

# **Saras S.p.A**

## **"Third Quarter 2023 Results Conference Call"**

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras Third Quarter 2023 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, and thank you all for joining our Q3 and 9 Months 2023 results conference call. Today, our Deputy CEO, Franco Balsamo will start with the main highlights of the 9 months and third quarter and then he will leave the floor to Marco Schiavetti, Chief Commercial Officer to discuss the oil markets and the refining margins. Our CFO, Fabio Peretti will follow, and will take you through the details of the divisional results focusing particularly on the cash flow and financial position. Finally, Franco will conclude his presentation focusing on an update on our strategy.

Let me leave the floor now to Franco.

FRANCO BALSAMO: Thank you Ilaria and thank you all very much for participating to our call on the result at the end of September as you had the opportunity to see on the screen. Q3 has been a strong quarter with a comparable EBITDA of €247 million, slightly below the same period of last year which however, was characterized by extraordinary strong margins. As we said of course we have concentrated our activity on capturing the healthy margins available in the market rather than focusing on the EMC premium which in any case had been lower in Q3 than expected, but as we will explain later, it's due to more of external events and not attributable to our activity and unusual market conditions.

As regard the external events not attributable to our activity, we are talking about the electricity breakout that there was at the beginning of the month of July, which disrupted our operations, and the entity of this impacts have materialized during the course of the quarter and the economic effect of these issues will be explained later by Fabio.

Concerning the market conditions, in Q3 there was an extraordinary trends of high-sulphur fuel oil that is a component of the EMC margin, but it's a production that is not part of our slate, and in additions, a squeeze on discount for sour crude oils, unusual compared to the normal market conditions. And nonetheless, we kept the refinery runs at the higher level in order to seize the market opportunity.

Looking to the 9 months, the comparable EBITDA was healthy, about €560 million, confirming a positive but volatile market environment, and notwithstanding the heavy scheduled IGCC maintenance in the second quarter and the operational issues mentioned above. That said, the maintenance activity have now been completed, so now we can look forward to a more stable and reliable outlook and for next year, and a stable level of CAPEX.

In the Renewable sector, during 9 months, the outpput was 77% below last year and captured power prices were also lower, but you remember, power prices last year stood at very extraordinary high level.

The outlook for Q4 is positive as wind conditions should improve during the winter months, and that will be a positive for the generation of cash, and we confirm that the construction of our 80-megawatt solar plant in Sardinia is proceeding without any delays.

We know during this period, Saras generated a good level of cash, more than €400 million which covered organic CAPEX and additional CAPEX for all our project in renewables and energy transitions.

Net financial position at the end of September stood strongly at close to €200 million notwithstanding the extraordinary cash out in the first part of the year for extraordinary taxes related to the previous year, CAPEX and dividends. The level of cash currently available in our account reflects our strong financial structure which allows us to comfortably navigate the volatility of the market and it's good enough to support our commitment to gradually and consistently invest also in the energy transition.

That said, I leave the floor to Marco for explanations on our market dynamics.

**MARCO SCHIAVETTI:** Thank you, Franco, for the introduction. Another very important quarter, with Brent floating around \$90 dollar per barrel with a peak of \$97 at the end of September. Prices remain very high, thanks to OPEC plus cuts, and voluntary cuts by Saudi and Russia for an additional 1 million barrel per day which has been confirmed also until the end of the year.

This cuts, plus the embargo Iran and Venezuela and the problems in Kurdistan, are deeply affecting availability of heavy sour crudes which discounts narrowed gradually, as you can see from the graph, with Basrah, with a small discount versus Brent at the end of the quarter turning unfortunately to a premium during the beginning of Q4.

For what concern instead light sweet crude, we had a stable and healthy premium, around \$5 per barrel supported by middle distillates, a very strong middle distillate crack. The combination of these 2 effects had a negative impact on the premium that we have been able to achieve above the EMC benchmark, since the benchmark, the EMC benchmark is considering a crude slate made of 100% of Brent without premium or discounts, but we've a dedicated slide later on, which we will comment later on.

