First Quarter 2011 Results

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Welcome

Massimo Vacca

Head of Investor Relations

Ladies and gentlemen good afternoon thank you for joining us today for the conference call on SARAS First Quarter 2011 Results. I trust you have all received the copy of this presentation that we will be discussing today however if you still don't have a copy please keep in mind that you can download it at any time from our website in the section dedicated to the Investor Relations.

Moving on to today's agenda as usual we will start with Dario Scaffardi, General Manager, who will give an overview of the group results, covering the highlights of the period. We will then move to Corrado Costanzo, Chief Financial Officer, who will provide a review of the results for each business segment and he will then discuss group financials. Afterwards back to Mr Scaffardi for the market outlook and the group strategy and finally we will take your questions. So Dario please you may start.

2010 Overview

Dario Scaffardi

General Manager, SARAS

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen and thank you very much for joining us for this call. I would like to start this call by remembering that on the 11th April a tragic event took place at our refinery which involved three workers from a contracting company. Unfortunately one of them, Pierpaolo Pulvirenti, 23 years old, presumably inhaled toxic gas and died. The other two workers have since recovered well. We are of course deeply troubled by this accident which has occurred notwithstanding the efforts and the positive results that we have obtained from our enhancement of the safety programme which has developed over the last two years and we wish to express also today our condolences and our sympathy to the family of Mr. Pulvirenti.

Going down to the business the quarter started well for our refining sector. You have seen of course the positive results and Corrado will go into detail explaining them so it's useless that I waste time on them. I would just like to point out the very positive effect of the net financial position that we have been able to keep firmly under control over the last two years and I think this is one of the most significant results that we can point out.

Coming to the market we have indicated many times before in the past that one of the most significant drivers for our business is world oil demand which, in our opinion, and we have demonstrated this through various analyses, directly effects the spread between heavy and light crudes which is one of the main drivers of the economics of a complex refinery such as ours.

World consumption in the first quarter of 2011 is up 3.2% compared to the same period in 2010 and consumption this year is expected to be in the range of about 89 million barrels which is a big increase compared to the 86.2 of 2008, and the slightly below 86 that we've touched in the last five years of 85.9 in 2009. So the market is developing in a way in which a refinery such as ours is able to take full advantage.

Another thing worth a mention is the extraordinary events which have happened in the first quarter. We have had a very peculiar market affected first by the Egyptian crisis and subsequently by the Libyan crisis which has created some very abnormal conditions but it also has created some very interesting areas of opportunity which we have been able to fully exploit. Of course the events that have happened in this period have depressed margins overall. The oil markets tend to react, particularly the crude prices, tend to react very quickly to geopolitical situations. Products are slower to react so we have had a market in the first quarter that has been basically crude oil driven and politically driven. This in general is not positive for margins.

This notwithstanding we've had some pretty good results because we have been able to optimise purchases and sales. I think we'll talk maybe later on a little bit about the Libyan crisis I would just like to point out that from the numbers that you can see on our slide number five which shows the EMC benchmark and are actual results I can see that it's quite clear why it's much better to have a complex refinery rather than a simple refinery notwithstanding that there have been in the past specific market conditions which may have proved this assumption wrong but over the long period there is no doubt that this type of configuration is the optimal one.

I would like to turn now over to Corrado who will give some detailed explanations of the rather surprising figures that we've had this quarter.

Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Thank you Dario. Rather then surprising but not so surprising I would say. First of all let me make a comment on our accounting policies many years ago we elected not to adopt hedge accounting and therefore as we have discussed several times in the past quarters the results of any hedging activity is being reported in a line which sits below EBITDA level. We have seen wide fluctuations in the past few quarters. Sometimes our hedging made money and sometimes our hedging lost money but in order to get a better picture of how our refining operations perform it is probably a good idea to look at those numbers in a combined way. So at that point the results are not so surprising. The €91.2m EBITDA for Q1 is somewhat reduced by a significant number on a different line and the number is around €55m, including interest expense. So net of interest expense we're talking about €47 - €48m then also you have to look at realised and unrealised but the concept is that there was a significant offsetting number which should not be surprising however because we have always stated that we do not intend to speculate and therefore we have very strict hedging policies in place.

