



Second Quarter and First Half 2012 Results

10th August 2012

Welcome

Massimo Vacca

Head of Investor Relations

Thank you. Good afternoon ladies and gentlemen. Welcome to SARAS' second quarter and first half 2012 conference call results. I trust that you all received the analyst presentation which we will be discussing today. However, if you still need this presentation it can be downloaded from our website directly from the homepage or also in the section dedicated to the investor relations.

Our agenda today will be the usual one. We will start with Mr Dario Scaffardi, General Manager who will start with the overview of the group results and he will cover the highlights of the period. Subsequently, Mr Corrado Costanzo, CFO will provide a detailed review of the results of each business segment and will also discuss the group key financial figures. Afterwards, back to Mr Scaffardi for the market outlook and the group strategy. And finally, as usual, we will take your questions. Dario please.

2011 Overview

Dario Scaffardi

General Manager, SARAS

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen and thank you for joining us for our Q2 results. This quarter from the perspective of oil market has been extremely interesting. We've seen crude oil drop by over \$30 between the average of March compared to the average of June. We've seen margins towards the end of the quarter rebound, mainly due to the sharp drop in absolute crude oil prices. We've seen some very wild movement in terms of quality differentials of crude oils due to mainly the embargo on Iran which came into full effect between May and June and altered significantly on the one hand the prices of sour crudes but has had also an influence on



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sweet crudes. We've seen a sharp drop in the value of naphtha which has had an interesting effect on certain sweet crudes which, for instance just to give an example the Kazakhstani crude, the "CPC Blend" has moved from the beginning of the year to the end of this quarter from being at \$3 or \$4 premium to a couple of dollars of discount. So a period in which things have changed widely.

Our results have been mixed in this period. The refining part has not been able to capture the full potential of the margins that were apparent in the latter half of the second quarter mainly due to two reasons, one was well-known, we had maintenance which was overlapping between the first and the second quarter and this maintenance has influenced of course results. It has influenced the results even more since the margins were higher than expected, so the guidance that we gave was based on a different scenario. The fall in price also had clearly an effect although we have an active hedging policy in place still there are certain basis risks and certain other unavoidable risks, particularly when we are taking about feed stocks and this has had an impact in the quarter where we have seen prices go from \$120 in April to \$95 in June. So we have been impacted by these effects and also as I mentioned before by the variations in absolute differentials in the standard grades of the mid Iranian. The extreme volatility of the market has created serious challenges.

If we look at the various cracks, quite positive compared to the expectations has been the gasoline cracks, contrary to all expectations, mainly due to this robust demand in Africa, North Africa and on the US East coast where many refineries have been closed. So there has been more than expected demand in gasoline which accounts for the relatively high crack spreads.

Diesel spreads have been slightly disappointing. We were all expecting something better and I think that the sharp decline in consumption in Europe in general and in Italy and in Spain, in particular, which year on year has shown declines in the range of almost 10% has taken its toll.

Not reported here is the naphtha spread where although for our company accounts for a relatively part of the production still in the overall market has had an effect. Naphtha margins are sharply negative.

Corrado.

Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Thank you Dario, let's go through the segments as usual and start with refining. There's a huge difference in this particular quarter between the reported EBITDA and the comparable EBITDA and I am pretty sure that all of you remember that the reported EBITDA are based on FIFO inventory evaluation at the end of the quarter and comparable numbers instead are based on LIFO inventory valuation at the end of the quarter. Because of this extremely sharp drop in the prices of crude oil through the quarter (we're talking about something around 120+ \$/bl at the end of Q1 and roughly 85 \$/bl at the end of Q2) clearly there has been a very meaningful impact on our reported earnings and EBITDA. At the same time the comparable number is largely, maybe not completely,



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but largely unaffected and therefore it reflects more accurately the operational results of the refinery.

Maintenance, this was a heavy maintenance quarter. This maintenance was by and large completed on time and on budget with some obvious differences here and there, you're talking about major projects but we are reasonably satisfied about it and on the other hand we were not able, as Dario was saying before, to capture fully the margins which markets offered from time to time during the quarter. In particular hedging is never a perfect exercise. There's basis risk. There are also unexpected events, also the logistics were not perfect during the last quarter because of this Iranian embargo creating nervousness in the markets and other sources of crude being stretched to an extent like Iraqi crude being stretched and therefore the logistics were not perfect. So it was a somewhat peculiar quarter and we must say it did have some impact on our numbers.

