



Third Quarter 2013 Results

15th November 2013

Welcome

Massimo Vacca

Head of Investor Relations and Financial Comms

Thank you very much. Good afternoon ladies and gentlemen thank you for joining us today for SARAS' conference call on the Third Quarter and first nine months 2013 results. Hopefully you all received the analysts' presentation which we will be discussing today. In case you still don't have a copy you can download it as usual from our website www.saras.it either directly in the homepage or in the section dedicated to the investor relations.

Our agenda today will be the usual one. Mr Dario Scaffardi, Executive Vice President and General Manager of the SARAS Group will start with the overview of the results and he will cover the highlights of the period. Subsequently Mr Corrado Costanzo, Chief Financial Officer, will provide a review of the results of each business segment and later he will discuss the key financial figures for the group. Afterwards back to Mr Scaffardi for the market outlook and the group strategy. And finally as usual we will be glad to take your questions. So Dario please you may start.

Overview

Dario Scaffardi

Executive Vice President and General Manager

I. Highlights

Thank you Massimo. Good afternoon ladies and gentlemen and thank you very much for joining us this afternoon.

The third quarter of this year has been an extremely tough one in terms of refining market. The EMC benchmark touched its absolute historical minimum in this period with a negative sign of in



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excess of \$2 per barrel. There are a variety of reasons why this is happening and we'll try to explain a little bit more in detail.

Coming back to our results we've had of course results that are disappointing but are in line with the overall market conditions but we've been able to maintain a strong and solid financial position that Corrado will explain in detail.

In looking at the market the cracks don't give the full picture. We've had gasoline cracks that have been relatively positive in the first two months of the quarter, in July and August and really fell in September due to many refineries coming back on stream from maintenance, while the diesel cracks have been more or less steady throughout the year. But the real reason behind a very negative refining market in this quarter is mainly due to the high price of crude and the high price of crude is not dependent only on the absolute price of the benchmark, in our case dated Brent, but all the various differential of the crudes that are actually used which have all hit very, very high levels in this quarter.

Due to the Libyan crisis, basically since June Libya has halted exports, all alternative sweet crudes available in the Mediterranean have increase in price so, for instance, if we take another benchmark like Azeri Light it has moved from a structure of premium of about \$2, to a premium of about \$5 so that's \$3 more and that's one big important reason why the margins are low and you don't see that in the cracks, you don't see that in the absolute value of crude. Something similar has happened on the sour grades. Urals which is the sour benchmark in the Mediterranean has for the full period of July and August been at around \$1 premium on Brent. Again this is a historical record to the best of my knowledge. It has eased a bit fortunately in September and October going back to more sort of normal levels as a discount to Brent.

And a third important factor I think that needs to be considered very strongly is the differential between the dated Brent quotations and the frontline Brent ICE index that went from a structural premium to a discount. For all these reasons and from the availability also of a physical side mainly coming from the US refining in the Mediterranean area has been under pressure.

This notwithstanding, notwithstanding \$2 of negative EMC margin that you can see on our graph SARAS has been able to add \$2.40 to the benchmark and bring our margin in positive territory. So again a situation which is challenging but which we're able to face.

I will pass to Corrado who will go into detail on the various sectors.



Corrado Costanzo

CFO

I. Segment Reviews

1. Refining

Thank you Dario. Firstly certainly for the refining segment the last quarter was one of the most disappointing quarters in our history. And the environment was extremely challenging. I would also add that some crudes like the Bu Attifel from Libya were basically missing for most of the quarter and that also had a negative impact. Also the relative pricing of heavy and light crudes went somehow backwards for some time during the quarter. So basically most things that could go wrong did go wrong and that's why we ended up with a negative comparable EBITDA of €1m but as Dario said before we were still able to add \$2.4 on top of the EMC benchmark margin which we believe is, given the circumstances, a significant upgrade. And that's unfortunately about it for Refining.

2. Fixed and Variable Costs

Taking a look at fixed costs which are always an important aspect, we basically confirm our guidance of about €220m for the end of the year. Q4 is usually a maintenance light quarter and therefore the target is still attainable although factors like the weather cost and expenses are going to capitalised or expense might play a role. So basically we're pretty much in line

3. Power Generation

Moving on to Power Generation. We all know that Italian GAAP EBITDA gives a much better picture of cashflow generation. And as you can see cashflow generation has been pretty stable throughout the quarter. It's around €43m – €45m. Still we have not seen any significant impact from the decree that was passed last August by the government which somewhat reduced the tariff for CIP6 and also other regulated utilities. So on the CIP6 and it's also not, I would like to underline, cast in stone. In other words the decree switched from a basically Brent based avoided cost of fuel component to a basically spot gas based fuel cost component. So how much this will actually impact our financial performance remains to be seen and it's really a function of the relative prices of these two commodities.