Having said that and there was a surprise impact then let’s talk about the non-surprise impact i.e. the benefits that came to our refining division from better conversion spreads during the quarter and the conversion spread vis-à-vis last year widened significantly from $193 per tonne, to $343 per tonne and also the heavy/light crude price differential averaged minus $2.7 per barrel vis-à-vis $0.9 per barrel negative in Q1 of 2010. So those factors are clearly very positive for any complex refineries like ours and therefore the good performance of the segment for Q1 should not be at the end of the day too surprising. Also from an operational standpoint everything went remarkably well while a year ago we had a few technical issues and some scheduled maintenance activities. So part of the different also is explained by that but Q1 was remarkably good from an operational standpoint also.

So overall they are good results. Maybe one other aspect in preparation for the Q2 scheduled maintenance and we're going to see later that we have several units scheduled for maintenance. For Q2 we also reduced mandatory levels for certain intermediate products and in a certain market context that also contributed to the overall number. We estimate about €20m, how much of that is there to stay and how much might be reversed remains to be seen.

So let’s now take a look at the crude slate. Crude slate is still broadly in line with the average of last year. So no major comment there. Also bear in mind that looking at crude slate on a quarterly basis is not particularly meaningful. And you can see anyway from the crude slate too that the impact of the Libyan crisis was rather minimal during Q1 because we had stocked enough Libyan crudes and therefore we basically were able to operate around normal levels and with normal yields.

2. Fixed & Variable Costs

No surprise on the front of fixed costs either. The number is broadly in line with our guidance which is €230m for the year and therefore I will move onto the next slide.

II. Power Generation

Power Generation also had a very strong operational performance Power production was up 25% vis-à-vis last year but one more time the main difference between the two periods is related to the scheduled maintenance activities that were carried out last year on one of the three trains while this year there was no significant maintenance. However there will be very significant maintenance in Q2.

So the comparable EBITDA again pretty good. Higher sales of hydrogen and steam also which are not equalised for IFRS purposes so that justifies the higher number from an IFRS standpoint. The higher number based on Italian GAAP is self-explanatory. I mean 25% higher production.

Fixed and variable costs

Again uneventful quarter in terms of fixed and variable costs for the power division as well. Clearly variable costs were much higher in absolute terms but on a euro per megawatt hour term these costs were basically similar

Marketing

Marketing performance better than last year than the same period also. Overall we had a strong growth in sales in the Italian wholesale market. We augmented sales both in Sardinia and also in certain areas in central/southern Italy where we secured a logistic access from the beginning of the year and in Spain gross margins were more or less in line as in Q1 but we have continued to slash the amount of sales to other operators and oil companies which we must admit are usually not very profitable and this gave us the opportunity of optimising inventory levels of products for the period.

Biodiesel contributed negatively again one negative quarter and everybody is probably aware of the very difficult market situation for biodiesel so our plant over there has been operating only when market conditions allow profitable operations and during Q1 the plant was set idle for a while although these market conditions are now somewhat improving but then Dario might give you more details on that.

III. Wind

Comment on wind is very easy. Wind is a very volatile thing of course I should say and basically the tariffs and the green certificates were slightly lower but something was missing and it was the raw material i.e. wind. So the production went down from 62,000 megawatt hours to 38,000. At the same time however we must keep saying that looking at wind on a quarterly basis is not particularly significant, one year is the minimum span of time for being able to judge the performance of a wind park. So we're very confident for the future. We have seen reversals of fortune in that area.

IV. Financial Overview

1. Key Income Statement Figures

Speaking of financials I would first of all in the P & L I would point out the massive difference in inventory valuation between pipeline and LIFO both before taxes and after taxes, massive difference this time. So that justifies practically 100% of the difference between reported and comparable numbers.

Key Cashflow Figures

One last on cashflow, debt is still tightly under control. We were able to improve our debt levels by some €4m but the important thing is that we are always somewhat managing similar amounts of debt and those amounts are very much in line with our stated targets in terms of gearing. Last quarter we saw a huge increase in the value of inventories which was however somewhat compensated for also by the value of receivables paid and stuff. So overall the bottom line was more or less in line with the previous quarter in spite of generally difficult market conditions.

