



First Quarter 2013 Results

15th May 2013

Welcome

Massimo Vacca

Head of Investor Relations & Financial Communications

Okay good morning ladies and gentlemen. Thank you for joining us for SARAS' conference call on First Quarter 2013 results. Hopefully you all received the copy of the analysts presentation which we will be discussing today, however if needed the presentation can be downloaded from our website www.saras.it either directly on the homepage or in the section dedicated to the Investor Relations.

Today we have the usual agenda. We will start with Mr Scaffardi, Executive Vice President and General Manager of the SARAS' Group. He will start with the overview of the results and then he will cover the highlights of the period.

Subsequently Mr Costanzo, Chief Financial Officer, will provide a detailed review of the results for each business segment and he will later discuss the group key financials. Afterwards back to Mr. Scaffardi for the market outlook and the group strategy. Finally we will be glad to take your questions. Thank you very much. Dario.



First Quarter 2013 Overview

Dario Scaffardi

Executive Vice President and General Manager, SARAS

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen and thank you for joining us in this conference call. SARAS has had quite a busy period in the last couple of months. We have, as you all know, changed our ownership structure. In the middle of April it was announced an agreement for the purchase of a stake of SARAS' share by Rosneft which I would like to remember among listed companies is the world's largest producer of crude oil and also holds the biggest proven reserves of liquid hydrocarbons.

We are very proud of this development because clearly it represents that a company as important as Rosneft has taken a deep interest in our group not only because of our technical capability but also because of the business model that we represent and we believe that this is going to present for our company some very interesting opportunities in the forthcoming months and we hope also in the next years.

We've been also busy on various organisational issues which I will mention towards the end of our call.

Going to the specific quarter we had a good performance from our industrial asset, the refinery has performed quite well, unfortunately the overall conditions for refining have been certainly poor and this reflects in the absolute numbers which are in line with what we were expecting.

Our Marketing and our Wind divisions instead have performed quite well. Corrado will go into detail on all these sectors and also we are quite pleased with the results that we have achieved on our financial position which has further improved in respect in relations to the end of last year and this shows that our efforts are in terms of organisation, in terms of management, of our inventory have been successful and again also in this Corrado will be able to add some details.

Regarding the market structure there is not much to say. The spike that we had in refining margins in February and March were relatively short lived and due mainly to the abnormally high prices of gasoline that reached \$15 crack. The forward market for gasoline cracks were in the range of \$5 or \$6 so this was a huge increase due mainly to reasons because of maintenance and various unplanned shutdowns which created a relatively buoyant market for gasoline. I must say that gasoline often surprises the market because it is always considered long and then as soon as something creates a hiccup in the supply chain prices spike immediately because the logistics are not entirely there to face operational hiccups, even of a relatively minor nature.



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Diesel cracks have been disappointing in the mid part of the historical range and overall these two effects have created basically the condition for the margin as we see. Also an important thing to notice in my opinion is that apart from the absolute value of Brent Crude the differentials for the various crudes, both sweet and sour, have been much stronger than what the market was actually expecting. Overall the sentiment is that there is a lot of length in the market but this has not been reflected yet in the differentials that are quite strong both for the sour crudes, at the moment Urals is trading around almost in parity to Brent. We've seen also almost -3 in the past month but parity is really of the normal value or -60 cents more or less and also the sweet crudes notwithstanding the availability of a lot of crude coming from West Africa, this notwithstanding the values for Azeri crude which is the benchmark for sweet crudes now in the Med have been quite strong in the range of \$3. This coupled with the product prices have created the very low EMC benchmark in the quarter which has been marginally positive at 0.2. We have been able to add \$2 to the benchmark which, given the overall conditions, we consider is quite good.

At this point I would hand over to Corrado who will be able to go into detail on the various sectors.