Moving to crack spread, next slide, for diesel we had very healthy cracks during Q3, on this we continue to have a combination of short supply and healthy demand, which have kept the prices around \$30 per barrel, very, very rosy, and above the historical averages, as you can see. In general, refiners are struggling to keep up with the demand and this is proved also by some operational issues that we'll see next during the quarter in general in Europe but all over the world and also by low inventories on which we will comment it further later on.

In addition, during the period, we had an halt of product exports from Russia, both on gasoline and diesel, which obviously significantly reduced supply of the middle and the light distillates. Also, gasoline crack was very strong during the quarter, in particular during the summer period when demand is particularly strong, thanks to the driving season.

Moving to next slide, energy costs, nothing particular to highlight here, energy cost numbers are in line with previous quarter, in particular in power prices where we had stable prices, we had stable gas prices, thanks to large imports of LNG to replace Russian flows. So this has basically maintained electricity prices at a stable level during the whole quarter.

Moving to outlook. We expect strong margins during Q4 and also for the whole 2024, thanks to healthy demand, low inventories, and in particular, constrained refining capacity. On the demand side, this year, we reached almost 102 million barrels per day, with a 2% increase compared to last year and in excess of 2 million barrels per day. And the forecast for 2024 is for another 1 million barrel per day growth, lower than 2023 due to the weaker macro conditions, but in any case, oil market is still growing, and this is obviously positive for us.

On the supply side, as usual, OPEC+ cuts will be more than offset by the non-OPEC incremental supply. Some relief on the sour supply

should come from Kurdistan, Iran and Venezuela, with a joint potential of 1 million barrels per day of additional sour supply. And also on this, we will comment further in the next slide.

Moving to middle distillates, which is the key problem for us, accounting for more than 50% of our yield, we expect the cracks remaining strong during the winter season and also during 2024. As I said before, demand will continue to be strong, coupled with constrained refining capacity. In fact, according to some reports issued by Standard & Poor's, on which our Investor Relations can eventually comment with more details, between end-2022 and end-2024 incremental supply from new projects should be around 300,000 barrels per day for gasoline and 500,000 barrels per day for diesel, absolutely not enough to keep up with incremental demand. And this is definitely supporting our view of strong distillate cracks.

Using round figures during 2023 and '24, the incremental demand is around 3 million barrels per day and incremental supply is just 1 million roughly for diesel and gasoline for the 2 key project, and you can immediately understand the reason that we continue to be a very positive also for 2024.

Finally, on gasoline cracks, after an extremely strong summer, we are back to a more normal level. But we...for the same reason, as I explained before, we expect cracks to stay above historical average also for gasoline.

Moving to the next slide on inventory levels, you can clearly see inventory levels during this year, always at the bottom of the historical or even below for gasoline, below the historical averages. And this is another important component because it demonstrates that the refiners are really struggling to keep up with the incremental demand and the inventory continues to be on the lower side of the historical averages.

Finally, moving to crude market development, as I mentioned before, we expect some relief on the extremely high sour crude premiums that we are experiencing in this period. The reason is due to some incremental sour supply that we see already now from Iran, it's clearly reported in the graph, and also some potential from Venezuela where finally the embargo is over. And from Kurdistan, that is expected to resume almost 400,000 barrels per day of production halted during the beginning of this year.

We expect this incremental supply bringing some benefits on the premium over the benchmark that Saras will be able to achieve in the forthcoming months. By the way, we have already seen the Saudi Arabia lowering sour crude premium to Europe by \$2 per barrel for December deliveries, and this is the proof that sour supply is definitely increasing and premium should lowering and we should see a discount for sour crude more in line with historical averages.

Now let me hand over to Fabio for the financial highlights.