CAPEX again is about €20m and that certainly again in line with our target for the year which is around €120m. Clearly if you just multiply 20 times four it doesn’t add up to the guidance but CAPEX cannot be performed and taken as stably on a quarterly basis. So that's about it for the financial review and so back to Dario for outlook and strategy.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. 2011 Maintenance Schedule

Thank you Corrado. Regarding our maintenance schedule we have concentrated in Q2 a large maintenance schedule. We had a ten year turnaround of our gasification units which has been in continuous operation for ten years with very positive results and after ten years certain guarantees expired so it was necessary to shut down for the first time in its history the entire plant and all the accessory units which were completely inspected. Repairs were necessary, were carried out although there was not a major CAPEX programme involved.

At the same time we also performed routine maintenance on various other units, one of our hydrocracking units, one of our topping units, the Visbreaker, and a vacuum unit. This turnaround started on the 4th April and it was completed the other day, successfully completed I must say, notwithstanding the accident that we had, we had a very small overall delay. The units are all in the phase of being put back into full operation and by Monday we expect to be 100% operational. For the remainder of the year we do not have any major maintenance scheduled. There are usual routine slowdowns involving change of catalyst or clean up of units.

We are quite pleased to announce that we have decided to resume, the board of directors last night has approved a plan to resume part of our investment programme, in particular our investment programme which was presented to the analysts almost three years ago now, I think it was in June 2008 involved the upgrading of various units. Without going back to the full programme we have decided to resume the investment to be carried out on one of our HydroCracking units, the larger and the most modern of the two, which will have the effect of increasing the runs of this unit and also its upgrading capacity. So we will expect to have quite positive results that will come out from the fact that we will be able to upgrade from heating oil into diesel and enforce the quantity of material, 600,000 tonnes per year, and we will also be able to increase overall crude runs.

And this investment is going to be carried out, the actual work is going to be carried out, between now and the beginning of 2013 and the plant should be fully operational with turnaround at the MildHydroCracking unit has scheduled in the first half of 2013, although the actual period has not been decided yet. The CAPEX involved is in the range of €60m and which will be spent mainly in 2012 and 2013.

We have also decided to move forward in our gas exploration activity so we are in the permitting phase to have all the authorisation in order to perform a first test well in order to establish whether gas is present or not. We expect this well to probably be drilled, presumably in the beginning of next year. Rather unlikely that due to the link in the permitting phase we'll be able, as we had hoped, to perform it towards the end of this year.

We have received full authorisation to operate the wind farm at Ulassi which has already installed 96 megawatts and now we are authorised as of the end of April, beginning of May, to run it up to full capacity.

So that's a very important result and before handing over to the floor the possibility of asking any questions I would like to address the issue which is probably on everybody's mind regarding Libya and the Libyan crisis. Of course a very complex moment for our market. The effect of the Libyan crisis in the first quarter for us has been basically negligible for the reasons that Corrado has explained. It happened towards the second half of the quarter first of all and we had in our inventory ample supplies of crudes so we could argue that the effect was in a certain way positive because the markets we were able to take advantage of the top of the markets.

In the second quarter the effect again has been rather small because we had this planned maintenance so the refinery was not running to full capacity. So the direct effects on our operation have not been huge. The overall market effects are of course instead significant. Libya was producing about 1.5m barrels of basically sweet crude, I think out of that 1.5 I think roughly 1.3 was sweet crude so clearly although the overall world market still is balanced because this Libyan crude has been relatively easily substituted by crudes coming from West Africa, from the North Sea and from the Caspian region so there has been no shortage of crude and as a matter of fact we, like others, have been able to maintain runs, but of course there has been a net effect on prices. The price of sweet crudes has gone up. Before the Libyan crisis premiums for benchmark Mediterranean crude which is Azeri light, was in the range of $1.5 to $2 per barrel. After the Libyan crisis we've been in the range of 3 $/bl or 4 $/bl. So clearly sweet crudes have become less extensive and this has had an overall negative effect on margins for everybody irrespective if one was running or not Libyan crudes so it's an overall market effect.