Corrado Costanzo **CFO, SARAS**

I. Segment Reviews

1. Refining

Thank you Dario. So the \$2 per barrel are an improvement over the approximately \$1 per barrel premium that we were able to add during the same period of last year. This is due both to a fairly satisfactory operational performance as well as to a different maintenance schedule. So overall in spite of difficult market conditions we were able to somewhat limit our negative EBITDA to €24m vis-à-vis about twice as much during the same period of last year.

Production was slightly down, 6%, so you may ask yourselves why are we talking about the maintenance schedule? Well obviously actual production is clearly linked to the availability of crude distillation units which was lower. However the real money makers, the conversion units, were up and running during the quarter while last year there was some maintenance going on.

The dollar didn't really have a big impact and in fact there's no noticeable impact on the part of derivatives in general, all derivatives and foreign exchange against the losses and all the associated derivatives either. So what you see is what you get in this particular quarter. You don't have to add or subtract the results from foreign exchange and derivatives in general which is always, we understand, a little bit of a headache although it is something sensible to do. However this quarter was easy, basically no impact.

So just summing up good operational performance, still unsatisfactory margins unfortunately.



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2. Production and Crude Oil Slate

I would skip the production and crude oil slates. Really one quarter doesn't mean much.

3. Fixed and Variable Costs

Also fixed and variable costs just measured on one quarter don't give any particular indication as we usually point out, especially around fixed costs that tend to be front ended, tend to occur mainly during the first half of the year so we still maintain our guidance for fixed cost around €220m for the year in spite of the €62m during Q1.

4. Power Generation

Power Generation. Well you all know that IFRS numbers tend to be fairly constant and therefore it's difficult from those numbers to figure out exactly what happened. So let's focus on the Italian GAAP numbers and on the operational numbers. Let's just say production was down 20% vis-à-vis the same period of last year. No problem there really it was all scheduled maintenance and so we did anticipate a lower cash flow because Italian GAAP is a much better proxy for figuring out cash flow being generated by Sarlux so we anticipated this lower cash flow, about 20% less I think vis-à-vis last year and the tariff also continues to be quite impressive, about 12.6 EURcent/kWh which is quite massive compared to an average electricity prices in Italy today.

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

Fixed costs - nothing of notice.

II. Marketing

So let's move over to the Marketing segment. Very good performance there in fact. Obviously demand continues to be sluggish both in Italy and in Spain. And also in Spain we are indeed facing some increased competitive pressure because of certain revamps carried on by Repsol in the last few years.

So if you look at the sales numbers, Spain in the matter of about 12 months decreased its volumes by about 25% however, we do not disclose regional financial results however, Spain is still posting a small profit in spite of this fairly significant reduction. I mean we've been working on optimising our portfolio of clients and we've been working on optimising the logistics organisational stuff and therefore we're still slightly in the black.

However most of the EBITDA is indeed coming from Italy, from Arcola Petrolifera which also is holding on quite nicely in terms of volumes.

Overall we keep maintaining our guidance for the whole year of EBITDA to around €30m.



III. Wind Power

Wind, well very exciting quarter for Wind so you can all read the numbers so it's useless for me to mention them again. But here, one more time, the guidance is always the same with Wind because unless we are pleasantly surprised further on during the year we should still be posting something between €25 or maximum €30m EBITDA. So Wind is quite volatile and so you have to look at EBITDA numbers at least on a yearly basis, quarters are only a partial indication. As you can also see the graphs and there's been quite sharp differences depending on the quarter but on a yearly basis things are much more constant. So sometimes when things don't go too well we say, okay we still want to stress that the guidance is the same, well this time things are looking really rosy, well the guidance is still the same for the year.

Then as Dario pointed out before debt is firmly under control, working capital is being carefully watched and so we think we're in good shape on that front. Still there's these Iranian payables outstanding since a few quarters in that respect the situation is unchanged. What has changed is our ability to manage our working capital in an effective way.

