects that are in an advanced authorization phase.

Going to the business...from a purely market business standpoint, this has been an extremely volatile, challenging year, definitely a year of structural change for the energy sector as a whole. Diesel and gasoline cracks have skyrocketed compared to the historical average and this very positive aspect from the oil point of view has been partially offset by a large surge in power cost and also in the CO2 cost.

We have posted a profit record and cash flow generations, which give us the opportunity to return cash to our shareholders after 4 years. In the last year...the last year also has been extremely important in terms of what the power sector means for us. Last year was the first full-year where our power plant operation has fully adjusted to run under the so-called Essentiality regime regulated by the Italian authority.

As you well know, it means that the power that we produce is considered essential for the safe operation of the power grid in Sardinia. And this regime, which basically is a system which fully covers all costs related to the essential power productions and give us a fixed remuneration on the asset at the end of December has been renewed by ARERA for the full 2023.

What also happened in this extraordinary year is that the production of power through our IGCC plant has been more than competitive than producing it through gas or other means. As we'll see later, this has altered a little the normal dynamics, because the situation has never been anticipated, I believe by the regulation itself. But this proves how important today to have a diversity of supplies and this confirm our industrial structures based on molecules and electrons.

During 2022, we have obtained the final authorization and the ready to build status to install 80-megawatt of solar power in Sardinia. We are completing the procurement effort and construction will start shortly and we plan to come into service very soon at the beginning of the next year.

Finally, the Board of Directors has proposed to remunerate shareholders with a €0.19 dividend per share corresponding to more or less 40% of our adjusted comparable net profit, taking into consideration the application of the windfall tax. At the current price, this would translate roughly to a 14%

dividend yield shareholder return for 2022 that is one of the highest shareholders return in the industry.

We thought this was providing the right balance between our previous commitment to remunerate shareholders and our desire to develop a long-term, solid, visible, and sustainable shareholders return. We are operating, as you well know, in a very volatile environment. The geopolitical outlook remains uncertain. The energy transition implies a relatively high regulation risk. So, in any case, we want to be cautious.

Nevertheless, we are comfortable proposing these solid remunerations. First of all, because the 2023 refining margin outlook remains solid and because our power plant is still admitted to the essentiality regime.

Going through the financial highlights, if we look at the group financial highlights, the reported EBITDA in 2022 amounted to €1,170 million, €900 million higher than the same period of the previous year. The positive change is attributable to a completely changed scenario and other effects at the comparable level that is represented by the delta in stocks. In any case, it is not significant compared to other periods. And it stood the EBITDA comparable at €1,136 million.

As I said before, the reported EBITDA does not include the positive effect of the scenario on changes in inventories between the two periods, while it includes the impact of currency derivatives and it's not considering the non-recurring items that, if you wish, we can explain in more details later. The reported for 2022 reflect, in any case, the effect of the Ter support decree, that means a reduction in early cost of €120 million, that is a benefit for the company. And on the other side, the application of the price cap on sales from renewables that is putting down the profitability of the entire segment.

The group reported net income was more than €416 million compared to the €9 million achieved last year. In addition to the positive impact of the scenario already seen at the EBITDA level, this mainly refers to the higher financial expenses and to higher current tax as a result of the increase in taxable income for the year, in addition with the negative impact of the windfall tax, which accounted for €266 million, of which, as we have disclosed in the last quarter, €96 million already paid in November, according to the Italian Draghi decree, while the remaining part will have to be paid by June in this year.

The group comparable net income was €710 million compared to €136 million, as a result of the same factors as described before, measured by the adjustment and the impact of the non-recurring items as the withholding tax.

Going very quickly to the main market drivers, and the Brent Dated in 2022 has been a year of extraordinary volatility, as we are now traded at higher \$140 a barrel, as low as \$76. This happened at the end of the year.

Transportation was initially supported by the post-pandemic recovery and then by the outbreak of the Russian-Ukrainian conflict. In the second and third quarters, Brent prices rebalanced due to the deterioration of the economic outlook, increasing crude oil supply and lower demand in China. The last quarter, Brent lost almost \$12 compared to the previous quarter due to the recession fears and a modest easing of zero-COVID policy in China.

On the supply side, shortage fears existed in Q4, but at the same time, EU refiners were successful in procuring precautionary stockpiles of crude ahead of the deadline for the embargo against Russian crude. Year-to-end Brent, hovered about \$80, \$85 a barrel, supported by the optimistic expectation of the reopening of China, and for improvement in the European economies.