This negative effect on the sweet crudes was partially offset by a positive effect on sour crudes in the same period of time for exactly the same reason. The discounts for sour crudes has increased. Urals has moved from something in the range of about 1 $/bl discount towards the end of last year, to almost 3 $/bl discount today. This morning, if I remember correctly we were in the range of 3.6 $/bl. Same thing, you can see the same effect, you can see if you look at the price of Iranian and Arabian crudes the official discounts of Arabian heavy or Arabian medium has moved from a range of about 4 $/bl or 5 $/bl to a range of almost 12 $/bl. So for refineries such as ours that are able to run, for a certain part, heavy crudes, this has actually had a beneficial effect on margins partially offsetting, if not entirely, the effect of the Libyan crisis.

Another effect of the Libyan crisis as somebody always said, “Never wait til a crisis,” is that many of our people which are used to finding solutions, thanks to the history of our company which is based on flexibility and being able to run a variety of crudes, are finding alternative crudes and alternative ways of running existing crudes. So our people are working 24/7 on this. We have already come up with solutions and the fact that our runs have not been influenced in this we can see significantly is a testimony to this and we are hopeful that this crisis will help us to find new ways in which to run crude. Overall we expect the Libyan crisis to probably resolve itself towards Q3/Q4. We could not of course imagine that it will not have some impact but I think that we can offset a large part of this impact. Hopefully also it’s the overall market conditions so mainly if the product differentials help us a bit.

Thank you and we’ll be quite pleased to accept any of your questions.

Questions and Answers

Lydia Rainforth, Barclays

Thanks and good afternoon gentlemen. I have about three questions if that’s okay? Firstly just on the comments that you made at the beginning about it being a peculiar market during the quarter are you about to just give slightly more examples of what it was you were able to exploit and whether it was on the product side or on the crude side?

And again in the slides you do mention that one key result benefited from the reduction of oil intermediate ahead of the Q2 turnaround, are you able to quantify that for us at all? And then just finally in terms of the decision on the mild hydrocracker what was it that triggered that decision to go ahead with it and why that project over any of the others that you were looking at, at the time? Thanks.

Dario Scaffardi

Thank you Lydia. Well starting from your last question the reason we have decided to resume the investment on the mild hydrocracker is that we are much more confident than we were before that the market conditions are developing along the way that we were expecting and the basic driver behind this is the differential between sweet and sour. So both due to the fact that of the spread between diesel and heating oil which has been quite high over the last year and we expect it to widen further and the capability of being able to make more runs of crude justify the investment. I would say also probably the fact that we have been able to maintain a clean balance sheet with a comfortable level of debt is also one of the reasons why we decided to take on this further, not huge, CAPEX. I think that maybe Corrado could help you in giving you a little bit more flavour on the reduction that we were talking about before.

On the question just about the peculiar market, well peculiar market is a way of saying that basically we were able to buy when prices were lower and sell when prices were higher so it's as simple as that.

Corrado Costanzo

Regarding the benefit from this reduction of intermediate products we can say that it was approximately €20m and clearly these levels were reduced in the high price type environment and we'll see whether and to which extent we have to revert to the same levels, physical levels when, how, in which part and in which environment. So it's hard to say whether this is going to be reversed or not and we'll clearly work towards to having that situation under which this will not be reversed but we'll see.

Lydia Rainforth

Sure I understand. Thank you very much gentlemen.

Maura Garbero, One Investments

My question, I'm just referring to the adjusted EBITDA for the refining division can you possibly quantify the benefit that came out from this robust trading profit so we can really compare an adjusted EBITDA versus last year?

And secondly if you can give us some help in understanding what could be a potential impact from Libya in your second quarter? You say that in the first quarter you managed to almost fully effect the impact and I'm wondering whether you'll be able to do so also in the second quarter. Thank you.

Corrado Costanzo

Well in terms of adjusted we call it comparable EBITDA. I think that a good hint might be for you to look at the impact in the financial income and expense line of the non-interest expense and so that's an approximate measure, probably a bit high because part of that hit is unrealised but quite a bit of detail in our disclosed financials.

Supplementary Question.

Right so sorry just to be 100% clear you reported an EBITDA on refining equal to €91m within that you specify that you have the €25m extraordinary related to the inventory reduction and then another €15m, can I also include about €50m positive which could be the trading profit?

Corrado Costanzo

No well first of all I think that we have not quantified the benefit from inventory optimisation at 25 we said about 20.

Supplementary Question

No sorry I said the 20 and then you had another €15m if I'm not wrong? So 35, three, five.

