Preliminary FY 2012 and Q4 2012 Results

28th February 2013

Welcome

Massimo Vacca

Head of Investor Relations & Financial Communications

Thank you very much. Good afternoon ladies and gentlemen Welcome everybody to SARAS' results for the Preliminary Full Year 2012 and Fourth Quarter 2012. I trust that you all have received a copy of the presentation that we will be discussing today. However if you need a copy you can download it directly from our website www.saras.it either in the homepage or alternatively in the section dedicated to investor relations.

Our agenda today will be the usual one. We will start with Mr Dario Scaffardi, General Manager and Executive Vice President which will illustrate the overview of the group results and will later cover the highlights of the period. Subsequently we will go to Mr Corrado Costanzo, Chief Financial Officer, who will provide a detailed review of the results of each business segment and also discuss the group financials. Afterwards back to Mr Scaffardi for the market outlook and the group strategy. Finally we will be taking your questions. Thank you. Dario.

2012 Overview

Dario Scaffardi

Executive Vice President and General Manager, SARAS

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen and thank you very much for joining us for this call. We post some disappointing results mainly due to adverse market conditions and some minor production problems that we've had in our refinery.

The market has been extremely challenging we have moved from the third quarter of last year that was extremely favourable in terms of refining margin with an EMC benchmark that was in excess of $3 to a declining average margin during the quarter which started reasonably well in October and deteriorated very quickly with some very disappointing numbers in November and in December averaging -0.5 for the whole period. This is due to a variety of factors.

First of all we had a spike in gasoline prices during the summer which abruptly disappeared in the last quarter. Fortunately this tension on the gasoline markets is resuming right now and the gasoline market is actually quite strong, has been quite strong in January and February, so the beginning of this year has been much more favourable.

The same thing has happened for diesel although with less extreme swings, quite favourable numbers during the summer which towards the end of the year fell significantly but I would say that maybe the main effect for independent refiners like us has been on the crude oil market which are not totally reflected by the reported numbers and by the various benchmarks. Particularly there were some very serious outages in the Caspian Sea area that created a tightness of sweet crudes towards the end of the year and the differentials particularly of Azeri light crude has soared by more than $3 towards the end of the year.

There has been a lot of tension in Libya. Things unfortunately are not back to normal as seemed towards the first part of last year. We have important contracts with Libya and loading schedules, particularly during October, November and December have been severely disrupted mainly for what we understand are production problems so the availability of certain specific crudes has been quite erratic and that of course influences in a very important way our programming schedule. Also here compared to the end of last year things seem to have started off much better in 2013 with a little bit more tranquillity and normality on the market.

In terms of refining margins we have added about $1.6 per barrel to the EMC benchmark but as Corrado will explain there are some other rows that need to be added to this number to make it comparable to what has been done in the previous quarters.

I would hand over to Corrado who will go into more detail into the various segments and then we'll try to wrap up matters at the end of the call.

Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Thank you Dario. Let's start with the refining segment which as you all know basically defines the results and the performance for the quarter because everything else is very stable. So most of the volatility is actually concentrated in this area.

Market conditions were extremely challenging, as Dario pointed out. At the same time however the -€45m comparable EBITDA should more correctly be read as -€25m. Actually below the EBITDA level in the financial income and expense section of the P & L there's a €20m net gain in foreign exchange and oil derivatives which are used solely, underline solely, for the purpose of hedging our commercial activities and in makes absolute sense to merge those two lines although from an accountant's standpoint things are much more difficult and therefore we still are required to record those numbers in a line below EBITDA. From a substantial point of view those transactions are done exclusive for the purpose of averaging out through the quarter the costs of purchases and the revenues from sales in order to secure the average margin for the quarter which would otherwise be quite volatile. In other words you all project average margins, hopefully starting from the EMC benchmark that we publish on a weekly basis and then from certain assumptions on our operational performance but those averages is not helped by the use of derivatives would never, ever be met so those derivatives are absolutely 100% part of the EBITDA from a substantial point of view. So it is correct to read -€45m as -€25m. Of course we have to admit that -25 at EBITDA level is absolutely disappointing. Market conditions being what they were also we have to say that there were some minor operational hiccups which also generated some additional maintenance costs and therefore the number ended up in the red at EBITDA level.

