



# **SARAS**

## **Preliminary FY 2014 and Q4 2014 Results**

### **Welcome**

**Massimo Vacca**  
**Head of Investor Relations and Financial Comms, SARAS**

Thank you very much. Good afternoon ladies and gentlemen. Thank you for joining us today for SARAS results conference call on Fourth Quarter and the preliminary Full Year 2014. Hopefully you all received the analyst presentation which we illustrate today. In any case the presentation I remind you it's always available on our website [www.SARAS.it](http://www.SARAS.it) directly in the homepage or also in the section dedicated to investor relations.

Our agenda today will be the usual one. We will start with Mr Dario Scaffardi, Executive Vice President and General Manager of the SARAS Group who will start with the overview of the results and he will cover also the highlights of the period.

Subsequently Mr Corrado Costanzo, Chief Financial Officer, will provide a review of the results for each business segment and he will also discuss the key financial figures of the group.

Afterwards back again to Mr Scaffardi for the market Outlook and the Group Strategy. Finally we will be pleased to take your questions. Dario please the floor is yours.

**Dario Scaffardi**  
**Executive Vice President and General Manager, SARAS**

### **I. Highlights: Group Results**

Thank you Massimo for this upbeat presentation. Good afternoon ladies and gentlemen and thank you for joining us to review our results. This quarter has been quite a remarkable one, we've seen Brent slide by almost 40% from \$95 to \$55 and I think you're all quite familiar with the reasons so I will not dwell on these. Also more remarkably during the last year we have seen Brent hitting \$115 in June and \$45 in December. So quite a surprising change in market sentiment.

This fall in price has had a huge impact on the value of our oil inventories of course which are calculated on the basis of the value at the end of the year and is the main factor behind the negative result of the reported EBITDA.

The comparable figures show quite a different story, still they were somewhat adversely affected by the maintenance, the large five year maintenance that we have between Q3 and Q4 which involved our main conversion unit our FCC, but this maintenance has been carried out successfully with a very good safety record and so we're very satisfied with the result that the whole plant is up and running and later on we will give you an overview on what we expect for 2015.



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During this quarter, the very surprising quarter, the crack spreads have been maintained, broadly in their historical range and this has given a huge boost to refining margins. As you all know refining margins are basically a function of the ratio of the valuable products, namely the white products, the diesel and the gasoline, relative to the prices of Brent. Therefore the crack remains broadly equal to the value that it had when crude was at \$110 or \$115 and you equate this with crude in the range of \$50- \$60 it gives a totally different picture and you move from a ratio that goes from being in the range of 15% to 20% to a ratio which is over 30%, which is a direct boost to the refining margins.

Furthermore a significant part of the barrel is used in the refinery for consumption and losses, it is anything, depending on various refinery configurations, from 5% to 7% and again it is based on the absolute value of crude. So a drop in the price as we've seen is positively affected by an absolute drop in the crude oil price, with all other factors being equal.

Of course the drop in crude was basically governed by supply and demand, so we had excessive supplies and this has given a further boost and it gives some very interesting opportunities on the way forward, there are a lot of new crudes which are being offered on the market from a variety of regions: from West Africa; from the Middle East; from South America. And these have all been very, very interesting opportunities that the supply trade department of SARAS has exploited fully and some of these crudes have been very challenging in terms of their physical characteristics. And our refinery due to its complexity has been able to take full advantage.

A furthermore positive effect is our power plant, the power plant basically sells electricity and it is fed by crude oil and so with a situation in which the electricity prices have remained broadly within a range so they have seen some decline but nothing similar to what has happened to the crude so this has boosted the revenues both of our Power division of course but also the refinery which is supplying the feed stocks to the power units.

All this comes together in our usual graph on refining and power generation margins which this time has been modified to include also the gains and losses from hedging instruments on crude products and foreign exchange of course but Corrado will be able to give you much more detail on this going forward so Corrado.

**Corrado Costanzo**  
**CFO, SARAS**

### **Segment Reviews**

#### **1. Refining**

Well thank you Dario. For once I would like to start with a few comments on the reported numbers for the year because the differences between the reported EBITDA and the comparable EBITDA and the difference between the reported net result and the adjusted net result are quite frankly huge. I mean they're around, well in excess of €300m. So I think that before we start going into the details of the different segments it's probably worthwhile to give you a short tour about the differences



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between reported EBITDA and comparable EBITDA and reported net result and adjusted net result.