Corrado Costanzo

Okay then you have to look at the financial income and expense line and you have the fair value derivatives which is about €22m negative and against the losses on derivatives of 38 and unrealised net exchange for losses 12 and that's on page 50. There's quite a few details on Page 50 of our Interim Report.

Massimo Vacca

Second question the Libya.

Dario Scaffardi

Yes sorry you were talking about the impact of Libya in Q2 well it's really a little bit too early to quantify this. As I mentioned before since we're undergoing a planned maintenance the effect has been relatively small but it's really much too early to quantify it at the moment also because we have to see how things will develop over the next couple of months.

Supplementary Question

Sure but considering that we are in the middle of May are you still able to offset the whole thing of sour crudes with other sources or it's becoming more difficult?

Dario Scaffardi

No as I tried to explain before there is not an issue regarding the sourcing of crude. Crude is available. So today, overall this is not just something that pertains to SARAS it involves any refinery in the Mediterranean or any other area. There are alternative sources of crude, at least for now, basically these sources of crude are all the region of West Africa which is all mixes of crude, which is light and sweet. The Caspian area, so Kazakhstan, Azerbaijan mainly and the North Sea. So crude is available.

Another question is the price of crude of course. This is another matter entirely. The fact that you have removed from the market 1.5 million barrels or 1.3 million barrels of sweet crude has had the effect of increasing the price of the other sweet crudes so I mentioned before that the premium of Azeri light has increased from 1.5 to 3.5 - 4 as a rough line, similarly the same thing has happened to crudes like Forcados or Bonny Light or the Nigerian crudes, their market premium has increased. So if their market premium has increased and the products market has not followed suit, as has happened over the last month and a half, mainly for political reasons, the margins have been compressed and this hurts everybody irrespective of the fact that they are running Libyan crude or not.

Then there is a more specific issue regarding particular Libyan crudes which might not be so easy to offset. This accounts for a relatively small part of our runs and as I mentioned before we are working very hard to find alternative solutions that can help us, irrespective of the fact that we expect the Libyan crisis to solve itself over the next couple of quarters.

Another non-negligible effect on the rise of the price of sweet crudes is the tragedy in Japan. The effect of the earthquake in Japan which might seem far fetched is not such because the Japanese have switched for an important part from nuclear power to oil-based power. Oil-based power means that they need to run very low sulphur fuel oil which is not really available on the market so is a proxy to low sulphur fuel oil, to super low sulphur fuel oil. They are either able to burn natural gas or very sweet crudes. So this has been a further effect of rising the prices of super sweet crudes such as crudes coming out of East Africa, crudes coming from Indonesia which have been soaked up by the Japanese market to burn. Again we expect this effect to be relatively temporary although I am not in a position to say how temporary, I mean whether it's weeks or months I really do not know.

Paolo Citi, Intermonte

Good afternoon everyone, just a few questions. First of all regarding Sarlux we are seeing the very, very strong figures again also in Q1 this year is it possible to have guidance, an updated guidance on full year figures for EBITDA both in terms of linearised IFRS EBITDA and also Italian GAAP EBITDA?

The second question is on the CAPEX I'd like to have a potential indication for this year's CAPEX and also your annual budget for next year takes into account the new €60m investment you announced this morning?

And my final question is just I've seen this morning on the rota some flash regarding an investigation related to the IPO on seven and six. I was wondering if you can perhaps update on this front?

Dario Scaffardi

Paolo thank you very much for the questions. Regarding your last question and then Corrado will be able to help you on the other ones. Yes we were very pleased as well to see that magistrate in Milan entirely dismissed the case against the banks that followed SARAS' IPO. I would like to remind you that SARAS was never under investigation and this investigation has lasted over four years. We are of course very pleased that the magistrate has decided to dismiss the case, where proving that our IPO and the process which led to the IPO was thorough and correct and fair so this is, although we have never been under investigation still it's something that pleases us very much which is a testimony to the fact that we've operated in a correct manner.

Corrado Costanzo

Moving to your other questions for Sarlux the guidance remains broadly the same so in terms of IFRS EBITDA we foresee about €200m and in terms of Italian GAAP EBITDA about €150m, bearing in mind that Sarlux is undergoing or just finished a major turnaround exercise during Q2, or at the beginning of Q2. So I would not change the guidance in light of a few more millions that were made during Q1, that hopefully will be the guidance. At least we've started on the right foot.