Anyway this has been discussed thoroughly during the last call and we still confirm our guidance of an impact around €60m per year as also outlined by the independent expert in its opinion.

For now however no major change today. The IFRS numbers might look a little bit odd because we went from €54m to €27m to €39m but the €27m which is a little bit out of line here is due to the fact that we basically had to take into account the new decree for two quarters and not one. This is how the rules go with IFRS. So instead of risk taking of €54m for the first quarter we took the hit in



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Q2 2013. IFRS for Sarlux is always a little bit difficult to interpret so Italian GAAP is what really counts so that's where the cash is shown.

4. Fixed and Variable Costs (IT GAAP)

Also in terms of runs in terms of power production things were in line and fixed costs also were basically in line. No major differences there.

II. Marketing

Marketing obviously still working hard to cope with somewhat soft markets, both in Italy and Spain. Italy however is still posting rather good margins and sales and Spain is now on the verge of completing its reorganisation of its clients' portfolio. We would basically get rid of all the marginal sales which contributed very little to the EBITDA at the bottom line but used a lot of capital. So in terms of working capital those marginal sales were pretty intensive and really not justified under today's circumstances. So even Spain now is back to posting a slightly positive EBITDA and using a very, very reasonable working capital. So a lot of work there and a good job really on its way we should say.

Then seasonality also plays a role. The third quarter is usually a soft quarter for marketing.

III. Wind Power

And it is also a soft quarter for Wind. In the summer typically wind conditions are extremely low. So we never ever have record results in Q3 if you look back even for several years. So we've still having overall a pretty good year so we're still looking at an EBITDA in excess of €20m for this year.

IV. Financials

1. Key Cash Flow Figures & CAPEX

Then the net debt position – tightly under control. Obviously CAPEX is tightly under control and working capital the whole company is absolutely alert on working capital management and so we've been able through these typical quarters to keep our debt levels basically unchanged which I believe is quite an achievement.

Maybe we want now to look at the foreseeable future very quickly, Dario.



Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

1. Strategy & Outlook

Thanks Corrado. Well in this quarter we have completed a series of important steps for our company in particular. We, as the 1st July, our new industrial company Sarlux is fully operational. Unfortunately the CEO of this company, Mr Alberto Alberti, tragically went last week. He has been today now, yesterday in the board meeting of Sarlux the new president is Mr Francesco Marini who has been with SARAS for over 30 years and CEO of Sarlux will be Mr Vincenzo Greco who has a long career with Exxon and subsequently he was the chief of IES in Italy and he's been with SARAS for the last two years.

The aims that we have in this reorganisation is to focus strongly all our activity in increasing performance and reducing costs, given the parameters of the market that we are operating in.

And also we are going ahead in the joint venture with our partners of Rosneft. We are in a very advanced phase in setting up the new trading company for which we are not ready yet to divulge the name because it has not been formally decided but we are setting up the trading offices in a location in Europe which will be announced shortly and the main idea behind this is that SARAS will contribute with the volumes and the expertise that it has and also we will have unique access to the expertise of Rosneft and the access that they have to specific markets to which we have certain difficulties in accessing to, namely for instance certain areas of Russia and of course with other developing countries where they have a strong position. So we are setting up the company right now and hopefully the company will become fully operational. Our aim is to do that by April of 2014, to have it up and running but it will need to be established way before that in order to have some dry runs.

So at this point I would be pleased to answer any questions that you might have. Thank you.

Questions and Answers

Jeremy Aston, Exane BNP Paribas

Yes hello good afternoon gentlemen, thank you for taking my questions. I've just got a couple of questions. So the first one is on Rosneft. You said you mentioned that you plan to enter new markets could you provide maybe further detail, not necessarily on the geography but on the types of operations you're exploring? And it might be a bit premature to discuss but if the JV goes ahead smoothly do you see scope for further participation or greater cooperation with Rosneft?



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And then the second is on the Wind segment so what vision do you have for the expansion of this segment? Are you planning on JVs with other parties for example such as in Romania? And how much CAPEX are you seeking to spend here? Thank you.