2. Production and Crude Oil Slate

So if we go to the next page for Production.

3. Fixed and Variable Costs

I'd like to go to the page that addresses fixed and variable costs. In fact there was a surge in fixed costs due to additional maintenance which was of a nature that required too expensive. So nothing was capitalised in Q4. We took a fairly aggressive stance and decided to fully expense whatever maintenance was performed during the quarter. We could have looked a little bit better if we decided to capitalise certain items and certain maintenance activities which fell in a grey area, accounting is full of grey areas, especially IFRS, and instead we decided to take a very straightforward approach and to expense everything and that also had an impact on our EBITDA.

4. Power Generation

Let's move on to Power Generation. Power generation instead had a very satisfactory quarter. Production was up vis-à-vis the same period of last year and also the CIP6 tariff was up significantly on a year on year basis it was up 16%. So the Italian GAAP EBITDA in fact as a combination of those two factors exceeded our expectations and continued to underpin the company's consolidated financial performance.

5. Fixed and Variable Costs (IT GAAP)

As usual not much worth noting in terms of fixed and variable costs when it comes to discussing Power Generation at Sarlux.

II. Marketing

Marketing was kind of a mixed bag. Also the performance of the Italian arm was still encouraging and continues to this day to be encouraging and fairly stable. Spain was more problematic. Consumption there fell more rapidly than in Italy. Also margins are under severe pressure. Also in part because Repsol upgraded a refinery in Cartagena near Valencia which used to be a small refinery and became a much bigger refinery and we must admit that that is creating surely a challenge to our commercial wholesale operation in Spain.

Biodiesel also which posted rather encouraging results during the previous quarter instead in Q4 was fairly significantly negative. However it must be said that marketing must be looked at on a yearly basis rather than a quarterly basis. If you look at the graph it's really quite erratic in terms of EBITDA but on a yearly basis things even out a lot more, the seasonality, there are one off factors but at the end of the day on a yearly basis numbers make much more sense and so we continue to look at Marketing like something that could generate €30, €35m EBITDA on a yearly basis.

We are also fully aware of the fact that there are some problematic areas, biodiesel being number one and we are taking steps in order to resolve these problems and therefore to boost the EBITDA once we take care of those continuing losses. Dario can add some flavour to that afterwards.

III. Wind Power

Switching to Wind. Wind is another sector which needs to be looked at on a yearly basis. Performance overall, wind conditions were on average for the year better than last year which was terrible and so on a year on year basis at 21% increase in production.

The power tariff and the green certificate lost some ground but still not enough to offset the impressive bounce back in production and as a result we had about €20m comparable EBITDA vis-à-vis €14m last year and we're looking at basically staying around that level at least, at least, for the coming years.

IV. Financials

1. Key Cash Flow Figures & CAPEX

A quick look at Financials. CAPEX, we didn't mention it but it was absolutely in line with the guidance. We have started to perform certain works on our mild hydrocracking unit two, which is being upgraded and the upgrade will be finished during Q2 of this year. Other than that there's no other major investment so the guidance was met fully.

We have written off, and you can see that in the depreciation line of the reported section of our Financials we have written down, not written off, written down both the biodiesel plant in Spain, significant hit there, €33m write down on a pre-tax basis, as I said including on the depreciation and amortisation line of the reported section and then also we have also written down our depot owned by Arcola in Italy near La Spezia. Again there we decided to be fairly conservative and take the hit and then work on solving the underlying problems.

In terms of cashflow on a year on year basis there was a very noticeable improvement but as you all know that due in part to very tight management of our working capital in general to very good control of CAPEX and also however it's due to the fact that we have not been able to date to lawfully repay our debt with the Iranians and to this day it continues to be virtually impossible to repay them legally and so there is no guidance that we can give you as to an estimated date for the repayment of that debt which amounts to several hundred million Euros.