On the other hand in other quarters, so say, I'm thinking about it's the distant past for markets but Q1 of 2011 for instance markets were somewhat nervous and unpredictable and we made instead very sizeable trading profits. So on average we fair well. In this particular quarter we've had some small problems here and there which however show in our bottom line.

Having said that these are largely one-off, or not very recurrent items. We have to look back to Q1 of '11 in order to find significant trading impacts on our numbers.

Just a quick note on exchange rate. It is noted the strength of the dollar vis-à-vis the euro which has been increasing through the year, is beneficial for SARAS and should continue to be beneficial throughout the year.

2. Production and Crude Oil Slate

I would skip production and crude oil slate because really during a heavy maintenance schedule these are not particularly significant and we have maintained and we continue to maintain that crude slate makes sense, at least on a yearly basis.

3. Fixed and Variable Costs

So let's take a look instead at fixed and variable costs. Fixed costs definitely under control in spite of heavy maintenance and so we're perfectly on target compared to our guidance. Costs were €106m which on a yearly basis add on to something around €110m.

Variable costs are slightly higher but also influenced by the different prices of commodities which are being used and utilities which are being used. But anyway those costs, as you might all remember, are included in the EMC benchmark and in our net margins.

4. Power Generation

Power generation. It was a reasonably good quarter. Pretty heavy maintenance here too so let's take a look at the IFRS numbers. IFRS numbers again are linearised or equalised over 20 years - ten years to go, about, or nine years to go and the difference is due to some non-equalised items, some hydrogen, steam, and to the fact that we have somewhat updated the...embedded the price of oil



which is embedded in the electricity pricing formula during the last quarter of last year and so year on year just say a fairly significant difference but we think that what we're using today is certainly more accurate than what we were using last year.

5. Fixed and Variable Costs (IT GAAP)

From a different perspective, the perspective of the Italian GAAP numbers much better quarter than last year's but last year we had a massive maintenance schedule and this year it was lighter. So certainly it was, as I said, a reasonably good quarter and the plant is now in very good shape to go back to its highest operational levels in the coming next two quarters of the year.

The tariff was very nice, we have to say, 12 euro cents per kilowatt hour in Q2 of this year compared to ten last year but this was actually already more or less there during Q1. So very encouraging tariff. And by the way we have chosen not to take advantage of the voluntary early exit scheme which was proposed by a certain decree that was passed back in December of 2009 and as you might remember there was a deadline of June 30th. So we have chosen to continue to enjoy the CIP6 tariff.

Fixed costs this year again, fixed and variable costs and fixed costs here was slightly above the previous quarter but again influenced by the maintenance programme which was carried on.

II. Marketing

Marketing. Numbers obviously here are much, much smaller. In general markets are difficult. Consumption has been going down by a few percentage points almost steadily over the last couple of years and the last few months were no exception, however we have continued to focus on margins rather than volumes and we have to say this policy is successful and we continue to be very satisfied and we are still able to post decent EBITDAs in spite of overall market and overall country-specific economic conditions.

By the way by focusing on margins rather than volumes we are also capable of controlling inventories and credit much more effectively and so we also are reducing our debt as volume.

III. Wind Power

Wind was I would say okay. I mean usually Q2 and Q3 are not the best ones but on average we still believe that the EBITDA for the year, because that's the only meaningful benchmark, should be around €20 - €25m which is quite close to the free cashflow created by this unit. There's no CAPEX basically. Also very encouraging the government passed its new legislation regarding renewables in June and the older projects like the Ulassai project are fully protected and will continue to enjoy the current tariff scheme for the long term. So this was also very encouraging and therefore what we're seeing this year will be replicated over many years to come.

IV. Others

I would skip others.



V. Financial Overview

1. Key Income Statement Figures

I think that this particular quarter it is worthwhile to spend a few words on cashflow and balance sheet. Well first of all the sharp decline in net debt was due to two main factors, the first being tight control of working capital in general and all inventories in particular and the other being some temporary problems in paying Iranian crudes in connection with the embargo from the EU. Basically international payment networks have been frozen in respect of these payments. So in spite of numerous attempts in good faith we were not able to pay all the crudes that we purchased from Iran before the embargo came into effect. This is obviously a temporary factor. How temporary remains to be seen. We have no clue. Nobody has any clue.