FABIO PERETTI:

Thank you, Marco. Moving to the group financial highlights, as Franco said, the 9 months results were very solid with a reported EBITDA of €583 million and a comparable EBITDA of €560 million, notwithstanding the daily maintenance that was scheduled in the first half of the year and the impact of some unexpected operational outages that occurred in Q2 and in Q3.

In the third quarter, the reported EBITDA amounted to \$300.9 million, while our comparable stood at about €247 million with the main differences related to the positive effect of the scenario on change in inventories between the start and the end of the period, which is not included in our comparable EBITDA.

Our Q3 comparable EBITDA relates to a refining margin that was high and accounted for \$14.6 per barrel. However, in a context of high level

of marginality, it was negatively affected for about \$2 by the impact of the 2 consecutive blackouts that occurred in the same day at just few hours of distance one from the other on the Sardinian electric grid in the second week of July for causes not related to our responsibility and outside of our control.

The blackout caused a complete shutdown of the industrial site. However, the magnitude of the impact was not immediately clear because a series of outages at various plants occurred during the ramp-up and after the final restart of the operation, penalizing the production for the rest of the quarter. As a consequence, the negative impacts were progressively accounted during the quarter, and we expect some further limited penalization in Q4 when the remaining part of the required maintenance activities will be completed.

Q3 reported net income reached €151.2 million, benefiting both from normalized tax rate, as Franco said, and from the reduction of net exchange differences given the greater stability of the exchange rate if compared with the same quarter of the previous year. Our comparable net result stood at €121 million, not including positive effect of the scenario on inventories.

Finally, our net financial position before IFRS 16 effect reached €194.5 million, up from €73.5 million in June, thanks to the strong cash generation in the quarter.

Moving to the next slide and to the segment analysis, starting from industrial marketing, the third quarter was characterized by extraordinary economic results, close to those achieved in the same period of last year, confirming, albeit with some reduction, the high level of industry marginality. As a result, the comparable EBITDA of the third quarter was €244 million, with the marketing channel accounting for 18 million. The reduction, compared to last year's result, is primarily



attributable to the scenario, which, despite being very positive, accounted for a €109 million lower EBITDA.

This amount takes into account the effect of lower diesel crack and higher crude oil premium as well as the weakening of the US dollar, and it was only partially compensated by the higher gasoline crack. The remuneration of the power plant under the essentiality regime accounted for €27 million, €11 million higher than last year. This amount is in line with the previous quarter, and it's mainly driven by the higher 2023 capital remuneration. Our operating performance was €12 million better than the same period of last year, thanks to the supply and trading performance that continued to be very positive in the valorization of our production throughout all our sales channels.

Furthermore, 2023 results were not penalized by the impact of the strong backwardation last year, which impacted our hedging results both on inventories and crude purchases. The higher commercial results more than compensated the site production and the lower availability of crude on the market, which reduced our opportunity to optimize the refinery crude slate.

On the other hand, the variable costs were lower than last year, mainly thanks to the normalization of the electricity price, as well as our fixed costs, that were lower than last year for about €12 million, mainly for lower general expense and maintenance costs. Finally, our industrial marketing CAPEX stood at about €37 million, taking into account also the maintenance activities of the period.

If you look at the first 9 months, comparable EBITDA result stood at €548 million, compared to €790 million in the same period of last year. Also in this case, the largest part of the difference is attributable to the scenario, for the same reason previously anticipated.

Moving to the Saras Industrial & Marketing margin, as mentioned, in Q3 it stood at \$14.6, compared to the EMC benchmark margin that was \$12.4. Saras Q3 premium was reduced to 2.2 due to both the scenario and the impact of the 2 blackouts not related to our responsibility and outside of our control. The impact of the blackouts and the subsequent outages that emerged on various plants during the restart and the stabilization of the production had an impact on the quarter' premium of about \$2. I would like now to focus on the extraordinary scenario effect, which cumulatively reduced the Saras premium by about \$1.4.