This is about it for the Financials so Dario.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. 2013 Maintenance Schedule

Thank you Corrado. We have published our 2013 maintenance schedule which is significantly lighter than the one in 2012. The main item that needs to be mentioned is the completion of the revamping of one of our two hydrocracking units, the one named MHC2, which, once the programme of investment will be completed between the Spring and the Summer will be able to either to increase severity or enable the refinery to increase runs, or a combination of both these factors which will strongly depend on the scenario of available crudes which is something which is changing continuously in this part of the world, offering at the same time challenges and opportunities because crudes that were once prohibitively expense for refiners such as ourselves have become more readily available, particularly light sweet grades, so we are changing our scheme of operation in order to accommodate these opportunities. So it's quite an evolving and exciting period for our business.

2. Strategy & Outlook

In terms of strategy and outlook we have completed, or started to complete a significant number of new activity. First of all as we mentioned in our previous call the SARAS board has approved that all our refining activities will be transferred into a new company. This is a very important project for us because we believe that through this reorganisation by concentrating all our industrial activities under one roof we will be able to be more effective in operations and increase revenues, particularly focusing on our excellence programme Focus which has produced some very important results in these three years and we're also continuing in 2013 on a number of specific projects.

We are in the process of transferring the activity to the new company which we hope will be operational by July 1st but on the meantime we have reorganised our activities and the future CEO of this company who is Mr Alberto Alberti has already joined SARAS as of January 1st in the capacity of Chief Operating Officer. So he is in charge currently of all our industrial activities and will become the CEO of the future company which is in terms of a couple of months which will be formed.

This is very important because we are continuing to invest in our core business, mainly in the areas of expertise and technology where we think that we can truly make a difference in a market which is extremely challenging. The swings, the variabilities of the market are such that even minor events can have a pretty important effect on our numbers and the traditional suppliers of crude and products in this part of the world are continuously changing. You all know of course that Iran which at least used to be a very dependable supplier, at least in terms of scheduling, not always in terms of prices, is for the time being out of the market and there is no expectations of it coming back any time soon. Syria who was also an important supplier, albeit not of huge quantities but still of feed stocks and crude to the Mediterranean market, is out of the picture. And other important suppliers such as Libya and Iraq are both in a difficult situation so not always dependable. This is creating quite a strain in being able to supply our refinery in a timely manner.

Corrado mentioned about our biodiesel plant. Biodiesel margins have been quite poor in the last couple of years although at the moment there is a significant improvement mainly due to the fact that vegetable feed stocks have fallen in price relative to diesel prices so margins at the moment are better. We have entered in a process last year to find possible buyers. We have come to a shortlist and we are dealing with some very qualified counterparts either to sell the whole plant or part of it and this is something that we expect to resolve within one or two months.

Also our gas project in Sardinia is finally coming to the end of its first stage. All the documentation requested by authorities for the authorisations have been collected and will be presented to the relevant authorities within the next couple of weeks. So then it will just be in the hands of the authorities to answer us and being able to start actually drilling.

We have made a press release at the end of last year regarding some very serious talks that we have entered with Rosneft regarding the possibility of cooperating in the commercial area in the Mediterranean. There was a memorandum signed between the absolutely top levels of the two companies that have the firm wish to develop things together. We think that there's a very interesting strategic fit between SARAS and Rosneft on a variety of commercial opportunities in the Mediterranean, both around feed stocks, around crude oils and around products marketing, also in the area of the use of derivatives and more in general of paper trades. We have had various meetings with Rosneft and some interesting ideas are on the table and I think that we would probably be able to develop something concrete together within the next couple of months. We will keep you posted to any major developments in this respect.

And finally I would like to invite you all to an Analysts' Day that we are planning for the 20th March in a location which still needs to be defined and Massimo will keep everybody posted on where this will be, in which the senior management of SARAS will explain our strategies, our business plan for the years going forward. So we hope you can all join us for two or three hours in which we'll be able to give a little bit more detail on our plans and the way that we see the market and what opportunities lie forward for us.