Having said that, I would still like to stress the fact that our core cashflow is more or less balanced, or was during that last quarter, more or less balanced in spite of heavy maintenance schedule and not being able to fully capture on the margins which were available. In other words if you just look at our comparable group EBITDA which was roughly €40m and compare that to CAPEX which was roughly again €40m that's pretty much close to zero and taxes and interest expenses didn't play any particular role.

So, in spite of difficult overall conditions, in spite of a heavy maintenance quarter the core cashflow was still balanced. On top of that we clearly benefited from tight working capital management and also from one exceptional event which will last for - nobody knows how long it will last.

2. Key Cashflow Figures & CAPEX

And naturally you're all aware of the fact that we were able to establish a new five year line of credit €170m with a syndicate of domestic and international banks. The cost is reasonable, given the times it's reasonable, and this also is, we believe, a sign that markets look at us in a...I mean lenders look at us still in a favourable way and they fully understand the element of stability which is brought by all the power units in particular and our ability to control our working capital and CAPEX in order to successfully go through the bottom of a cycle and that is the lender's perspective but today that's an important perspective because lending has become crucial for every corporate.

So, I would revert back to Dario for a look at the future.



Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. 2012 Maintenance Schedule

Thank you Corrado. The rest of the year is going to be basically without any significant maintenance so we trust that as is happening currently, and as has happened in July and is happening now, we will be able to take full advantage of market conditions. Hopefully the spike that we have seen in these weeks on crude oil price is something relatively temporary and once certain political tensions ease off a bit we can hope that we would have a more balanced market like we did see in the latter part of Q2.

2. Strategy & Outlook

In terms of our strategy and outlook there have been no real significant changes to the things that we have already explained in previous calls. I would like to highlight though a couple of positives. First of all our improvement programme Focus is showing concrete results. As you can see for instance on our fixed costs which are recorded on page nine, for the first half of 2012 these have been €106m, and we gave a guidance of something between in the range of €110m, €220m so having achieved €106m in the first part of the year which is also the part of the year with heavier expenses to the maintenance, is a very good result.

The other very good result that we have achieved is the management of our inventory. We have been able to reduce refinery inventories by almost 20% which is a significant achievement because it's something which has happened over a relatively short period of time and at the same time we've been able to make full use of the sale of compulsory storage which has become much more interesting in terms of return because there is lack of compulsory storage available and we have made full use of all the flexibilities that current legislation allows us. So we've had some significant improvements on that.

As Corrado was mentioning before a huge result is having achieved the syndicate loan which was something that proved that the majority of lenders have faith in our company. All the other projects like the other wind projects and the gas exploration are sort of in standby still due to requests for, not the wind I'm sorry the gas, is due to the fact that certain procedures have been asked by authorities in Sardinia to make further environment tests on the fact that drilling for gas will not create any environmental damage. So the authorisation process will probably be delayed a bit.

The project for a wind farm that we have in Romania has been fully authorised so we'll decide the way forward with that in the forthcoming months.

At this point I have nothing really more to add so we would be pleased to take any questions which you might have.



Questions and Answers

Alex Topouzoglou, Exane BNP Paribas

Hi there thanks for taking my questions. Firstly just on that loan it says the loan is repayable in nine half yearly instalments with 5% due in June 2013, just for reference what is the repayment profile after that?

Secondly vis-à-vis the payment for the Iranian crudes are you effectively not going to pay until the embargo is over or will you have to put the cash in escrow in the meantime?

And then just, I mean it may be potentially a bit early to start discussing this but with such a heavy 2012 maintenance what are your expectations for 2013 maintenance looking like now? Thanks.

Corrado Costanzo

I'll go ahead with the loan question. The loan has an average duration of three and a half years and there's a minor instalment in 2013 and then you move on from there. Quite frankly I don't remember the exact loan repayment schedule.

And regarding the second question no we don't anticipate to be required to put the money in escrow and at the same time we don't even know whether we'll be paying these crudes once the embargo is over or before. It's all fairly undefined. As you might imagine we purchased crude oil from Iran when it was perfectly legal. There was no problem whatsoever with the imports, then when it was finally time to pay the crude the international banking and payment network basically was frozen and it is almost impossible to do any financial transactions with Iran. Is that related to the embargo? Of course. Is that strictly mandated by the embargo? The answer is no. So there's a grey area there. So we'll see. There's not much else we can say at this point.