Moving to the analysis of crude differentials, both sour and light grades have been impacted by the new ban on Russian crudes and the change in oil flows on a global scale. Sour grades, and mainly basrah and medium, reported widening discounts during the year because Russian buyers started to buy primarily oils and other heavily discounted Russian crudes after the outbreak of the war.

As a consequence, Middle Eastern producers were forced to increase discounts to their sour grades. Just to give you an example, as described in the chart, basrah medium OSP averaged minus \$7 in 2022 compared to the \$3.3 in the previous year. And \$9 negative in the last part of the year.

On the other hand, so the market is balanced, the premium for sweet grades (i.e. Azeri) increased, mainly as there is increase in a context of high demands for middle distillate, high processing costs (given their lower requirements for energy and hydrogen for the desulphuration and lower emission of CO₂). The average premium for Azeri was positive at \$5.3 in 2022 and by \$4.5 in the last quarter of the year compared to the premium of less than \$2 in 2021.

In term of outlook for this year the market indication that is expected to remain more or less similar both for sweet and sour grades and this is in line with what we have observed in the course of these first months.

The crude oil tankers freights increased, of course, always as a result of the war. Distances increased because you are finding suppliers mainly in U.S - (also Saras uses this source of new crude), West Africa and Middle East. And Russia found new buyers mainly in India and China as well described and well known by all of you. Also, insurance companies asked for higher

risk premiums. Moreover available vessels decreased due to the sanctions against Russian and Russians participated fleets.

Going to the cracks, it has been extraordinary year that recorded an average of \$38 , that is not comparable with last year that was \$7 due to the reason that we have described before. We can repeat with the heavy dependence of Europe from import of Russian gasoil and in in this regard you know that the main major European company including Saras spontaneously decided to stop purchases of the Russian product and they shortly after the beginning of the war, this supply shock came at a time of post-COVID demand recovery, it was even more critical because of the low spare refining capacity Europe and in U.S.

In the last quarter diesel crack was positive of \$45. Gasoline crack in 2022 averaged at \$17 a barrel much higher than last year but with a different multiple compared to the diesel crack. The reason of this movement is aligned with the previous premium.

So, I'm going to the outlook, and the...in any case, we see now in the first quarter standing higher margin at historical range that is a positive for our business. Going to the energy costs, the natural gas spot price went to €200 per megawatt hour in March, which is at peak also during the month of August, but ultimately, in December, you can't reset a cap of natural gas prices and probably relationship to the lower demand of product it had to normalize the gas market. Having said that the electric...the electricity sensitivity price is the fact...is linked to the natural gas record an average of €303 for megawatt hour in 2022. Our need of electricity in our plant is less than 1 terawatt is 0.09-terawatt hour per year.

Margins as shown in this chart at Page 10. With regard to the profitability analysis of industrial and marketing segment as you know we use the EMC

reference margin that is reference margin average roughly \$10 per barrel in 2022 compared to the negative EMC in the previous year, the difference is about \$12.

Sales margin averaged over \$16 a barrel with a premium of \$6.8 per barrel compared to the \$6.5 per barrel in 2021. The higher premium achieved this year is mainly due to the better trading results achieved with the stronger refinery products in all sales channels and through third-party trading. In this regard Marco can well describe the evolution of the business. Considering the high level of margin offered by the market, the operational management was oriented towards maximizing the runs, sometimes also giving up second level optimization with an impact on the premium level achieved, because our scope was to collect the marginal optimization of the last barrel.

The sales margin was \$17 showing a premium of \$4.2 in Q4. This premium was lower than the previous quarter due to some weaker operation performance of the refining activities, the negative impact of the higher premium of light sweet grades and the high freight costs. This is really why our Q4 results are slightly below our guidance, but as I said before our main scope was to collect the absolute market level.

Going to the segment review...going to the various segment, starting with industrial and market this represent our main most important business the comparable EBITDA stood at €1.1 billion and this is mainly due to the higher crack margins, both on diesel and gasoline and the appreciation of the dollar. Having said that, Saras performance has improved. We also were able to achieve strong performance in trading, and also from an industrial point of view, and maintaining this...we were able to achieve a higher production rate, in line what I said before makes...to collect quantity and market. Last year saw a significant increase in variable cost due to the

energy...higher energy cost and CO2 higher cost. In any case, we suffered from inflationary effect, mainly in the cost of chemical, catalysts and other industrial cost.