Thank you for your attention and of course Corrado and myself will be pleased to answer any questions you might have.

Questions and Answers

Alex Topouzoglou, Exane BNP Paribas

Hi there, thanks for taking my questions. The first one is just on Marketing you state that you think you can recover to €30, €35m of EBITDA on an annual basis what is it in particular that gives you comfort that you can recover to that level from the Q4 results, particularly because Italian and Spanish fuel demands are still falling sharply and potentially could you give us some colour on whether you've seen any bounce back in earnings in Q1 of this year?

Secondly just on your ongoing discussions with Rosneft are you discussing a tolling agreement as well and is that something that we could see in the next couple of months?

Dario Scaffardi

Thank you Alex I would just like to add one thing that I saw that I forgot to mention before, I mentioned Mr Alberti joining us and I forgot to mention his qualifications. Mr Alberti was Chief Operating Officer for the ENI for all the refining system and after that he was the CEO of the chemical division of Polimeri which is the chemical division of ENI Group and then president of Enipower which is the power division. So I forgot to mention this and I'm sorry for this.

Regarding your question on Marketing well we have been adversely hit on the marketing side by some pretty depressing margins for the biodiesel plant. We made some purchases early on in the market before the fall of the prices so it was ill timing on our part and this is what's negatively affected the results of the last quarter. So we hope to resolve the problems relative to the biodiesel plant within the first half of this year so we'll not be having that.

In terms of Spain and Italy the market in Spain and Italy is of course pretty depressing but in Italy we have been able to roughly maintain our volumes through a very aggressive policy trying to expand in the wholesale sector in Italy. So at least for the time being in Italy our volumes have been affected but less so than the overall market.

In Spain the situation is quite different our volumes in Spain have gone down and will probably go down further. We are concentrating only on certain niche areas where margins are better. So given the good performance that we expect from our Italian division and not having any more important losses on the biodiesel side we expect to be able to make up the area that we told you before, the guidance that was given before in that historical that we have always made but maybe Corrado can be a little bit more specific.

Corrado Costanzo

Thank you Dario. I'm just looking at the history of our quarterly results and after Q3 of 2011 when we had a negative -€3.2m EBITDA one might doubt that we might be able to bounce back and one might actually ask how do you think you're going to be able to bounce back and actually following quarter the result was 16.3 positive, then back to 6.1, then back up to 12.5. This is what gives us confidence the fact that we have bounced back already and we know that there is a certain yearly average which is difficult to keep stable on a quarter to quarter basis for a number of factors and most of the fall in consumption has already taken place. What we're seeing today is a stabilisation albeit at the more or less bottom levels but it appears that also this fall in consumption is somewhat bottoming out.

But as I said quarterly results are very, very difficult to keep stable and as much as we never pretended like we could do like say take the numbers from last quarter 13.1 times four, we never said so, we never said that we would end up with €40 or €50m and for the very same reason we're saying €30, €35 is a reasonable estimate and if you look at our past years we're always around there and we've been able to also manage this fall in volumes with a lot of attention on the margins.

On top of that we are working actively on getting rid of some of the more structural negatives, namely biodiesel and certain depots.

Dario Scaffardi

Coming back to your question on Rosneft well tolling could be a possibility but I don't see this as something probable. I say I would think that the market is past the idea of tolling agreements so any sort of cooperation is something that today needs to be much more dynamic based on actual management of the market so not just something as simple as somebody else taking on his shoulder the refining risk. So I don't see that as a likely outcome.

Alex Topouzoglou

Thanks and just going back to the Marketing then just on your Q4 so you talk about the one off type of losses on your biodiesel plant could you quantify that? How much did you lose on the plant in Q4?

Corrado Costanzo

It's several million Euros, we don't show that on a separate basis. Several million Euros but bear in mind that the quarter before it was positive but several million Euros.

Alex Topouzoglou

So the net swings have been defined.

Corrado Costanzo

On a yearly basis it's less disastrous than it seems. The point here is that quarterly results for Marketing and for Wind are only partial indicators, too short of a period.