Alex Topouzoglou

Well hopefully you won't have to ever pay it.

Dario Scaffardi

Well unfortunately I don't think we're going to be that lucky. Soon we will have to pay and it's a really a situation which is extremely fluid I mean things are changing continuously as Corrado was rightly saying I mean it was perfectly legal to buy the crude and it was also legal to pay the crude but then the banking system was not willing to effect financial transactions with Iran so it's sort of a "Catch 22 Situation".

The maintenance that you were asking 2013 for the time being is a year in which there is no significant maintenance because there is our main conversion units which are the FCC and CCR, the catalytic reformer, one has been maintained this year, the catalytic reformer, so that will have five to six years. The only usual maintenance is on the hydrocrackers that need to substitute a catalyst every 12, 14 months. So we will have usual maintenance. We might decide to prolong the maintenance on one of the hydrocrackers and do a little bit more work on it for the revamping



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programme that we have in place. So when the time comes we'll make a decision as to concentrate work in 2013 or do part in 2013 and part in 2014.

So to answer your question 2013 should be a relatively free year of maintenance although since we have many, many units we always have a rolling programme so there's always something which is under maintenance but let's say not the main units probably one of the three topping units will probably fall in 2013.

Thomas Adolff, Credit Suisse

Good afternoon. I'm a bit surprised to see your share price down so much given that your life EBITDA adjust for hedging was pretty much in line with consensus and your cashflow looks pretty good but in any case just to my question, just on the working capital effects during the quarter if you can quantify the effects from the Iranian crude, the crude price movement and what is really related to the inventory optimisation? I'm assuming the latter is really the true benefit from this quarter regarding working capital.

Then I've got two follow up questions please.

Corrado Costanzo

Well I'm afraid we're not in a position to be any more specific on this Iranian crude thing. It is a significant amount and we stated that clearly in the notes to the financial statement but there is also a counterpart there, there's ministries involved and we also as I said have elected, in accordance with our auditors, not to be more specific. It is a significant amount.

Thomas Adolff

Okay and what is it then related to your inventory optimisation x-ing out the...

Corrado Costanzo

As Dario was saying about 200,000 tonnes and you can easily do the maths and that's a significant amount too.

Thomas Adolff

Okay and the other two questions if you could give a bit more colour on the capital light business in the context of your quite low CAPEX depreciation ratio, especially when I compare that to your peers, for example, to Neste?

And then the final question is just if you can give a bit more colour on what you're seeing in the Med market right now especially runs and imports into the region and also if you can give a comment on the sour crude or the light heavy crude spreads? Thank you.



Corrado Costanzo

I'm not sure that I fully understood your first question so maybe if you could give a little bit more detail. I mean controlling CAPEX during such a difficult period is clearly one of the key issues and therefore we are obviously not embarking on any new major project, some optimisation here and there and a lot of maintain capacity and HSE type investments.

Thomas Adolff

Okay my question was because if you look at your CAPEX versus your depreciation the ratio is quite low than when I look at, for example, Neste, who has got almost 100% CAPEX to depreciation ratio and that's the number they're guiding to be a normalised CAPEX and I was just wondering why your CAPEX...

Corrado Costanzo

Well clearly there's an answer to that we have invested quite a lot in the last few years say until '09, and '09 included and therefore you're seeing the effects of those investments on our P&L today in terms of depreciation. And times have changed. The refinery is perfectly up to date, can compete with the best without having to incur in any major upgrade today and so we have scaled down significantly our CAPEX programmes because really they're not needed to compete today but in terms of depreciation you do see the effects of what was done until '09 and that's pretty much how it works.

Dario Scaffardi

Sorry you had a question on the Med markets right?

Thomas Adolff

Yeah on the Med that would be great.

Dario Scaffardi

What in particular because it could be a very long or a very short answer depending on where would you like us to focus on?

Thomas Adolff

Yeah I mean Q2 obviously surprisingly lower runs from a lot of the IOCs, I was very surprised how disciplined they were and obviously margins were very high, now I understand quite a few of these guys are ramping up the runs so I just wanted to know specifically what you're seeing in terms of volumes there in the Med market and at the same time you're obviously seeing some disruption in Asia Pacific which is helping reduce exports into Europe of distillates. Stuff like that that would be great.