So let's start with the comparable EBITDA. The numbers I'm going to be reading and commenting upon are actually on Page 3 of our press release so nothing new here. Usually we do not show these numbers in our analyst presentation but this time these are so huge that I believe that we quickly have to go through them.

So the reported EBITDA for the year €239.8m negative was impacted by a LIFO versus FIFO valuation of no less than €405m. So just the difference between FIFO inventory valuation which is required by IFRS rules and the LIFO inventory valuation which is adopted in our comparable was worth €405m. That is another non-recurring item linked to the impacted EBITDA this time however it was more favourable at reported EBITDA level. We included about €50m of net positive contribution coming from the Versalis acquisition. It's a net of various effects including the consideration paid to us for this acquisition.

Then let's go down to one level to the reported net result vis-à-vis the adjusted net result and the striking difference in this case again is about €180m and once again the difference is justified by a) the net effect of the famous LIFO versus FIFO difference, in this case the net effect (net of taxes of course) is €253m. Then we have again some non-recurring items which will include, sorry I read the Q4 numbers but I'm pretty sure you get this, €23m, net of taxes.

Then we have again the impact of the Versalis acquisition which after tax is worth about €35m which is included amongst non-recurring items, so we took it off our adjusted numbers, there was a negative of course for the adjusted.

Then we also have another non-recurring item somewhat linked to the Versalis acquisition which was the evaluation of work in progress of a certain unit called the steam reformer, worth €16.5m, after tax, which is directly linked to the Versalis acquisition. In fact this unit might have cost about €100m at the end of the day but since we acquired Versalis we scratched the project, with a sizeable savings for the future. The work was already in progress and we stopped it and scrapped the project because thanks to this acquisition we believed that we're going to have enough hydrogen for the foreseeable future. So that's another positive from the same deal.

There's more, we are going to be discussing this later, but we have posted a revaluation of the CIP6 contract. Some of you might remember that we posted a devaluation of the same contract a year and a half ago when the so-called "Decreto Del Fare" was passed, now the IFRS, when it comes to the IGCC it always uses a forward looking, the famous or maybe infamous, equalisation procedure and what happened is that now all the assumptions have changed and changed dramatically and so we have revalued this contract. Some effects of this revaluation can be seen already in this IFRS EBITDA for the year. So it's €180m revaluation, €14m after tax.

Finally one more write-off, which is good like the work in progress write-off, and that has to do with the so-called 'Robin Hood tax' which was like a surtax which was introduced back in 2008 and it affects energy companies, banks and insurance companies and utilities and the Italian Supreme Court declared only a week ago that this surtax is illegal and therefore it has been scrapped, however starting in 2015. So we will not recoup whatever we paid in the past six or seven



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years but we will be saving 6.5% in terms of income taxes from now on. However with the tax asset i.e. we posted an asset in relation to a tax so-called 'credit' for this Robin Hood tax in the past that we would recoup with future profits and that obviously has no meaning any more so it was written off all at once, €51m. So many positives and negatives, quite big this time but I hope that I gave you a fair idea of how you reconcile these quite striking differences between reported and comparable numbers.

So enough with the boring stuff and let's go back to our usual discussion of the segments' performance.

### **Massimo Vacca**

Perhaps just one quick word for those of you who didn't manage to take note of all the details that Corrado explained you'll find most of them at Page 16 of our presentation later on.

### **Corrado Costanzo**

All right so let's now take a look at the refining number. As Dario was saying Q4 was still a transition quarter for us. Our FCC unit was undergoing its five year major turnaround maintenance. It was idle for roughly two months, a little bit less, September and October. So when in October margins started to pick up after many, many disappointing quarters we still were somewhat ill-equipped to take full advantage. So we were able to benefit from better margins only further into the quarter, well into November. And also the margins did pick up but if we look at the EMC benchmark margin what we're seeing is \$0.9 per barrel vis-à-vis \$0.3 in Q3 of last year, 0.3 became 0.9. So margins were gradually picking up and that's why what you're seeing is a combination of these two factors still a minus in terms of comparable EBITDA.