Andrea Scauri - Mediobanca

Good afternoon everyone. I'm sorry for coming back to what you already said on the Rosneft deal, I was wondering if you could be a little bit more precise about the reason why the delays from the announcement of mid December 2012 and the couple of months that you are suggesting for more clarification on the terms of this JV?

The second question on this could you please remind us when the MOU is expiring? Thank you.

Dario Scaffardi

If I remember correcting the MOU stated that we should do something by the end of March but I would say that this is really hardly relevant. We have started a very constructive dialogue with Rosneft, we already had various meetings, various conferences, we've exchanged lots of documents. The reason that it's taking, I wouldn't say that it's taking a long time to be honest, the idea of setting up a joint commercial operation is actually something which is extremely challenging because it's very easy to say well let's do something together then counting the numbers, who does what, what belongs to one, what belongs to the other, is actually a little bit more of a challenge so going from theory to practice as usual is more difficult.

There are some areas of very keen cooperation, for instance, just to give some flavour Rosneft through its clearly huge connections in the FSU is able to source a variety of feed stocks and other products of which it's not always totally aware of the values and the potential synergies that one can develop with these feed stocks, this is one of our areas of expertise because we have always looked at finding the new feed stock, the new crude, the new product that can be exploited, so this is one of the areas in which we are cooperating both from an industrial point of view and a commercial point of view in valuing these products.

Clearly there is a position on middle distillates, we are the largest seller of middle distillates in the Mediterranean area, they are also a supplier of middle distillates but of different maybe qualities from ours so there are synergies also there in upgrading or blending down their production of mid sulphur or high sulphur middle distillates, this is an area of cooperation.

Another area of cooperation is very clearly crude, again we purchase 300,000 barrels a day of a variety of crudes and also around that position there is a further possibility of building not only physical positions but I would say also paper positions which in reality today are probably more interesting. So all these things are very exciting ideas but they are of course difficult to rationalise and to form the basis of a sound agreement and something that can work in the long run.

So it's going to take a little bit longer to formalise.

Domenico Ghilotti, Equita Sim

Good afternoon. My first question is on the improvement expected in Marketing because you mention in the press release some €10m. It is not clear to me first of all if it is coming from operating costs or if it is on the EBITDA line or below the EBIT level.

Second it's not clear to me what are the main drivers for this improvement apart from the lower losses expected from the biodiesel.

Corrado Costanzo

Well that is an improvement at EBITDA level that we are expecting from some rationalising of our biodiesel asset and of some depots in Italy and in Spain and we are incurring costs which do not meet our revenues and we are actively working on solving this problem and there is a combination of different measures depending on this kind of asset we expect to improve on a yearly basis our EBITDA by about €10m.

Domenico Ghilotti

The second question is on refining. Because you had the spike in fixed costs in Q4 I wonder if you can provide a rough indication on the trend in fixed costs for 2013?

Corrado Costanzo

Well the fixed costs for 2013 will be broadly in line with 2012, possibly a little bit lower. There's always a little bit of uncertainty linked precisely to the capitalisation or non-capitalisation of certain maintenance costs. So I still confirm with our guidance something between 210 and 220.

Domenico Ghilotti

And the last question is on the negotiation with Rosneft. Rosneft announced an agreement with ENI in the downstream a few days ago, you for sure had a look at the announcement and I wonder if you are looking at these kind of opportunities or if you are negotiating something larger and some more larger involvement in this negotiation?

Dario Scaffardi

Thank you for the question. I don't know exactly what the ENI and Rosneft are doing together, you should ask them of course but from what I understand that they're dealing with us let's say that first of all we're talking of a huge company that has a worldwide diversification and definitely wants to increase its footprint around the world in a variety of geographical areas. I think that they are trying to identify possible counterpart partners in order to enable them to attain this, SARAS is one in a specific area of the world and ENI can be another, both in this part of the world but also with a wider and broader impact on what we can absolutely have no involvement in the upstream sector.

Domenico Ghilotti

So you don't expect that the negotiation is preventing you to go ahead?