Fixed cost increased in line with expectation on higher maintenance and higher personnel cost that in any case...in 2022 we have reduced to the COVID measures. In term of CAPEX, we stood less than €90 million and are mainly related to investment in HSE, reliability and logistic development and part also for the investment in the cybersecurity activities. In the last quarter, the EBITDA comparable was very strong, more than €300 million, partially affected by some unplanned maintenance, but it benefitted from a solid refining scenario.

On the last segment, on the renewables, the comparable EBITDA stood at €38 million, €4 million higher than the previous year. This increase was driven by the increase in power tariff that was higher despite the 2 price cuts applied in 2022. We had the regulation one cap €61 megawatts that was applied according to the Draghi Decree since the beginning of February and involved roughly the 50% of our yearly production, and the second cap was set €180 per megawatt hour that was applied later and take in consideration the 5% of our production.

In any case 2022 production was slightly higher compared to the 2021 despite lower wind speed, and some grid limitations tend to the production of this new wind farm that we acquired in June 2021. CAPEX were almost €20 million and are entirely related to the development and the construction of the Helianto solar plant.

Moving to the outlook for the year, we are operating in a very positive scenario. Oil demand forecast is expected to grow this year. Among the supportive factors, China ditched the zero-COVID policies as a

consequence industrial activity is expected to rebound strongly and so is also international air traffic. According to IEA , global demand is expected to hit 102 million barrel a day, higher than any previous expectations.

The global oil supply is expected to exceed demand in the first half of this year as well explained in the chart in the right-hand side. But the balance could quickly shift to deficit in the second part of the year as demand recovers and some Russian output is shut in. Indeed, we know that Russia already announced it to cut approximately 0.5 million barrel a day in this year. With a decline in Russian production and limited gains expected from the rest of the OPEC, the non-OPEC producer will be supporting supply growth this year, mainly U.S., and overall global oil supply is forecast to expand by 1.2 million barrel a day in this year.

As far the expected Brent data, the analyst expect a level between \$80 and \$85 despite the movement of the last few days.

Going to the outlook for the year, our business looks very positive at beginning of the year. The reference margin average more than \$10 in this beginning of the year. We expect a solid outlook for 2023. These elements need to be considered for the new year: Brent dated prices at level substantially in line with current levels; premiums on crude oil with low Sulphur content expected still higher compared to the historical average of \$1, \$2 supported by the high margin of middle distillate. The high freight cost should remain unfortunately high as well, diesel crack remains still high and well above historical averages. Gasoline crack is expected to normalize toward historical average.

Italian power price, the PUN, is going to remain still high and exposed to the volatility of gas prices. In this regard, it should be reminded that the extension of tax credit for the energy intensive companies is currently not

envisaged for after the first quarter of the year. CO2 expected under pressures with recent increase close to €100 per ton.

Having said that, we expect to achieve a premium positive between \$5 and \$6 above the EMC in line with historical average. Compared to the extraordinary premium achieved this year, the expected premium for the year reflects a lower contribution from trading performances due to a partial normalization of the distillate cracks, and the effect of the existing pressure on light sweet crudes.

In this year, we'll have to perform some maintenance that are mainly concentrated in the first half of the year and most of them are right now completed or in advanced stage of completion. And the investment should be higher than in the past at €180 million, because in any case, there is part of backlog due to the investment of the previous years that needed to be completed.

Despite the inflations we are working to contain our ordinary OPEX, and our runs will be in the region of 88 and 94.8 million barrel per year. So, slightly below the previous year and the output of our power plant will be slightly lower compared the previous year, but not in material way.

On the renewables, as I've said before, we have already started construction of our solar plant. We expect to complete it by the beginning of the 2024, but in any case our colleagues expect to receive the full authorization for additional wind farm in Sardinia. We are talking of approximately 50 megawatt of internal development project.

The execution of this project should increase our CAPEX commitment to a approx. 70 million. Having said that, the global outlook remains extremely positive.

Q&A

OPERATOR: Excuse me. 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 your question, please press "*" and "2." Please pick up the receiver when asking questions. We will pause for a moment while participants join the queue.

The first question is from Marco Cristofori of Intesa Sanpaolo.

MARCO CRISTOFORI: Good afternoon, everyone. A couple of questions if I may. The first one is, let's say, strategic and is apart from the increased CAPEX you presented. You...I guess you will still increase net cash at the end of 2023. So, it's something that you want to maintain, a net cash position also in the future or how are you going to use this excess cash?