However, there's a big 'however' this time in a dramatically falling market actually because crude oil prices went from approximately \$90 per barrel at the beginning of the quarter to approximately \$55 per barrel at the end of the quarter, sort of trying to equalise your actual margin is a very difficult exercise. We did enter into a lot of hedging, we did a lot of derivatives, both on oil products and foreign exchange and the result was a positive one €32m positive. And that should be added to the €24m negative. We cannot add it directly in our reported financials because that is not considered proper hedge accounting from an IFRS standpoint but it is actually proper hedging from a substantial standpoint. And we also wanted to add this number to our traditional graph which shows that in fact for the quarter all these hedges, \$1.7 per barrel positive, which gives you a much better picture of what happened during the quarter. So the margin was at the end of the day about \$3 per barrel and with our premium over the EMC benchmark was about a couple of dollars, bearing in mind that our main unit was idle for about one month. Usually we add a lot more but in this particular case you couldn't expect that much.

Some of you might also say, well if these hedges were so positive, and we also have something which is not included in this number and which is a fair value of outstanding derivatives at the end of the year, which we never include in these numbers, and the fair value also is very positive. So there's even more, but having said that you might say, well how can I reconcile these positives with a big devaluation in your inventory? Well there's a very simple straightforward and operational explanation – we hedge only inventories which are believed to be in excess of minimum



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operational levels and we hedge margins, let me say, with a view to equalise the monthly margins and with a view to avoid problems that might come from markets that are changing too quickly. So you buy your crude high and then you sell your products low just because everything is falling, so this was our view, equalising margins and as appropriate also protected excess inventories on top of minimum operational levels. So the devaluation that you're seeing is mainly related to minimum operational levels of inventory because the real flow of margins in dynamic inventories was actually hedged and wasn't that successful.

Then you could take a look at the year of course going back to those famous disappointing quarters but we have discussed those at length during the previous presentations. So one important thing is that we processed about 12.5 million tonnes but again this is not an indication of our future performances, this was the minimum which is also related in part to the disappointing margins at the beginning of the year and is in a much bigger part to the five year maintenance of that cracking unit. So Dario will be more specific about the future but this is not an indication of the future.

### **2. Production and Crude Oil Slate**

Production and Crude Oil Slate it is just interesting to see that in spite of the turnaround maintenance of the cracking unit we were still able to produce very high percentages of gasoline and middle distillates vis-à-vis the previous year and also we were able to cope quite successfully, in terms of crude slate we ended up with an API crude gravity which was on average similar to the previous year in spite of all the turmoil in the market, the fact that the Libyans were not there most of the time, the fact that the FCC unit was idle, nonetheless we were able to cope quite successfully, if you look at the API gravity, if you look at the percentage of high value products they are quite remarkably on line year on year.

### **3. Fixed and Variable Costs**

Costs, let's start with variable costs at the bottom. First of all let's remember that these costs are included in our EMC benchmark margins, so this is just a bonus figure, let's say. And the number for the year is very similar, about €175m and \$2.5per barrel, however you can see the trends if you look at the quarter. The quarter you can see that €34m vis-à-vis about €50m for the previous quarters.

So now fixed costs which are not included in the margin of course we've worked a lot on cost savings initiatives and I would say that we have been reasonably successful. There's been a decline from €237m to €221m.

And finally when we look at the exchange rate to the dollar the exchange rate for the year is exactly the same 1.33, however again in the quarter you can start seeing the decline of the Euro vis-à-vis the dollar. As you might remember basically all of our margins are in dollars and all of our costs are denominated in Euros so every time the dollar strengthens vis-à-vis the Euro we benefit and the higher the margin in dollars the bigger the benefit. So somehow during these really challenging years 2012/13, also '14 for these nine months the negative impact of the dollar that was trading at 1.30/1.40 was relative.



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We are going to really feel the impact of the Euro devaluation now that the margins are substantially higher, especially in Q1. So we are obviously delighted to see the strengthening of the dollar and in particular given today's margins. You did not see the full effect of course in Q4, again repeating myself but Q4 is a transitional quarter.