Dario Scaffardi

No, not at all there is nothing they are not mutually exclusive at all.

Laura Webster, Merrill Lynch

Hi good afternoon. I just have one quick question, I realise you can't give really any guidance on the Iranian payment but I just wonder if you've made any provisions for interest that could potentially accrue on that?

Corrado Costanzo

Well yes that's an interesting question. There is no provision in our financials for payment of any interest and that has been approved by our auditors and based on the recommendation of our counsellors. I don't think it would be useful to go through the details but it's more or less a case of force majeure, governments get in the way basically for an amount of time which is impossible to predict. Of course the minute it is again legal to pay the Iranians we will. At the moment we have not been able and they have not been able to find a way.

Laura Webster

Sorry did you say that you have had an approval for a provision relating to potential interest on that?

Corrado Costanzo

To the contrary there is no provision because it was approved by our auditors and counsellors not to have any provision because it's not needed.

Paolo Citi, Intermonte

Hi good afternoon everyone. Two quick questions. First of all on the Refining segment just focusing on your cost side if I'm correct there is roughly 2.5m tonnes of CO2 emissions on a yearly basis so is it correct to assume that on the current CO2 prices you could have roughly €10m of additional costs this year or you are a little bit longer from the previous period in terms of the CO2 allowances?

The second question is on the Sarlux power plant in particular at the end of this year you reached an overall tariff of 125 Euro per megawatt hour which is around double of the current prices in Italy and according to my calculation the avoided fuel costs should have reached around 90, 92 Euro per megawatt hour, my question is do you think that there is the risk, the possibility that the Italian authority could work on this fuel cost component and in particular trying to reduce it a little bit, take into account also the evolution of spot prices, gas spot prices in Italy?

And my final question is again on the Sarlux power plant could recap some figures related to the potential valuation of the plant in the event you decide for an early exit option? Thanks.

Corrado Costanzo

Well Paolo you raise a number of interesting and complex questions. Let’s start from the last one which let’s say is the simplest one. As you know of course given you ask the question the deadline for exercising this optional exit from the CIP6 framework was extended from middle last year to the end of March of this year. So in about one month there's still going to be a chance for all the CIP6 participants to elect for continuing with the system or for exiting the system.

Of course we’re still looking into this. Last year we decided not to exit but clearly things move and we're still looking into it and the Board of Directors will make a decision on this at the very end so just a few days before the deadline. I cannot give you, unfortunately, any more detail about this. However I can tell you that the compensation for exiting in 2014 would be around €600m and about €400m for exiting in 2016. Mid 2016 is the last possible deadline for exiting. However the decision will be disclosed at the very end of the period which is still available to us.

Then is there a possibility that the authorities might revise the CIP6 avoided fuel cost component, in principle these possibilities are still there, in practice if you were to judge from the level of the tariff one might conclude that if these possibilities were ever used by the authorities they were only used to a minimal extent and with great care and we do not expect this trend to change. This is all we can say. So we're relying on the past trend of reasonable stability of the framework and whatever was done always had somewhat minor or somewhat easy to absorb consequences.

Then the last question which was in fact the first our CO2 position, the CO2 position of the refinery.

Dario Scaffardi

The scheme has ended and we are waiting for the quotas for the new scheme which have not been published yet to the best of our knowledge, unless it happened in the last couple of days.

Corrado Costanzo

The refinery doesn't have a significantly short position according to the old scheme and the new scheme is still in the works.

Dario Scaffardi

In the old scheme we have about two and a half million tonnes of emissions and I think our allocation was 2.3, 2.4 with the very low CO2 prices was basically negligible and if anything with all our programmes of operational excellence we have decreased CO2 emissions. So depending on what sort of scheme it's not something that should be particularly of concern unless the European Union does something really silly which is not to rule out.

Closing Comments

Massimo Vacca

Okay if there are no more questions we would like to thank you once again for joining us and I will shortly communicate with you to let you know details about the Analysts' Day on the 20th of March. Thank you very much and a good evening to everybody.