IV. Financials

1. Key Cash Flow Figures & CAPEX

CAPEX, broadly in line again with our guidance €3m for the group and the guidance is €120m – max €130m for 2013 and I'd like to stress out that there's a bit of a cushion between CAPEX and depreciation and amortisation which stands around €50m per quarter. So we do have a bit of a cushion there in terms of cash flow generation although we still believe that our assets being world class we are under no competitive pressure to significantly upgrade them so we can enjoy to an extent the CAPEX that was put in place in the last few years and we can enjoy this cushion in terms of cash flow.

This is about it for the Financials so it is back to Dario.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. 2013 Maintenance Schedule

Thank you Corrado. To sum up what we've been saying if you look at our maintenance schedule there is no major change from what we have already disclosed. We are going to complete between the second and third quarter, so basically between June and July, the revamping of one of our hydrocrackers which has been undergoing over the past three years at every scheduled turnaround a



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significant upgrade adding a reactor which will basically enable to increase our production of ultra low sulphur diesel. It will enable us to run more a greater variety of crude and feed stocks and if the margins in the market are there, increased also refinery runs but that will largely depend on the market conditions. This is going to be the final and most complex part of the revamping project with all the tyings of the new unit into the hydrocracker which we call the Mild Hydrocracker 2.

2. Strategy & Outlook

As I mentioned at the beginning, this quarter has been quite busy for SARAS, you all know about the changes in our shareholder structure. We have been also quite busy in implementing the new organisation in which we are going to transfer all the industrial activities that today are concentrating on the mother company SARAS in our subsidiary Sarlux which today is the Power Gen. company, we will also concentrate all the refining activities also in this company and we will create a new company that will have the same name, Sarlux Refining and Power, that will encompass all the industrial activities of SARAS, it will be fully owned, 100% owned, by SARAS and the main driver behind this is to increase efficiencies, to optimise refinery runs to enable the management of the refinery to have all the levers that they need in order to make those changes and to act upon the new projects which we are focusing on.

That also will allow the mother company, SARAS to be freer in developing new trading strategies, in particular the JV that we are in the process of forming with Rosneft, this joint venture which is going to be 50/50, we are in very advanced stages of negotiating and outlining all the details of what is of course a complex enterprise because when you get into the details of sharing production, product shorts, product longs, crude shorts and crude longs, into just one entity there are a lot of challenges to overcome but we are overcoming them and there is the firm commitment on both sides, particularly on Rosneft to have in place, if not all the final agreements, at least very broad and detailed outlines by June. This is quite an ambitious activity because there are a lot of things to do but we trust to be able to get there.

So the new refining company is scheduled to be up and operating as of 1st July, 2013. The JV will have to define exactly when it will be able to start material operations because of course there are some more and more complex legal issues associated with it but we believe that this is going to be a very, very interesting development for our company that's going to open up a variety of new possibilities and particularly as I mentioned at the beginning we are quite pleased that Rosneft values not only SARAS' technical assets but also the knowhow that we have on the markets and has decided to increase their knowledge of the downstream market also with our help.

On the other points, and this is something that's keeping us quite busy, in terms of CAPEX, I already mentioned the completion of our works on the revamp of one of the hydrocrackers. On our gas exploration facilities we are in the final stages of the authorisation procedure. In the next weeks we are going to have the various public assemblies which are compulsory according to Italian law. Once these are over we trust that by the summer we will have a final and we trust positive outcome from the regional authorities in Sardinia so that we can begin work on the first test well and decide then whether or not there is actually gas in the south western part of Sardinia.



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So thank you very much for your attention and we will be pleased to take any questions that you might have.

Questions and Answers

Matt Lofting, Nomura

Hi afternoon gentlemen thanks for the presentation. Just a couple of quick questions if I could. Firstly could you just talk through the process and timing on the Rosneft tender offer that side of them acquiring their up to 21% stake, I think I understood that they'd filed their documentation earlier this month?

Secondly the parameters of the share buyback programme alongside that and how selective or not that may be. Thanks.