### 4. Power Generation

Power Generation, I'm sorry I've got a lot of explaining to do again. First of all let's take a look at the Italian GAAP EBITDA. As you can see Q4 was very nice €48m vis-à-vis €35m during the previous quarters and that in spite of the fact that the tariff was somewhat stuck around €10 per megawatt hour. So where's the catch? The catch is in the fact that the raw material used for producing this electricity which is in TAR and oxygen of course, but let's talk about TAR, is indexed to the price of oil and the price of oil dropped and therefore this inter-company transfer price was substantially lower and it will be substantially lower also for quite some time, we believe. And you may say okay you gain here and you lose the refinery level – no you don't! Because actually it's a pass through, the refinery is buying oil cheaper, in particular it's buying heavy crudes even cheaper and then it's passing on only part of that to the IGCC. So it's a win/win situation. And there's no trade-off here. Actually you might even forget about the price of tar and just think in terms of crude oil. Crude oil went down and therefore the cost of raw material for the IGCC went down.

### 5. Fixed and Variable Costs (IT GAAP)

So at this point let's go up one level. Again also a big jump in the results for Q4 vis-à-vis Q3 and that's due to the fact that the IFRS numbers follow a totally different path. This is somewhat obscure equalisation process which takes into consideration a certain number of assumptions for the future until the end of the CIP6 contract. And of course these assumption, as you might imagine which are being in fact acquired from specialised consultants take into consideration also the recent developments and therefore we posted this adjustment in Q4 and ended up with €240 for the year, even in that IFRS level. But a lot of it is real money, is real cash as you can see from the Italian GAAP as well which went from, let me give you an example, about 30 Q2 to about 50 in Q4.

So also the guidance will be somewhat different for 2015 and we'll be discussing that later.

I would say when we look at costs for Power Generation it's always a very unexciting subject, fixed costs broadly in line. Variable costs again you can see that is starting to go down of course as a function of the drop in energy costs and energy including everything, including oil also and you can see that effect starting in Q4.

### 6. Marketing

Marketing is a mixed bag. We were able to hold our own in Italy, increase volumes by about 7% and unit margins were somewhat comparable to reverse impact.

Spain was more challenging. Volumes dropped and all the drop unfortunately more than offset a certain increase in unit margins and also Spain was still influenced by the somewhat negative





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results of biodiesel however biodiesel finally is what sold. It was sold at the end of December so that's finally over.

But there's another unexpected negative in Spain they invented this mandatory contribution for energy efficiency and I will not say what I think about it openly but it's worth a few million a year and it's even unclear how many millions but a few millions a year. Clearly that whole sector in Spain is outraged but nonetheless there's an open discussion with the government we'll see but in any case there was an impact worth several million Euros on Q4.

### 7. Wind Power

Finally Wind. Wind is more or less similar to last year, slightly less because the comparable EBITDA was about €20m vis-à-vis €22.7m, slightly less because the last quarter was somewhat disappointing in terms of wind and in terms of production of course at this point. So the production for the year was somewhat lower, 30% lower. But the good news comes from the power prices which continue to be quite substantial in spite of all the rumours about what the government might or might not do. In fact they're not doing anything and the tariff and the green certificates are still very, very attractive. And we believe that in terms of production the year was up and hopefully next year will be a little bit better.

### 8. Financials - Net Financial Position

I would say that most of the issues have been covered and the financial position was positive at the end of the quarter, €107m, a sharp difference vis-à-vis last quarter, about €240m difference, partially at the expense of working capital, as you can easily see from other slides and it was somewhat of a difficult quarter to manage from a working capital point of view and things will stabilise in the future. And at the same time I would like to focus your attention on the fact that our bonds which are coming due, the €250m Euro bond which is coming due in July, was shifted from long-term to short term and that kind of explains also part of the changes in our current ratio position. So those are more or less the interesting things to say about our net financial position.

Like the explanation this time but lots of exceptional and a somewhat exceptional quarter as well.

### 9. Financials - CAPEX

There's nothing to say instead about CAPEX, about €130m and perfectly in line with our guidance and bear in mind that some of it is due to the capitalisation of turnaround costs for the FCC.

So now enough with the boring part and let's take a look at the future. Dario.