CAPEX we can confirm that the guidance for the group that we gave you was about €120m and yes was approved last night by the board of directors the €60m for completing the mild hydrocracker to revamp is on top of that guidance although that money will be spent over the next two years starting towards the end of this year and all the way until the end of 2013.

Dan Ekstein, Jefferies

Hi everyone questions on a couple of areas please. Firstly on the gas exploration who are your partners there? How much do you need to reach commercial threshold? And what gives you any confidence that you've got the necessary skills to successfully explore for gas?

Secondly on the potential transactions that you mentioned on the last conference call you said you'd had interest from a number of third parties interested in your refinery and you were prepared to listen to these proposals is there any update on that process? Thank you.

Dario Scaffardi

Thank you Dan. Well let me start from the second question which is brief. There is no update. We, as usual, maintain contacts with the market but I think that we have been quite busy the last couple of months in finding ways to face these markets.

On gas exploration I think it's a good point to ask if we have the skills and the answer is we believe so because we have some excellent consultants which are working with us which have vast experience which have over 30/40 years experience in this field working with the major oil companies. So together with the seismic data that we've been able to obtain through two campaigns which has been processed by a world class data analyst group and other indications such as ground analysis which has showed the presence of methane, we believe that the investment that we have decided to take forward which is not huge, which is in the range of something between €10 - €15m for an exploratory well, is well spent and without having to divide with other companies the possibility of finding gas. If we had decided to partner out at this moment this project we would probably receive very little in terms of monetary value for the project itself but we will need to farm out a significant portion of the project itself so we believe this is not convenient and we have the financial fire power of taking it on ourselves.

If this exploratory well will be hopefully successful then a whole new picture unfolds in front of us and we will decide if we want to go ahead alone, employ people, partner up with somebody, but we will be able to do this from a much stronger position.

Dan Ekstein

Okay best of luck with that. Thank you.

Thomas Adolff, Credit Suisse

Good afternoon gentlemen, two quick questions but before that I totally agree with your decision to restart part of the investment plan, particularly on the hydrocracker so good progress there. Just firstly on third party processing contracts is there anything new to report on this? I guess given your more positive view on differential now and as part of your restart of the investment plan and the fact that you never managed to agree basically with third parties recently does that indicate that you're happy now to be at zero percent?

I guess my last question is on the Med market what are you seeing in terms of demand and supply both in the crude and product side and I guess where you're currently seeing not on the lag data that we get in terms of refinery runs in the Med market at the moment? Thank you.

Dario Scaffardi

Thank you Thomas. On third party surprisingly enough, notwithstanding the not exactly brilliant conditions that we had in the last two years, there is a lot of enquiries, particularly I would say from NOCs that are interested in securing possible outlets for their crude. I think a lot of these companies are potentially worried that their future production might not find a profitable home so they are looking at this avenue and we are cautiously optimistic that we will be able to develop something. Of course the recent market conditions have not helped in this respect so I think anything is probably going to be postponed after the summer when the overall market situation hopefully becomes a little bit more clear.

Whether we're happy or not about this I think is slightly beyond the point. We are coping with whatever the market conditions are and we try to make the most of it. Market conditions in this respect have changed entirely so I think we're moving into a scenario in which the importance of the international oil companies, the IOCs, in this sort of market is becoming less at the presence instead of the NOCs and certain emerging market companies is much more relevant. So the whole shape, the whole dynamic of the market in this respect is really changing and we've been seeing it over the last couple of years and we expect in the next couple of years we'll see big, big changes overall.

In terms of the Med market, actual consumption in the Med and Europe has been, for certain products, relatively stable. Diesel has been slightly positive in northern Europe, marginally negative in southern Europe. Gasoline trend is diminishing in Europe overall but when you see overall oil demand slump in Europe you must think that fuel oil and other products are being entirely phased out. So that is actually the big difference, while diesel is more or less stable. But this has all been anticipated and we are not expecting the European markets as being the markets from which we find much respite. Instead the North African, the Middle Eastern markets are extremely healthy. Demand in all the Middle Eastern countries has gone up very much. North Africa of course there is the Libyan situation at the moment so this piece of the market is at the moment frozen but we don't really expect the Libyans to revert back to camels so they will certainly be back on the market sooner rather than later hopefully.