Corrado Costanzo

Thank you Matt. The timing is still somewhat undefined. If you want a very definite answer, very clear deadlines, we don't have them because nobody does. In other words Rosneft submitted whatever documentation they were supposed to with Consob which is the Italian SEC and on the 6th of May Consob, to the best of our knowledge, has 15 days to either approve or ask for further verifications which would add a few days. And then at that point after Rosneft get the green light within a few days from the green light they have to start the offering period which according to Italian law I think could last from 15 to 40 days and that will be probably agreed upon between Rosneft and Consob. So I'd like to say that they might take one month and then there's the settlement period once the offering period is over. So if you add all these dates up you're basically looking at somewhere in the second half of June, more towards already the end of June for the conclusion and settlement of the offer. But really each and every stage will be made public I believe with mandatory public statements.

And then taking the second part of the question, the buyback programme, well yes we chose to net the buyback programme which was in fact authorised about a year ago and it will be rather selective, it will not be a massive purchase of shares also we all know that the liquidity of our stock is what it is and therefore, especially during a public offering period, we are required not to bring any turmoil into the market and so it has to be certainly credible and this is exactly what we will do.

Domenico Ghilotti, Equita Sim

Good afternoon. My first question is on the CIP6 tariff that you used in your Q1 release I wonder if you have included any provision due to the revision undergone by the authority on the avoided fuel component (CEC)?



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Corrado Costanzo

Well Domenico no we did not include any provision and if we did we would clearly state it in our quarterly report. As we all know there are some proposed modifications to the CIP6 tariff as long as they're only proposed we will not make any provision and this is a company policy which is also clearly accepted and acceptable in terms of financial reporting. We do not make provisions for any kind of proposed pieces of legislation. We will certainly make, not a provision but modify our financials in accordance with any modifications that might be enacted if and when it is enacted. In fact we have seen many, many times the authority for energy and other public agencies make proposals that then were not enacted or were changed and so we believe that it would be rather futile to make provisions based on proposed legislation.

Domenico Ghilotti, Equita Sim

Okay, the second question is just a clarification on the timetable because you mentioned July 1st and I would like to check if it was related to the integration of Refining and Power Generation and not on the MOU, is that correct?

Dario Scaffardi

This is correct yes July 1st is the date in which all our refinery assets would be merged into Sarlux yes. It has nothing to do with the public offering.

Paolo Citi, Intermonte

Hi good afternoon. Just very one quick question. Recently clearly Rosneft has had to enter in your shareholder structure in SARAS with a 21% stake and then in addition you are working on this JV for the trading of product and crude and so on, my question is do you think that the JV or Rosneft could be interested in balancing their presence in the Italian market having a look to the Shell distribution network on sales?

And then the second question is again regarding your growth strategy and rebalancing strategy. If I remember well during the last call you allowed the possibility of divesting your wind assets is this still the case or do you believe the wind assets could remain as a strategic activity within your portfolio?

Dario Scaffardi

Yes. I mean is Rosneft interested in increasing its presence? We should ask them of course but I imagine yes they have shown a strong interest in southern Europe in general and they have been active not only with us, also with other counterparts so I think they have a definite interest in expanding their supply chain from upstream to downstream. I also think that they are probably going to take a look and we hope to be able to cooperate with them to this sale of Shell although this is not something that has been decided yet of course.

More in general certain producing countries at least are sort of following what we as a company have been suggesting for quite a long time that being vertically integrated is definitely an asset and



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this is also one of the strategies that we as SARAS are pursuing and we believe that a partner such as Rosneft can greatly enhance our position in the marketplace.

On the second question you were asking about the Wind. Well it's not a priority for us to sell the wind farm because we are not forced to do so in any way. So if we would be able to do so at a level which is interesting and rewarding we would look at it but it's not something we are actively pursuing.

Matteo Bonizzoni, Kepler Cheuvreux

Good afternoon I have a question on your Marketing division. We have seen profitability improvement in Q1 this year, both compared to Q4 and to Q1 the last year despite continuing decline in volumes I wondered if you can provide an outlook for this division as far as profitability is concerned going forward? Thank you.