Firstly, the increase of the heavy sulphur fuel oil, which moved from minus \$25 per barrel in Q1 to minus \$14 in Q2, and reached the average of minus \$6.5 in Q3, with the HSFO that represents 7% of the EMC reference yield, while Saras refinery typically does not produce it. Thus, the higher HSFO crack in Q3 led to an improvement of the EMC reference margin, which was not reflected in Saras' margin. And this accounted on Saras' premium for about minus \$0.7 per barrel.

Secondarily, a further impact came from the higher cost of crude, mainly in the sour grades which further appreciated in the quarter, as Marco mentioned, and these effects penalize complex refineries like Saras which used the sour crude oil, but this did not have any impact on the EMC reference margin, whose slate is priced at 100% at Brent. Overall, in the quarter these effects accounted for another minus \$0.7 per barrel. Netting the EMC margin from the above-mentioned extraordinary effects, we can represent a so-called EMC adjusted margin, which increases to \$11. Against it the Saras premium would stand at 3.6\$/bbl.

A similar analysis can be done for the 9-month Saras margin which stood at 13.3, with a premium of \$4.4 compared to the EMC reference margin, that was 8.9. However, adjusting the EMC 9-month reference margin for the scenario effect, the adjusted EMC would be 8.3 and Saras premium about 5. This is in the lower part of our guidance range, mainly for the unexpected operational outages that occurred in Q2 and Q3.

In the renewable segment, third-quarter EBITDA was \$3 million, halved compared to the \$6 million last year. This reduction was driven by the power tariff, which in Q3 of '23 was equal to €101 per megawatt hour, with 100% of the production sold without price cap. In Q3 of 2022, the average tariff was 169, with the market price that was applied to about 35% of the production, and was equal to €366 per megawatt hour, while the rest was capped at €61 per megawatt hour. It is worth mentioning that both price caps, the one at €61 and the €180 per megawatt hour, were not extended to the second part of 2023. Therefore, our production is now entirely sold at market price.

On the other hand, in Q3'2023 the production was higher at 57 gigawatt hours compared to the 43 GWh of the same period of last year. Thanks to the most favorable wind condition despite a slightly lower mechanical availability.

Looking at the CAPEX, you could see we invested €6 million to continue the construction activities of the photovoltaic plant Helianto. The project development now is roughly 50%. We confirm that CAPEX in 2023 will be in the range of the €50 million and our objectives to reach the commercial operation in Q2 2024.

So, for what concerns our net financial position, we ended Q3 2023 with a net cash of €195 million up from the previous quarter when it was €74 million. Looking at the main components of our cash flow in the third quarter, our reported EBITDA was €301 million. Our working capital has increased absorbing about €100 million and that was mainly generated by an increase in our trade receivable. It was partially related to the oil sales for scheduling reasons and partially to electricity sales, which increased after the start of operation following the completion of the multi-year maintenance activities in Q2.

Our capex expenditure was €46 million of which about 6 related to Helianto development and our interest expense and financial charges were €14 million. So all-in-all, our net cash position stood at 195 at the end of September. Yearend's net cash is obviously subject to the refining margin and the impacts of oil scenario on our working capital. Nevertheless, with few months left to the end of the year we comfortably reiterate our target to maintain a positive cash position by year end.

And now, let me leave the floor to Franco Balsamo for his final remarks.

FRANCO BALSAMO: Thanks Fabio. Outlook for this year end. This year is coming to an end and is supposed to be a very solid year for us. Our margin expectation for the remainder of the year is positive as Marco explained before, particularly thanks to the strong middle distillate cracks and notwithstanding seasonal gasoline weakness, and so we are expecting a very good Q4 and the full year will be extremely interesting.

In terms of operations, at our site, the maintenance activities are now completed and in the last quarter there will be some minor works, part of it also as a consequence of the external event occurred in July. Of course, as we have explained, this issue was very complex to be managed. The economic impact is negative. At the same time, we have to thank the capability of our colleagues in the refinery who well managed this extraordinary effect, but in any case, the cost is in our account.