Dario Scaffardi

Thank you for your question Jeremy. Well in terms of what we're planning to do on this JV and the new markets the new markets, I mean the term 'new' is used in a rather extensive way. First of all what we plan to bring to the table is giving Rosneft the possibility of accessing markets that are not habitual for them in the sense that being a very large exporter they don't have particular familiarity with sourcing other types of crude from other geographical locations whilst SARAS has a very long established relationship with all the major oil producers. So we plan on capitalising on this.

Another area which is going to be very important is that while we bring to the table the SARAS refinery also Rosneft has a system of refineries in Western Europe and they are going to bring this. We expect to be able to have synergies in the supplies of our system with Rosneft's system.

Thirdly there are some interesting opportunities that exist in Russia which are not easy to access for a company such as SARAS, namely there is a variety of small producers in Russia which produce feed stocks which are extremely interesting and which we are buying extensively and as a matter of fact we have been already able to have privileged access to these feed stocks thanks to the good efforts of Rosneft.

Also Rosneft has important presence in other countries, in South America, in the former Soviet Union which have crudes which are of interest to SARAS and they will bring some of their connections on the table and together we trust that we will be able, we are absolutely confident to be able to capitalise on the skills that we already have. So we look very much forward to this opportunity we have of working with Rosneft. Whether Rosneft will want to increase its participation in SARAS is something of course that we will need to ask Rosneft and which we cannot comment on. Corrado maybe wants to answer on the Wind side.

Corrado Costanzo

In respect of the Wind sector to be really honest with you we are on the defensive. Wind is not the core business for SARAS. Its core business unfortunately is going through extremely challenging times and we chose to focus and concentrate all of our cashflow generation on protecting the core business. And so at this point Wind is really on the defensive.

And Romania which looked very promising unfortunately saw a quite dramatic shift in the government attitude quite a few months ago. So everything's pretty much stalled and all the major market participants are just waiting for clarifications and waiting to see whether Romania is still an attractive country for investing in the Wind sector. And we are no exception to this rule so everything is pretty much stalled over there. And I have to say that everything is pretty much stalled, as far as we are concerned, in Italy also because we chose to develop certain projects from scratch in Sardinia. And Sardinia also is another area where the authorities are not being particularly friendly to the Wind sector. So everything is pretty much stalled and so far we're just



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enjoying the very encouraging and steady performances of our Ulassi site which could also be extended but even that is being very heavily scrutinised by the regional government. So I would not expect any substantial CAPEX to be devoted to the sector any time soon.

Matt Lofting, Nomura

Thanks and thanks for the presentation guys. A couple of questions please. Firstly on Libya Dario mentioned it earlier but could you perhaps just talk a little bit in terms of how much Libyan crude you're currently receiving into the refinery in the context that production's gone down again more recently there and whether or not you think SARAS is better equipped to address a period of low Libyan output this time around relative to a couple of years ago?

Secondly on the maintenance side in terms of 2014 maintenance it looks like you're signalling a heavier maintenance effect next year related to the cracker downtime, mainly I'm just wondering if there's any flexibility in the timing of that work? Could you for example bring it forward if we continue to see weak margins near term? Thanks.

Dario Scaffardi

Thanks Matthew. Well regarding Libya the quick answer is we are running zero Libyan crude – well no I'm sorry let me qualify it. The exports of all the sweet crudes are basically blocked. So on sweet crudes we are importing zero. We are importing sour crudes from Libya because these crudes are offshore. They are loaded from offshore terminals in the middle of the Mediterranean, about 100 kms from the Libyan coast, namely Bouri and Al-Jurf who are actually quite close to Malta. So these are operational. But the crude which is of main interest from Libya which are the sour sweet crudes that is not available and how are we equipped to face it? Well we are equipped quite well because, as Corrado showed you, we have around million barrels in this quarter without any sweet Libyan barrels so we are perfectly able to substitute. It's not a question of technical substitution it's a question of economical substitution. The fact that Libyan crudes were not available pushed up the price of Azeri crude which is let's say the closest alternative, Azeri just for simplicity then, there are a lot of others that can be used but it pushed the price up by \$3 which killed all the margins. So that is the conundrum which is behind the non-availability of Libyan crude. It's not a physical constraint it's an economical constraint and at least for the time being we see we have no improvement from Libya in as much as the onshore fields, so the places that are the main ports of loading which is basically Zueitina and also Mellitah on the other side, these are closed or basically closed. And personally I have no fresh information that signals any improvement anytime soon.