Dario Scaffardi

Thank you. The guidance is what Massimo has already given so around roughly on a yearly basis 30 to 35 but we are quite pleased on the results of our Marketing division because first of all we need to make a distinction between Italy and Spain at the moment they're two very different markets. Both have gone down over a two year period. In both Italy and Spain consumption has declined by about 25% over a two year period.

Our Marketing division in Italy which goes under the name of Arcola has been able to maintain volumes almost intact so we have not had any significant loss of volume, maybe a couple of percentage points. And also we've been able to maintain a gross margin that is not dissimilar to the one that we had a couple of years ago. So the results of our Marketing division in Italy have been very, very good, very positive considering the period that we've been going through and this has been realised through a very, very active marketing policy. We are trying to cover any new niches that present themselves on the market in a very proactive and creative way since also the overall market conditions are changing significantly. The traditional oil operators are less present in the market, the market in Italy is a bit sloppy, let me say, with too many retail stations so it's a challenging market but also a market that has opportunities.

In Spain the situation is different. The market in Spain also has declined but contrary to Italy where also production has declined in an important way, remember that two refineries have been closed in Italy, Spain has actually added to its refining capacity so our operations have gradually been sort of squeezed out by local production and a decline in consumption so we have streamlined our operations in Spain. We have, unfortunately been forced to reduce staff and concentrated our operations on our retail network and certain select clients. So we faced a sharp drop in volumes, almost 40% I would say over a two year period but margins have actually improved because we have been very, very selective on the client structure. So we expect to be able to maintain more or less the current volumes in Spain, we don't expect any further very significant reduction at least although conditions are extremely challenging.



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We had in the last six months some improved results from our Biodiesel division, the market there has changed. There is much more availability of competitively priced feed stocks coming from the Far East so in the last couple of months we've been able actually to generate some positive results from our Biodiesel plant.

I hope I've answered more or less your questions.

Domenico Ghilotti, Equita Sim

My first question is relating to the public tender bid by Rosneft, I wonder if you as SARAS with your treasury shares can take part in the public tender bid or if you have made any public statement on this issue.

The second question is related to the second quarter outlook so I would like to have your comments on the current refining scenario which is extremely poor so if you can elaborate a little bit on this?

Corrado Costanzo

Well one quick answer Domenico to your first question no SARAS cannot participate. There is going to be a public statement which will be released as part of the published statement released by Rosneft once the offer is approved by Consob. This is very legalistic but also SARAS has to make a statement on certain issues which will be included for the Rosneft statement and in that statement we can already anticipate that we will commit not to participate in the public offering with our stock in treasury.

Then for the second question Dario can answer.

Dario Scaffardi

Thank you Corrado. I'm struggling for words to find something optimistic to say about the refining sector at the moment, well no the second quarter is pretty poor to put it mildly and the outlook at least in the forthcoming months is not the best outlook although looking a little bit further on there are some significant changes happening in the market and we are confident that sooner or later our expectations will occur. Particularly one of the things that we always insisted upon that sooner or later we should see a reflection on outright prices of crude oil of the way the market is changing, honestly we have not seen this yet but I'm confident it will happen sooner or later. There are increasingly cargoes of crude available that find difficulty in finding homes but this is not reflected in the reported prices and this anomaly in the market in my opinion needs to change it also has to do partially in the way in which the market is reported, the process of reporting prices is not the most efficient and the most transparent one.

We are finally seeing a rebalancing of WTI/ Brent differential, last year it was almost out at \$24 and now it's \$8-\$9, so also last year you remember we did say that this anomaly needed to be corrected, it took quite a while, it was seen that it is correcting so I'm cautiously optimistic in the longer run although we still have a bit of a storm in front of us.



Closing Comments

Massimo Vacca

Okay since there are no further questions I would like to take the opportunity to thank you all for your attention this evening and we will shall speak again during the next quarterly update. Thank you and good evening.