My second question is on the embargo against all Russian oil derivatives started last February. Are you seeing any impact from this, and which impact could have on cracks?

And finally on shareholder remuneration, you increased the dividend. Are you going to keep the same dividend policy and if you are planning any share buyback? Thank you.

FRANCO BALSAMO: Okay. Just to change the subject, I switched to Marco.

MARCO SCHIAVETTI: First of all, hello and good afternoon, everyone. I will take the second one, on the embargo. Let's say that the embargo both on crude and products had a positive effect on diesel crack in particular. Now, after the second round of sanction on February 5 the market now finally stabilized, and the market

find a new equilibrium at very high level of diesel cracks – in particular now we are around \$25 per barrel which is well above historical levels - I remember that during normal periods pre-COVID diesel cracks were around \$10 to \$15 per barrels which is a sort of normal level for this type of products.

Now, we are after the second round of the market of embargo market on middle distillates continued to be very tight and there is a strong inefficiency in the market, we saw flows...we saw this strong increase on mileage and these inefficiencies will be reflecting to higher diesel cracks which are not as I said before are well above the historical levels.

FRANCO BALSAMO: Thanks. On the first question related to the CAPEX, our CAPEX are not extraordinary investment but are the cost we have to plan to consider just to support the evolutions of our refinery that is very complex and needed to be supported by constant level. Of course, we are not planning any for the time being extraordinary investment into the asset.

In terms of the excess of cash...excess of cash, as I tried to describe before, should be utilized to pay the windfall tax at the beginning of June, and through the evolution of the business, our aim is to keep a very solid capital structure of the company, and if there are other opportunities will be evaluated in the course of the next year.

Your last question was related to the dividend policy, the dividend policies in place and at the time being it is the policies that the board is always taking into consideration also this year. We are paying the 40% of the comparable net result, of course in this case because windfall tax is considered a non-recurring cost is not included into the comparable, but of course the adjusted result takes out this amount and we are perfectly in line with this policy. So, the answer is for the time being, yes.

MARCO CRISTOFORI: Thank you.

FRANCO BALSAMO: To the share buyback, the time being is not taken into consideration.

OPERATOR: The next question is from Massimo Bonisoli of Equita.

MASSIMO BONISOLI: Good afternoon. I have one set of question on corporate governance, one on CAPEX. Starting from corporate governance Franco, if you can disclose the duration of your tenure as a new general manager if any? And the powers that will be splitted between the General Manager and the CEO, which was something that belongs to a few years ago, if remember correctly? And if you can remember us also if the General Manager will be named within the Board of Directors, and the second question is on CAPEX, and if you can also say something about the renewable CAPEX for 2024 and 2025 we have target of up to 500 megawatt by 2025. So, what's left to be spendened on CAPEX plan?

FRANCO BALSAMO: Okay. Thank you, Massimo for your questions, as far the first one on the corporate governance that relates to me, and thanks God my tenure will be for the long time, for a long time.

MASSIMO BONISOLI: Okay.

FRANCO BALSAMO: And as far the CAPEX is in the renewable, we have planned 70 million for this year for the completion of part of the investment for Helianto that is in line with €90 million and for the development of the additional capacity of course, the CAPEX is strictly related to the timing of the authorizations. So, for the time being without any authorizations we can't plan any new investment, but I can confirm that the strategy of the company is to grow in

this sector, as you know, better than me as long as we are talking about €1 million per megawatt.

MASSIMO BONISOLI: Okay. Very clear. And regarding the power split between General Manager and CEO, and I don't remember actually what was, how was the separation between the 2 on the 2 figures as manager?

FRANCO BALSAMO: In line of principle, the General Manager has the power to manage the company and the structure of power are perfectly in line with the power of the CEO. About some small details, to be very honest I am not able to describe you right now.

MASSIMO BONISOLI: Okay. Thank you very much.

OPERATOR: We are about to close the Q&A session.

FRANCO BALSAMO: Thank you.

OPERATOR: Okay. So at this time, there are no questions registered.

FRANCO BALSAMO: Thank you very much for your...for participating to our call. And I see you at the mid of May

OPERATOR: For any additional questions we are always available to receive them at the IR contacts. Have a good day.

FRANCO BALSAMO: Thank you very much to you all. Bye.

COMPANY REPRESENTATIVE: Bye-bye.