## Outlook and Strategy

**Dario Scaffardi**

### **I. Outlook & Strategy**

Thank you Corrado.

So as we mentioned before this quarter was a quarter of transition in which we saw a sharp decline in price although this helped refining margins we were not able to capture the full value of the day by day margins because of course in our business we buy crude and sell products at a later stage, so there is always a time-lag. We hedge for this and the effect in this quarter was quite substantial, as a matter of fact Corrado explained it extensively, but still hedges are not perfect there's an amount of basic risks so it was not possible to capture fully the value on paper of margins that were in very positive territory in November/ December because of the overall price dynamics of the market.

Since the end of the year the market seems to have stabilised prices have come up a little bit but still have not really affected the margin scenario which are still extremely favourable and we expect that for 2015 and possibly even looking further on the scenario is a reasonably favourable one although we keep in place our safe cards in order to monitor the market continuously to see any changes.

Areas of opportunity that I mentioned at the beginning are in non-conventional crudes of which the market is showing quite a lot coming from the most diverse areas and even if the price has come down I don't expect that the availability of these crudes will come down any time soon because it took years to develop these fields so they are not going to be shutting overnight just because the price has come down, in the same way crude can be from Canada and so forth and crude from the US is not really showing any sign of diminishing any time soon. Of course over time this could have an effect.

Another very important factor for the year is that 2015 will be a year without any significant maintenance so we will be able to run around 15 million tonnes compared to 12.6 of 2014, so this is 2.5 million tonnes more so with these margins this is going to be a very significant boost to our financial results, further compounded by the positive, from our point of view, outlook of the US dollar.

Very important for us in 2015 will also be what we are going to do with the acquisition of Versalis. This has been a very complex transaction that took a long time to finalise. ENI which owns Versalis has been a very, very tough counterpart with which we had to deal. Historically this plant was running a significant amount of its feed stocks coming from SARAS, over 80% of the plant was basically running for SARAS' account. But the commercial relationships with even the two companies was regulated of course by contracts so both SARAS and Versalis were each optimising their own contracts and although over the years there have been many times in which we tried to, both sides, to improve both SARAS and Versalis had their own agendas and since the Versalis plant was integrated within the network of Versalis and ENI they were optimising their plant within their own circuit logically and the contracts that regulated the relationships were long-term





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contracts that were in place for many, many years. So the respective pilots of the units were each optimising the contract, not necessarily optimising the overall values.

The challenge that SARAS has is really that of being able to fully exploit the possibilities that come with this unit. So just to mention a few, we will be able to run or we will have a possible incentive to run crudes that have more naphtha content, this to use more naphtha in ex-Versalis plant which now we call Sarlux North. Furthermore we will try to maximise the feed stocks and the intermediate components within the various blends. We will enter into markets that are new for us, the semi petrochemical markets, meaning the markets regarding benzene and propylene of chemical grade propylene. So these are new markets for us and we will expand our customer base.

So all in all if we are able to fully exploit, just from the operational point of view because I'm not mentioning all the other opportunities that we have in terms of industrial synergies of maintenance, headcount, off-site services and so forth that are projects that we are developing of course, but these will take a little bit more time to take place.

So it's a very, very challenging opportunity. Of course we will also have to maintain these units. There will be investments to be made to have them fully up to date and up to standard. So all in all quite a remarkable year for us.

We are further very optimistic, as Corrado was mentioning, on the Power segment, very basically because the crude oil price has gone down, has almost been halved while there is a relative stability on the power price which is more linked to gas prices and although gas will follow to an extent part of the fall of crude of course the two markets, the gas market and the oil market over the years have decoupled and everybody was happy about this decoupling before and you could not expect it to be reversed now.

Slightly more challenging is the outlook for our Marketing segment. The situation in Spain particularly in terms of tax is extremely worrying because this new tax has been levied and there is no way of offsetting it while the industrial companies in Spain, for instance, the major oil companies operating there can gain credits if they do energy efficiency projects so they can offset this fact. Somebody who is involved in a pure commercial operation like ours has no possibility of offsetting this tax.

Initially though it would seem that at the moment the various companies are passing on this tax to the final consumer so with a negative effect on the market prices but a little bit better on those other companies.