Dario Scaffardi

Okay well there are a lot of strange things happening in this market. I think if you just look at the market on the basis of fundamentals we would have a moderately healthy situation and then there are a lot of one-off things that are confusing the picture I would say. In terms of runs in the Med there have been various announcements of closures of refineries in the Mediterranean area, particularly in Italy. So the Rome refinery which belongs to TotalErg, will shut down at the end of September so it clearly is reducing runs. So it will give I think a boost to local margins. The refinery in Falconara which is on the Adriatic coast and belongs to API will be shut down by the end of the year, supposedly for one year because they have taken advantage of the scheme of early exit from the CIP6 tariff on the basis that we believe they might decide to cease operations in terms of refinery but clearly I don't know. They don't have any official programmes in that respect only to shut down for one year for revamping and for connecting the power plant, the gas lines and a variety of other.

Then there is also the refinery of Gela which belongs to ENI in Sicily which also has been for a large part on 100% shutdown for an indefinite period, supposedly one year and then we also assume that it's going to be sort of difficult for it to really restart. So the picture overall is changing. Those who are in operation have tried to take advantage of the situation of the margins although a lot of units are traditionally in maintenance in the Spring period, so March, April, May is traditionally a period of maintenances for refining.

I would say that the main factor that has disrupted, apart from the sharp drop in prices which has taken everybody by surprise, although we were expecting that, you know, in the previous calls we always stated that our view was to see a declining market, we certainly didn't anticipate so much and so quickly and at the same time we didn't anticipate the rebound that we've seen in the last weeks based on sort of nothing because the supply/demand picture is still a relatively bearish one that sees a lot of supply and relatively small demand.

On crude differentials what we have seen is clearly wide swings in sour crudes. This Iranian embargo has affected the markets in an important way, not so much in not having actual crude available, crude is available, but Iran had one thing it was a very stable and dependable supplier, for a variety of reasons, because they have big installations, because they are in areas which are not subject to bad weather. So they've always been traditionally a very, very stable supplier.

Iraq has increased production in an important way. It has topped the three million barrel a day mark a couple of months ago and it is further projected to increase but Iraq is a very un-stable supplier. It has frequent disruptions. There are big delays. So while overall the crude is available in terms of balance, it might not be available when you need it. So this creates a short term imbalance in prices and this is the reason why the Urals spread has been going all over the place. It has been in the range that it has touched a minimum of minus \$2 in March/April and then it has jumped in July into positive territory and during May/June it has moved around by more than \$1.5. So likewise for the Iraqi barrels which today would be the natural substitute for Iran, if they were a little bit more dependable in terms of supply and programming. They export crude from Mina al Bakr in the Persian Gulf, the Basrah quality, and then the Kirkuk instead, is exported to the North and it's the less dependable because there is a pipeline into Turkey which is often out of service or bombed and so forth. So there are very long delays in loading in Turkey, even 15, 20 days which creates serious



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disruptions to the market and to the market pricing and if you are caught on the wrong side, then you have problems, which has happened to us. A cargo of Kirkuk and then it's not loaded for whatever reason, we're forced to go at the last moment to some other crude and necessarily paying up for it. So it's a moment of extreme variations.

Another thing which is important to notice in the Mediterranean is the fact that the sweet grades have been moving all over the place. I mentioned at the beginning that crudes like CPC have gone from positive premiums to discounts in the space of a few months. The same thing has happened with what was a very traditional crude in the Mediterranean which Saharan Blend which traditionally is a very good quality, very light crude that has always been at a hefty premium to Brent and that as well has gone to a discount.

So a lot of things happening in this market and at the same time for instance a big demand in the Far East for Libyan crude because a couple of these qualities are very low sulphur and the Japanese have been buying because of the shutdown of the nuclear plants, they buy very low sulphur crude. Again we believe that this is a temporary effect because on the one hand Japan is restarting at least part of the nuclear reactors and on the other it's building infrastructure in order to import more LNG but that also has created some structure in the market. We're also seeing more West African crude being made available in the Med because again this is a very global market. The US is importing less crude in general and in particular less West African crude in specific and this is being offered ever more frequently into the Mediterranean. So the whole picture has changed quite a bit.

I'm sorry if I've maybe been a bit too long in my answer.

Thomas Adolff

No thanks very much I appreciate it.