The runs in this quarter will be at the normal rate, and on the full-year basis, we expect runs between 94 and 95 million barrels. Considering the forecast scenario and the expectation for the operational performance, we are expecting a premium over the EMC margin for the full year to be between \$4 and \$5 per barrel. This is slightly lower than the previous guidance that was between 5 and 6 due to the weaker operational performance mainly related to external event that we explained before. As far as the scenario is concerned this is due to the

unusual effect on the EMC of the price of the high sulphur fuel oil that is extremely expensive and to the lower discount on the sour crude oil. So take in consideration this negative impact of the scenario the Saras premium in a sort of adjusting premium for the full year would be relative in line with previous guidance and more than \$5 per barrel.

In term of fixed cost, the guidance remains unchanged, and we expect to close the year at 390 million thanks to some optimizations on cost due to the various programs that we launched during the year. The CAPEX for the industrial and marketing are confirmed in the range of €180 million.

In terms of renewable business, production in the first 9 months of the year you see was lower than expected. In any case, thanks to the usual good seasonality at the end of the year for the better typical high wind conditions we expect to reach at year end 270 gigawatt hour of production that is in line with last year. As Fabio said before, the construction of the Helianto solar plant is proceeding without delays and we confirm our target to start operations by the end of June.

In renewables, the CAPEX is confirmed at about €50 million for the development plant that was mentioned before.

So having said that, with the favorable expectation for the last part of year, we will be able to generate a good level of cash flow and liquidity also at year end will be comfortably positive, and this is for sure a good situation for a solid financial structure.

Finally, I will give you a brief and short update on the progress we did in the last quarter in order to reach, to continue achieving our strategic goal. As regards the first pillar of our strategy that is to ensure the continuity of the oil and power business, we have completed the multi-year turnaround of the power plant and we launched a series of initiatives aimed at in margin maximization, cost optimization and the

effect of these measures will be collected starting next year, and we will describe it later on in the next call.

As regards our process to accelerate our growth in the renewable business, we are progressing with the construction of the 80 megawatts solar plant that I described before. We have increased our pipeline of wind project in Sardinia for an additional one wind-farm, roughly for 70 megawatt. We are convinced that the authorization process will accelerate in the coming months, and we do believe that the current tight macro conditions will lead us to potential opportunities to complete our growing strategy in this important sector.

Finally, on the energy transition opportunities, we are expecting the finalization of the IPCEI funds for the hydrogen plant but from the operating standpoint, the progress of the green hydrogen plant is ongoing.

We are completing also our project in order to define a potential investment in carbon capture with a collaboration of Air Liquide and we are submitting the application for funds from the green new deal.

Also we began the experimental project in order to produce an e-SAF sustainable fuel for aviation. This project just received the confirmation of a grant from the Environmental & Energy Security Ministry and it will be a big challenge for our company.

Finally, on biofuels, technical evaluation and some investments are underway to develop our HVO production, both pure and in co-processing. For next year, we are planning to produce 10,000 tons of pure HVO. We are also developing a plant in order to pretreat other vegetable oils and this also finalized to broaden the range of feedstock to be used both for co-processing and for pure HVO production.

Finally, we are studying the retrofitting and the revamping of 2 units into the refinery in order to be used for the production up to 200,000 ton year of pure HVO that could be eventually in operations at the beginning

of 2026. All this activity confirms our commitment to the decarbonization and the sustainability process and also to development on our renewable business within a wider range of opportunities that maybe offered by the market.

Thank you very much for your attention. We are ready to take your questions.

## 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." We kindly ask to use handsets when asking questions. Anyone who has a question may press "\*" and "1" at this time.

The first question is from Alessandro Pozzi of Mediobanca. Please go ahead.