So I think we looked at all the main items and we will be ready to take your questions. Thank you for being with us today.

## Questions and Answers

### **Niccoló Storer – Mediobanca**

Good afternoon gentlemen and congratulations on the results. I've got four questions if I may? The first one on the glut in US crude oil as a liability and on how it could be reflected in downward



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pressure on WTI and in lower refining margins in the Mediterranean area. Which can be in your view a reasonable timeframe for this trend to end and which effects on your business?

The second question is related to the famous “Fitness Check” being carried out by the EU commission on the refining sector, I was wondering are things still progressing or has the focus somewhat diminished together with oil prices?

The third question is related to guidance on Italian GAAP, IGCC EBITDA, is the €48m posted in Q4 something repeatable going forward, clearly assuming stability in both oil and gas prices?

And the very last question is related to the impact of biodiesel plant on your marketing operation, if you can quantify the negative impact on results? Thank you.

### **Dario Scaffardi**

Thank you Niccolò. Well on your question on WTI if I understand correctly you are asking if the situation of a wide gap between WTI and Brent can occur again. Did I read you correctly?

### **Niccolò Storer**

Yeah I mean it's already occurring with spread widened to \$99 per barrel.

### **Dario Scaffardi**

Yeah my personal view on this is this is a relatively temporary effect. I mean we saw the spread a couple of years ago going to \$25 if I remember correctly and of course then the market rebalanced itself. The US one way or another built infrastructure and the market rebalanced itself in order to be able to export crude in order not to have this situation. Now I think it will be a permanent feature of the market to have WTI at a discount to Brent. My view is that discount will be in the range of anything between \$3 to \$6/\$7 about and as soon as it moves to levels which are below the market will tend to rebalance itself. If you look at what happened in the last couple of years in the US you had an enormous increase of transportation of crude by rail which substituted the non-availability of storage or pipelines. Now the US can continue forever to decide whether they want to build the keystone itself or not and all the issues but the market is working by itself because it is unimaginable in my opinion that you can have for an extended period of time imbalances like we had a couple of years ago in the range of \$25.

It gave a fantastic boost to the US refiners. I think that they gained a competitive advantage that is going to last for a very long time because it paid for new investment and paid for infrastructure so even if today they are facing the situation in which the advantage that they have in terms of crude prices is not the same as what they had before still I think that they gained quite a lot of momentum that is going to take them forward for quite some time.

At the same time you have a significant increase in consumption of diesel in South America which is absorbing a large part of the excess American production. So at the moment I'm not really worried to see a Cushing's Syndrome like a couple of years ago again.

On the “Fitness Check” by the European Union, I would prefer not to make comment because I could be sued by any of the commissioners. Let's just say that they took so long in making this “Fitness Check” that one had the opportunity of being born and then dying also and we're



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checking. So I would say that it's wholly irrelevant. This "Fitness Check", if I remember correctly, was proposed in 2011 so historically refinery cycles were in the range of three or four years, now maybe refinery cycles are shorter or longer I don't know but taking four years to decide if somebody is in good shape or not is ridiculous.

I think the other questions Corrado should give you some guidance.

### **Corrado Costanzo**

Well starting with the big numbers the Italian GAAP for the IGCC, yes if you multiply 48 by four you get close to 200 million but we'd rather be a little bit cruder and give a guidance of something around 180, 190, something like that and then we will see. It is true that compared to Q4 crude oil prices went down further but also we still like to be somewhat on the safe side.

Biodiesel took several million Euros away from marketing last year but I'd rather not be that specific now we just closed a disposal deal but it took several million Euros away.

### **Niccoló Storer**

Thank you very much and happy to see that finally your time seems to have come. Thank you.

### **Matt Lofting - Nomura**

Thanks for the presentation gentlemen. Just one question if I could, you talked about some of the market opportunities linked to non-conventional crudes and that SARAS should be well placed to take advantage, I wondered if you could just give a bit of context around that perhaps in terms of talking about the size of the premium margin over and about the EMC benchmark that you're currently realising and therefore what the scale of the increase is perhaps compared to the normalised conditions of the last few years? Thanks.