Matteo Bonizzoni, Cheuvreux

Good afternoon. I have two questions. The first one is on the net debt position that you expect at the end of the year assuming that the payment terms to Iran will normalise. We have heard that you are not in a position to quantify what was the impact at the end of the first half, can you comment on the current consensus estimates that for the end of the year are in the region of €450m for €100m of debt? This was the first question.

The second question is on company specific premium in Q2 it turned negative for \$1.1 per barrel compared to the EMC benchmark so if you can elaborate a little bit more on what we should expect for the second half of the year? Of course the premium in the second half was penalised by the maintenance, by the logistic issue that you have highlighted, should we expect a better margin and a better premium above all in the third quarter? Also I'd like to understand that the eventual spread is close to zero or other issues that you want to highlight.

And the third and final question is on the substitution of the Iranian crude with similar supply. I think I'm right that it was roughly 10% of your oil supply, the Iranian crude, so what are the new payment conditions with the alternative crudes? And in general what we should expect in terms of the impact on your margin from the substitution? Thanks.



Corrado Costanzo

Let's start with debt projection for the end of the year. Debt is influenced not only by whether we are going to actually be able to pay Iranian crude but also by working capital changes. Of course if oil crude prices go back up significantly our working capital might be bigger. So inventory reduction is one thing but the value of the inventory that you have to fund might be higher, or lower, depending on prices. So it's a rather complex projection and you have to make a number of assumptions. So it's difficult for me to say yes I confirm it. The list of assumptions is a bit too long, from operational to payment of Iranian crudes to absolute crude oil prices which as we have seen can change quite dramatically.

Dario Scaffardi

You were asking about Iranian crude, well as I mentioned before substitution is not really an issue because there are other crudes available. The effect on price is not so immediate in the sense that I would need to answer in two ways on this. On the one hand you have the price of the crude and we can say that the price of the crude has gone up, the price of sour crudes in general has gone up in terms of differentials. So I mean again just looking at the euro benchmark, the euro benchmark has moved from an area in March/April of around minus to around zero today. That does not mean that the margin has gone down by \$2 of course because then there's the other side of the equation which is the value of products and the relative value between diesel and fuel oil.

So if the sort of situation that we've seen in July, and the first part of August maintains itself continuous in terms of diesel cracks the margin for sour crudes will be a pretty healthy margin as we have seen in July. July margins have been interesting, they've been robust, notwithstanding the fact that the premium of Urals and all the various other sour grades which are based on that one way or the other, so Iraqi and so forth have been robust but the margins have been good notwithstanding because there are many variables in the equation that gives margin. So on the one side it has a negative effect in terms of outright crude price but you need to see what happens on the side of products and the difference in values among products.

Matteo Bonizzoni

Just to the third question was on your company's perceived premium that was negative in Q2 minus 1.1 so what should we expect going forward?

Dario Scaffardi

Well for Q3 and Q4 I mean you should follow the guidance that we've always given and that Massimo general always gives. So we expect to be able to maintain the guidance levels.

Mehdi Ennebati, Société Générale

Hi good afternoon gentlemen. You've almost answered most of my questions but I wanted maybe to know with which crude oil are you replacing the Iranian crude in your refinery? And second could you as well remind us your CAPEX guidance please for 2012 and maybe 2013 if you can?



Dario Scaffardi

The main substitutes are Russian Urals, Libyan Bouri and Al-Jurf, Kirkuk and Basrah from Iraq and then a variety of, let me say, exotic West African sour grades which have unpronounceable names. And these are the main substitutes of Iran. Can you repeat the second question though?

Mehdi Ennebati

Yes no problem. But you know you had around 10% of your crude oil product coming from Iran and you are replacing it so you are telling me with any other crude with approximately the same quality, is that what you're saying?

Dario Scaffardi

Yes and the main substitutes are Urals from Russia, Basrah and Kirkuk from Iraq and then a variety of other stuff.

Mehdi Ennebati

All right and the third question as regarding your CAPEX could you just remind us your CAPEX guidance for 2012.

Dario Scaffardi

It was €120m the CAPEX guidance for 2012.

Mehdi Ennebati

And for 2013 please?

Dario Scaffardi

We have not released it yet.

Mehdi Ennebati

Okay thank you.