ALESSANDRO POZZI: Good afternoon. Thank you for taking my questions. The first one is on the new guidance for the EMC. And I think, if you look at Q4 it still implies a very wide range depending on whether we put \$4 or \$5 per barrel. So I was wondering if you can give us maybe a bit more...more sense of what could be the premium in Q4. My understanding is that the power cut is taking out about \$2 of premium. And is this fair to assume that those \$2 will be back, but also, I think I heard the comment saying that some of the potential inefficiencies could be carried out in Q4. So I'm not sure whether that is appropriate or not. So if you can, maybe give us your thoughts on that?

The second question is on the cash guidance for year end. Of course, you are reiterating your positive and net cash guidance I mean, at the moment is almost 200 million before IFRS. So I was wondering, maybe

if you can give us what could be the main cash outflows in Q4. And for 2024, I know, it's very early, but can you give us a sense of whether 2024 is going to be light or heavier in terms of maintenance? Thank you.

FRANCO BALSAMO: Sorry, Alessandro your last question, please could you repeat it?

ALESSANDRO POZZI: Is about 2024 and whether it's going to be a light or heavy maintenance year?

FRANCO BALSAMO: Okay. Starting from the cash balance or the net financial position at year-end, as we have said before, we have cash out in this part of the year is related to taxes. And on the other side as we described in the previous quarter, we have to repay to ARERA the differential of credits we collected last year, when the PUN price was higher than the production costs. The amounts are forecasted about €150 million and other €150 million. So having said that, we are expected to optimize our working capital, and we do believe that of course, due to the volatility and these market conditions, at the year-end we have a level of net financial positions positive slightly lower than the liquidity at the end of September.

ALESSANDRO POZZI: Okay.

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

NICCOLÒ STORER: Yes, maybe, maybe still Alessandro waits for other answers.

FABIO PERETTI: Yes. Alessandro, for what concerns the premium in Q4. As you know, we usually don't give the premiums of the quarter, because they are very volatile. Nevertheless as we have seen we have closed the 9 months with a premium that is 4.4. And so, we expect that a range between 4 and 5 could be also appropriate for the Q4.



FRANCO BALSAMO: As far as the maintenance is concerned, of course every year is an important year of maintenance. So at the time being we can say that it will be in line with this year, we are not expecting strong maintenance problems, so that runs will be more or less the same, there could be different timing of the maintenance, probably we will update you as soon as we have elaborated the plan, it is not wrong if I say that next year will be in line with the availability of this year.

NICCOLÒ STORER: Yes, maybe I can start with my questions. Thanks for taking them, maybe just 2. One is still related to what should do we expect going forward focusing on fixed costs. Basically, in Q3, we have seen a drop and also implied Q4 is going to remain low. So 390 is guidance for 2023 assuming in 2024 a more normal business trend, is it reasonable to extend more or less the 80 to 90 million fixed cost for the 4 quarters getting to 350 million-360 million for the full year, or should we expect something more closer to the 390 expected for 2023?

The second question is on the impact you have had from the blackout in early July, probably you already said it and I must have missed it, if you can quantify the negative impact on the premium in \$/bbl? Thank you.

FABIO PERETTI: Okay. So, what concerns the first question only to the fixed cost.. For the next year, we expect a level which is more or less in line with the one this year. So, around €390 million as you know, this year there was a little bit of increase because of inflationary effects and some additional costs that we have to face as most other companies. And for the fourth quarter fixed costs yes, the calculation is right, we expect something in the range of €90 million. So, can you repeat the second question?

FRANCO BALSAMO: The impact of the black out you have explained is about \$2/barrel for the 3rd quarter, for the fourth quarter it is not less than €15 million just to make a broad number. Of course the situations happen, because we are a complex industrial site, what we say is that this is not a negative performance generated by us, but by external effects, but that is part of

the business, but our organization now was capable to manage the critical situations that happen. But the impact for the quarter is \$2 per barrel.

NICCOLO STORER: Okay. Thank you. Thank you very much.