### **Dario Scaffardi**

Thank you Matt. I think that's an interesting question but still I would want to be a little bit guarded in my response because there are sensitives involved, some giving very specific numbers and ideas on exactly what and what prices contrary to the agreement that we have with our suppliers. Let me say that there have been developed a variety of fields around the world, in Europe, in the Middle East, in West Africa and in South America that all tend to produce heavy crude oils, and when I say heavy crude oils I'd say anything that is in the range between 20 to 28 API. Varying degrees of sulphur, you have crude oils that have very high sulphur content and others that instead are relatively sweet in terms of context. Sometimes also the sizes of these cargoes are odd sizes in the sense that sometimes they are small cargo sizes, in the crude oil market in the Med are basically 280,000 tonnes and 130,000 tonnes which means that which means 600,000 tonnes or a million barrels. These cargoes sometimes come out in lots of 20,000, 30,000, 40,000 tonnes which contrary to what might be intuitive are not easily acceptable by many installations because of a variety of constraints. So these crudes, compared to their parity value may have discounts that are in the range of anything between \$2 - \$6 per barrel that give a significant advantage to any refinery but an even more significant advantage to ourselves because through our gasification unit we are able to process residues that have a very high sulphur content and removing the sulphur entirely that others do not have. So this is a very significant boost that was explaining Corrado before with the very



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good example of the win/win situation with both the refining sector and power gen sector benefit. I'm sorry if I cannot be more detailed.

### **Henry Patricot - UBS**

Good afternoon. Two questions from me, the first one on the Power generation business. I was wondering if you could give us more details on the demark assumptions that you are now using to evaluate the CIP6 contract?

And the second question just on the financial position has improved quite a lot in Q4 in cash priorities. I was what are your priorities to use that cash? Thank you.

### **Dario Scaffardi**

Well that will be all used for bonuses to the management.

### **Corrado Costanzo**

It's going to be a big bonus. All right again I'm the boring guy so I will first start with the boring part. For the IFRS equalisation process what we use are forward looking projections from our leading consultants, IHS which is former Wood Mackenzie and Purvin & Gertz these guys and as appropriate also we use some long-term projections when it comes to inflation, exchange rates, from also very well-known institutions. In general these projections somewhat recognise today's market situation both for gas and oil and the dollar and inflation and blah, blah, blah. But then most of the projections over a five year period slowly but surely go back to the kind of scenarios that we were more familiar with until six months ago. So what they see is the oil prices back around \$100 per barrel but in five years' time. And the Euro picking up again against the dollar but again very, very slowly. Inflation also coming back in Europe, but again slowly.

And then what you do when you perform this analysis again with the help of an outside expert which actually rendered an expertise for the Board, this is serious stuff when you do a revaluation worth €180m when you perform the analysis you put everything into a VCF model and at this point since the good part for us is that it's front-ended and a somewhat less exciting part is back-ended, what you end up with is a major revaluation. This is how it works.

Also GAAP prices, as Dario was saying, are instead projected to be somewhat more stable and that's the recipe. And everything stops in 2021 because this does not look beyond the current contracts.

### **Corrado Costanzo**

Well how to use the cash certainly we will be more explicit about that once we actually see it in our bank account. Naturally our priorities are we're staying on the safe side so first of all CAPEX is still being standardised around the same amounts that we have seen in the last years. By the way the refinery is very well configured, very well equipped and it's running also pretty well. We have performed major maintenance and so we don't have to dump a lot of cash on that. And they certainly we want also to improve our working capital, improve our net debt position and somewhat strengthen the company.



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Then of course after a few quarters of good results we will certainly be able to be more specific. If you will we certainly are not short of ideas for further improving the refinery configuration, further strengthening the refinery but we will be very prudent. And naturally dividends can never be ruled out, obviously for 2016 you have to look at 2015 and then at that point you can look at dividends so if that was the question I'm going to disappoint you for 2015 dividends are not on the table yet. This is more of less, but we will be more specific as the year progresses and hopefully as our profits progress accordingly.

### **Joshua Stone – Barclays**

High good afternoon and that's for the presentation. Two questions please, just firstly on the fixed and variable costs I see they've come down like a lot of that is to do with the lower oil price and the energy costs, is there any underlying improvement as well and whether you could perhaps talk a little bit about that and your scope for that for next year?