Ioanna Exarchou, Citigroup

Thank you and good afternoon gentlemen. I have two questions please. Firstly given the increased competitive pressures in the Italian marketing sector in the third quarter can you talk a little bit about the level of margin pressures that you're experiencing in the wholesale sector as well as your expectations regarding the marketing segment's performance in the third quarter, particularly given your focus on margins rather than volumes?

And then just secondly a quick question on your inventory you mentioned that you have decreased your inventory levels by about 20% if I understood correctly. Can you give some colour as to how



many days of forward crude supply your number light inventory levels will be maintained at going forward? Thank you.

Dario Scaffardi

Okay thank you for the question. In terms of the market we must distinguish Italy from Spain because they are two very different situations. In Italy although year on year we've had a decline in consumption of almost 10% our affiliate Arcola has been able more or less to maintain volumes so we have not experienced in Italy for our business a significant change in volumes. There has been some contraction but relatively modest. This is because in 2012 we have started a more aggressive marketing policy. We have opened new logistic bases so we've been able to increase our market share basically. So volumes have remained constant.

In terms of margins the Italian wholesale market up until June has contracted a bit but again in a relatively modest manner. I would say that margins have gone down probably something between five and 10% but given the depth in the economic crisis I would say that this is relatively modest. There might be some effect in the forthcoming months because as you might be aware that ENI has started at the beginning of July a very aggressive marketing policy that is giving big discounts on its retail network during the weekends and this is affecting the whole market. We are not present in the retail sector we are just wholesale but it is affecting to a certain degree, it might affect some of our customers that will probably see their volumes shrinking due to this policy of ENI which should end with the summer probably but we'll have to see.

In Spain the situation is slightly different we have decided to exit certain segments thus reducing significantly our volumes because they had very, very marginal contributions so we decided to concentrate on outlets that had higher margins at a significant expense in terms of volumes. We don't really see things changing in a significant manner in Spain in the immediate future.

I'm sorry you have another question which I don't remember.

Corrado Costanzo

Inventory levels. I might give you the answer. In respect of crude oil we are in the region of say 15 days of inventories available, primarily at the refinery but also what you see on our books includes crude which is still sailing from the port of origin but was bought FOB. So at the refinery it's like a couple of weeks. But having said that managing inventories at a complex refinery like the SARAS refinery also involves a quite difficult effort vis-à-vis intermediate products and finished products. So crude inventories don't tell you the whole story but we're around about a couple of weeks.

Dario Scaffardi

And just to add a little bit on what Corrado was saying I know that for instance in the US this is a metric which is widely used days of cover in Europe we use it a little bit less so it's not a sort of a number that we look specifically in terms of days of cover, we tend to look at the absolute level of inventory based on more than days of cover, based on certain technical constraints. So it's just a metric that is not really that common. We don't use it at all. We are clearly aware of it because it's something that in the US market it's used widely and OPEC uses it widely also for its projections on crude but we don't really use it that much.



Corrado Costanzo

Also bear in mind that in the state of crude also how secure the procurement of crude is in terms of logistics and reliability of arrival at the refinery plays a role. So when markets are somewhat nervous and logistics are not totally reliable we might increase our inventory and the opposite is true when markets are particularly relaxed. So it's an art more than a science.

Dan Ekstein, UBS

Thank you very much, good afternoon everyone. Two questions from me please. Firstly on your power station you mention you've decided not to go ahead with the voluntary early withdrawal from the CIP6 scheme so I guess you've spent quite a bit of time running the numbers and thinking about the future of the power station beyond the end of the CIP6 tariff, what does the future hold there and how much would it cost to convert it to a cleaner burning fuel source which I guess presumably would be required to make this a viable asset beyond the end of CIP6? Or is it something entirely different that I should be thinking about there.

Then secondly on the Iranian payment issues is there any scope to pay Iran in kind sort of outside the financial system, perhaps through delivery of product, or does that also fall foul of the sanctions? Thanks.

Dario Scaffardi

I'm not quite sure but delivery of products looks like something highly illegal so I wouldn't even consider it.

Dan Ekstein

Maybe you should have tried some British banks who allegedly can make payments no problem whatsoever.

Dario Scaffardi

We have, I mean Corrado can be more specific on this I think but going to your question on power station...

Corrado Costanzo

Just one word on this issue what banks can do and what banks are willing to do apparently also are two different things. Now even if banks are not, even Italian banks, are not officially restricted from paying legally imported crudes from Iran during the pre-embargo days, however, they will not execute the payment so that is the situation. We also appreciated your joke on British banks anyway.