Supplementary Question

Thank you just a follow up question in terms of when I talked about refinery runs, I guess on the point of the Azeri light spreads or the Nigerian crude spreads they've widened from the January/Feb levels and it's clearly hurting simple refineries, I was wondering whether you're actually seeing more discretionary run cuts in the Med as a result of that?

Dario Scaffardi

I would say that this situation is putting pressure on the smaller refineries there's no doubt about that. Again this is not entirely unexpected I mean we were surprised when the market in the last couple of years was glorifying that small and simple was beautiful and saying that big and complex was bad and that's quite the opposite today and this is an inevitable trend notwithstanding the fact that we live in a very volatile market so you might have a temporary period in which quite the opposite happens and we've seen it happen. Yes we've seen some refinery cuts in our smaller colleagues. Of course the high price of the sweet crudes puts a little bit of cap on runs because the incremental runs might be negative so overall I think there is refinery cuts all over although for us this is relatively marginal.

Domenico Ghilotti, Equita SIM

Good afternoon I have a couple of questions. The first is related to the premium even net of extraordinary or temporary factors in Q1 was probably above $5 per barrel do you think it’s sustainable in the current scenario so assuming the heavy light and conventional spread differential that we saw in Q1 do you think that you can still achieve this kind of premium? And the second question is on the volatility that you have on your hedging impact it has increased significantly in the last few quarters but you said that you are keeping the hedging policy unchanged so I do not understand why now we see such a huge volatility?

Dario Scaffardi

Domenico I don't think I fully understood your last question

Domenico Ghilotti

On the hedging you mean?

Dario Scaffardi

On the hedging yes I understand but the market has been extremely volatile in Q1 so it’s reasonable to assume that considering the fact of the huge volatility that we’ve seen Brent has moved from slightly above $90 to $120 so we're talking a 30% increase over the quarter and particularly in our case we've probably had effects which further enhance this as Corrado explained we made a lot of purchases ahead of time in order to face the major maintenance in April so by ability and by luck we purchased maybe quite a significant amount of material in the first part of the quarter and subsequently sold the products in the second part of the quarter so moving an environment that is some 30% premium we've seen some very widen swings in our profitability and of course since we run a programme in which we've managed this risk because of course we could not stay naked with this sort of volatility so the advanced purchases were, if not 100% but in a very significant way thoroughly hedged. This accounts for the large effects seen on derivative instruments that offset the gains since these two effects are on two different lines of the financials

Corrado Costanzo

I think that just to add a few details to what Dario has said we elected years ago for a number of reasons which it wouldn't be worth discussing in this call to account for derivatives gain to losses in a different line, namely the interest income and expense, financial income and expense line and therefore rather than within the EBITDA and so I think the financial community will have, I'm afraid, to become accustomed to fairly wide variations in our EBITDA results which might be partially offset by what happened on a different line of the P & L. We have been saying this for the last few quarters. Certainly Q1 was very, very volatile, well more than volatile it was headed in one direction very strongly and therefore the numbers ended up being very significant numbers but the mechanics are always the same and they have always been the same in our accounts since they were lifted and even before. So I don't know nobody knows about the future of course the direction of these effects but margins, clean margins are obviously a different thing, we earned a significant premium in excess of $4 over the EMC benchmark for the reasons that have been discussed during the call. As long as those reasons stay those premiums will stay, bearing in mind that Q2 however was a heavy maintenance quarter and therefore we have to be quite prudent there and the refineries and IGCC are now going back to full operation and therefore more or less from now we are in a position to benefit fully from market conditions. However it's somewhat a mixed and complicated picture this year.

Supplementary Question

Okay and a follow up on the marketing business another question on the marketing business in the last quarter, in the last conference call you mentioned that you had some negative impacts due to inventory in marketing and to be reversed probably in Q1 so I would like to understand if you benefited from this reversal in Q1?

Corrado Costanzo

Absolutely during the discussion of the financial performance of marketing that's exactly what happened but some of these effects actually are reversed in subsequent quarters.

Closing Comments

Massimo Vacca

Okay then thank you very much for your attention this evening and we look forward to speaking with you again on the next conference call on SARAS results. Thank you.