And then secondly in Marketing have you seen year to date any underlying improvement in demand with the lower oil price? Thank you.

### **Dario Scaffardi**

Yes I will say interesting questions. In terms of the cost we have undertaken over the last basically four years a very robust programme of cost cutting which has yielded important results as you pointed out, some costs are linked to energy so put together very low costs you would see a diminishing of these values due to the cost but on the fixed costs we have seen some important results, even considering the fact that there is a certain amount of cost inflation because the costs involved mainly with HSE and environmental legislations, and other costs have risen in a very significant manner and we have been able to offset them.

So our programmes are continuing and we can continue particularly with the Versalis acquisition we expect that over a two to three year period we will be able to make some important improvements to the overall headcount and to certain fixed maintenance cost and HSE cost that involves the two units.

If I'm seeing on your second question the answer is we are seeing some important signs in other parts of the world, in Italy the decline in consumption would seem to have bottomed and if I remember well the statistics I looked at the other day January was the first month after years in which gasoil consumption in Italy has shown a positive percentage sign instead of a negative one. So I'm not bullish on the market in Italy I just think that the market has probably bottomed out, will not decline anymore and if their economy recovers for whatever reason it is reasonable to expect a certain amount of increased road traffic just for commercial transport reasons.

### **Massimo Bonisoli – Equita**

Good afternoon gentlemen and congrats for the results. There are a couple of questions from my side, one is regarding the refining margin outlook for the second part of the year, one of your competitors mentioned a more bearish outlook on the second part of the year due to new supply coming on stream from the Middle East and Asia what are you thinking about that and what could be the effect on the refining margin in the Mediterranean?



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And the second question is on the timing of synergies from the acquisition of Versalis. Can we consider the ten million already in 2015?

### **Dario Scaffardi**

Massimo thank you for your questions. Now on the last question yes because those ten millions are not really from synergies because the synergies we have two orders of magnitude here. One is the management of the feedstocks so what you put into the plant and what you get out of the plant. That is something that is totally under our control and we have as a matter of fact from the 1<sup>st</sup> January started immediately to factor into our mathematical model the new units and we plan on taking immediate advantage of this and I'm confident that also in the first quarter results we will have some numbers to prove this. So that is an immediate effect and the ten millions relate to that and we are confident of being able to achieve that level in 2015.

The other effects which are fixed which take longer to carry forward so things that regard personnel, headcount, maintenance and so forth, is a multi-year programme. So those effects will come into a later stage and actually at the beginning you might have some costs to rationalisations. So it's a longer term project and we will plan to take in a careful manner. Labour issues in Italy are never easy so our way of dealing with this has always been a prudent and a careful manner without pushing too strongly on the accelerator.

Sorry you also asked something regarding...

### **Massimo Bonisoli**

Yeah also the refining margin for the second half of the year?

### **Dario Scaffardi.**

The crude refiners of the Middle East? Yeah that's not good news. The only bright spot on this is that, you know, everybody thinks that these new refiners will create a situation but everybody is targeting the European market, the only market in the world which is structurally short of diesel is Europe. So we have a very, very significant logistical advantage compared to these other new refineries that have also compounded effect, they are geared to make diesel and diesel is the wrong diesel with is 10 PPM sulphur it's very low sulphur, environmentally friendly fuel. We expect a very significant increase in demand for poorer quality diesel which is the marine diesel because as you probably know with the new regulation in 2015 there will be a shift from fuel oil to diesel and actually refineries like ours and all other refineries are better equipped to take advantage of this situation because we can maximise runs making relatively low quality fuel and compete with somebody who is forced through the configuration of their units to make high quality.

But having said all this of course this has a potentially negative impact although I don't believe will be so significant because the overall market scenario has really changed because the new refineries have been on stream, actually the Humber Refinery came on stream last June and refinery margins have improved significantly and there has been diesel sold from Yanbu into Europe. But you do have to overcome quite a few logistical constraints, a little bit less easy than what it may seem.





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### **Closing Comments**

#### **Massimo Vacca**

Okay well if that's the case I would like to thank everybody for listening in this evening and we look forward to speaking with you again for the first quarter results later in May. Thank you and a good evening to everybody.