Dario Scaffardi

Regarding the power station it's an interesting question thank you because instead one of the reasons why we did not take supposedly advantage of the proposal from the Italian regulator is first



of all because we do not think that it was an advantageous proposal for us because our Italian refinery scheme is predicated and built around our gasification unit which is actually a very clean unit because it transforms and cleans refinery fuel oil with the high content of sulphur transforming into a gas which is for all means and purposes very similar to natural gas and it burns it which is considered the cleanest system in existence today apart from renewables. So we are committed to exercise using our plant after 2021. In 2021 we will still be fully operational, fully amortised, in perfect maintenance and the profitability will depend very much on a variety of factors, on first of all electricity prices obviously, on the price of fuel oil, the differential between fuel oil and diesel, the relative value of sour crudes compared to the benchmark.

So it's a very complex scenario and it's our firm view that we will see some very, very positive, interesting results from this plant after the CIP6 tariff will expire because we believe that the most likely scenario in ten or 15 years time is one that will see a relatively low value of high sulphur fuel oil compared to diesel because of environmental regulations which will be fully enacted worldwide because for this reason the price of heavy sour crudes should be low compared to the benchmarks. The imponderable here is sort of what will happen in Europe in terms of electricity prices in ten years time and I guess we'll worry about it at some other time because we really need to get there first.

But the outlook for our unit is actually quite positive also because it needs no significant investment. So if within that timeframe or before or slightly after certain market conditions which are reasonable and we're not expecting anything extreme, we are expecting the market to develop in a reasonable and technically sound manner we will have some very, very interesting results from this unit.

Dan Ekstein

Is there not a big carbon liability once the CIP6 expires there?

Dario Scaffardi

Yes. It is a carbon producer, it is a carbon producer so that is one of the areas of liability but yeah I would imagine that the legislation on carbon by that time will be slightly more mature than it has been in the last couple of years in which the effects of the European scheme on carbon has been schizophrenic to say the least and we have been able to reduce carbon prices tax through an economic recession which is probably what we did not have in mind. So yes it is a carbon producer but also we believe that whatever the price of...since it produces something like, if I remember, 50% more carbon than a normal natural gas-fired plant, so being that the baseline for everybody the benefits we can have from upgrading very low value fuel oil or heavy fuel oil into light products and electricity, would more than offset presumably the carbon cost.

Domenico Ghilotti, Equita

Good afternoon I have two questions. The first one is a follow up on the CIP6 contract, will you share with us the NPV that you would have received from the government according to your calculation.



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The second question is on the inventory reduction. I'm not sure I understood correctly you mentioned 200,000 tonnes reduction is it correct and compared to the year end or compared to the previous quarter?

Dario Scaffardi

Well the inventory reduction is ongoing, it's as an average measurement of the inventory which the refinery needs to operate so it's something that will be maintained on a permanent basis. So we have moved from one level of inventory to another level of inventory. Basically moving forward the average that we have, sorry I'm trying to find the data, the crude oil inventory has moved from over 600,000 to something like 500 and something.

Domenico Ghilotti

Okay and this is the structural reduction inventory?

Dario Scaffardi

This is a structural reduction. Then of course you can move between crude and products but it is a structural reduction because we are maintaining this tight control on this.

I'm sorry Domenico I think you had also another question?

Domenico Ghilotti, Equita

Yes it was on the CIP6 so you for sure made several calculations on the amount to be cashed in from the government.

Corrado Costanzo

Yeah that was about, well it's a rather complex calculation because it is different depending on the date of exit, so if we were able to exit this year the amount would be in excess of 600, however fully taxable and then the latest date for exiting the CIP6 scheme was I think 2016 then the amount would be roughly half that.

Domenico Ghilotti, Equita

So fully taxable meaning that the 600m would have been considered as a capital gain basically?

Corrado Costanzo

Well it would have been well but to be more precise taxable income. Capital gains are a different concept. Taxable income, would be reported as taxable income and would be taxed basically from a cashflow standpoint in the matter of one year.



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Closing Comments

Massimo Vacca

Thank you very much ladies and gentlemen for your attention this evening and we look forward to speaking with you again for the next quarterly results presentation. Good evening. Bye.