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

MASSIMO BONISOLI: Good afternoon. I have one question regarding renewables and low-carbon investments. This kind of investments are showing quite sizable inflation of equipment delivery. So, I just was wondering if you can provide some details on your inflation in terms of CAPEX or renewables. You also mentioned before the IPCEI contribution so, also in case of hydrogen and electrolytes maybe the inflation could be stronger than expected when you made the budget and if there is a trigger level at which inflation of the deliveries or the recent deliveries may trigger the eventual stop of the project? Thank you.

FRANCO BALSAMO: In term of inflations, what I would to say is that the CAPEX cost for the constructions of 80 megawatt is more or less in line with what we expected. So, we can say that due to our procurement process that started months ago, more or less we can say that we didn't suffer virtually crazy inflation in prices. So, the execution of the project is in line with the expected CAPEX.

As part of this, the project on the green hydrogen, of course the cost of the investment is certain, is fixed and the inflation cost I do not think will be material, because most of the cost will be variable due to the production cost of the electricity. So, the inflation cost are on our core business. I don't see for this year and for the green hydrogen project a big risk on these issues.

MASSIMO BONISOLI: 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 Ram Kamath of Barclays. Please go ahead.

RAM KAMATH: Hi, thanks for taking my questions. I have a couple, please. Firstly I appreciate it's an extreme volatile oil market, but liquidity on the crude side. I just want to understand your view on how you're seeing the crude differential will be in the fourth quarter and on high-sulphur fuel oil. Even the crack was strong last quarter. It has come off from high. So, wonder how do you see it during the winter season?

And the second question, I am just trying to understand the bio-fuel part of your strategy. Could you...I understand that the technical assessment is still on, but I want to understand what would be your target market and how the business will be sync with the refining business? Do you plan to target certain clients or the market here? Thank you.

MARCO SCHIAVETTI: Thank you for your question. On crude differentials as I said, we expect in Q4 with this month heavy sour crude discounts widening again. Also because with some incremental supply as I said from Iran already materializing, maybe into China. Then we are positive views around Venezuela even though Venezuela is struggling to ramp up because the lack of investments in the last...in the past years. In any case, we already see the signs of crude oil differentials or discounts widening.

As I said, Saudi they have already published their officials selling price for the month December increasing the discounts by a huge amount of \$2 per barrel which is very positive and is this natural consequence of the incremental sour barrels that are available now, already now in the market.

So, we are positive. We are now positive ...we have a positive view on the market. On your question on high sulphur fuel oil, high sulphur fuel oil is a difficult market it is very volatile, because supply and demand as

you can imagine are very limited in particular in this part of the world. So, prices are deeply manipulated, are affected by very high volatility, but also on this side, we have already seen cracks returning back to historical averages. So, we are also positive on high sulphur fuel oil.

FRANCO BALSAMO: Thank you Marco. And on your question related to our bio-fuel strategy. Of course, our strategy is very prudent as is a step-by-step process. The first step is to invest in a pre-treatment unit in order to increase the capability to treat different kinds of vegetable oil. And this is the first step for a solid investment. On the other side, we are investing in a new catalyzer that will allow us starting this year to produce 10,000 ton of pure HVO and this will be good enough in order to cover our obligations.

Having completed this first step of the investment at that point and in the meantime we are evaluating and studying the technical activity in order to revamp two desulphuration units already in exercise in the refinery in order to produce up to 200,000 tonnes/year. Of course, our strategy as I said before will be step-by-step. We want to be flexible, in order to avoid the risk to be mismatched on one side as your question our market capability to place the new product, and on the other side to avoid the risk of having a mismatch on the supply that is another arising potential risk. So, our approach is to monitor the market, to use our capability...technical capability into the market to approach this new activity in a modular and flexible way.

RAM KAMATH: Okay, thank you.

FRANCO BALSAMO: I hope to have been clear in the answer.

OPERATOR: Gentlemen there are no more questions registered at this time.

ILARIA CANDOTTI: Thank you everybody.

FRANCO BALSAMO: Thank you very much for your attention. I hope to see you in another occasion. Bye everyone.

ILARIA CANDOTTI: Bye.