Regarding our maintenance schedule, yes 2014 is going to be a year with slightly more maintenance than usual because our cat cracker has its five year cycle. Our cat cracker runs on a five year cycle and the last cycle was in 2009. Compared to 2009 the maintenance is going to be significantly less because in 2009 basically we rebuilt a new plant and instead in 2014 it's going to just be routine maintenance but still important maintenance because certain parts of the unit are physically worn out and need to be materially substituted but it's of much lesser extent than 2009 because we are not doing anything important on the CO boiler, we don't have any heavy lifting in terms of equipment so it's slightly more routine.



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Your suggestion of moving it back towards the beginning of the year since the outlook isn't brilliant is certainly from a point of view of the margins a good idea, whether technically that is feasible I sort of doubt it because there's a lot of lead time in the engineering and so forth so it's not something you can easily round by months. So I think we're going to maintain our schedule of having it in April.

Henry Patricot, UBS

Hello everyone thank you for taking my questions. Two from me. The first one could you give us an update on the new Focus initiative that you mentioned in the strategy this year? I think you said you were looking to make everyday improvements of €30m in 2013 and ramping up to €60m by 2015, could you give us some update on how much has been achieved so far and the timing on the remaining improvements?

And the second question on CIP6 you've chosen not to exceed the programme in early 2014 and I was wondering what it would take for you to make a different decision if the time comes to decide whether to exit in early 2015 or not? Thank you.

Dario Scaffardi

Henry thank you. Well on CIP6 the government has extended the period up to September of next year which one can decide to exit but I would maybe ask Corrado's assistance in giving a little bit of feeling about that and then I'll answer your question about Focus.

Corrado Costanzo

Yes the government decided to extend this window of opportunity for exiting the CIP6 voluntarily until the end of September 2014, so there's still plenty of time. We will, as usual, get back to the drawing board sometime in the summer of 2014 and take another look at this opportunity. So far we thought that there would be sufficient merit in staying within the CIP6 framework but however things evolve and we'll take a fresh look when the deadline is approaching next year.

Dario Scaffardi

Henry, going to your question about Focus well the programme, in terms of the work, is in its final stages because in 2013 it's scheduled to formally end. It's a programme that's been very, very successful, first of all I mean the success has been on the area of HSC, our indexes have moved from being above the average European index, we have in 2008, 2010 an index of 7.5 and then Massimo may, if you're interested, give you a little bit more details of what these indexes actually mean and now we are 1.4 and we are below, I mean we have a better index than the average of Europe. So this has been the first and most important effect of Focus.

In terms of economic results just in this year we have totalled €30m of improvement and these improvements have come mainly from a better management of the octane pool in the refinery. We have made a saving of almost 80,000 of MTBE, MTBE is a component which is used in gasoline to



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boost octane and we have used much less thanks to the improved performance of the units that have to produce octane.

Another very important area has been in losses and in the upgrades of the power turbines that have added almost €6m, we have three power turbines and the work in the first sense has been done only on the first two, the third has been performed in September, or in October and this has added almost €6m. So this year we have an impact of €30m together with the ones that we have accumulated in the years before of course. Still, given the overall environment for refining you would need to do even more of course.

Nidaa Bakhsh, Bloomberg News

Good afternoon, long time since I've been on the call. I just have a question, a general question, nothing to do with maintenance and about how cheap shale in the US, I mean do you see that putting some pressure on European refiners and chemical makers? I mean is it putting European refiners at a disadvantage?

Dario Scaffardi

Nidaa thank you for your question. Well yes I mean shale, shale gas, plate oil is sort of the subject which is talked about in energy circles all over the world today and clearly it's really changing the energy landscape. Is this effecting also refining indirectly? Yes because American refiners based in the US are enjoying a huge advantage compared to the European refiners for two reasons. First of all they're able to purchase crude at a much lower price than what European refiners are able to do and the spread between WTI and Brent is under everybody's eyes, although it did narrow a bit it's back to around \$10 - 12 so it's back to being a pretty wide range, maybe not the \$20s that we saw last year but still \$12 is a very, very significant figure and this is the first element just based on market benchmarks that of course American refiners are based on WTI they're not buying WTI they're buying back and they're buying other stock which is at a further discount to WTI.

And the second huge advantage is the access to cheap energy. Today the single largest cost for a refinery is energy and an average European refinery is buying gas at European gas prices. European gas prices, very roughly speaking, are in the range of about \$12 per million BTU and Henry Hub prices which is the gas hub in the US on which all US prices are based are in the range between \$3 and \$4 per million BTU. So we're paying three times as much at least compared to Americans and since the single largest of all the costs of a refinery today about 60% to 70% is energy you can easily equate what that means. So yes the bottom line is yes it's having a big impact.

Nidaa Bakhsh

Could I just follow up what can Europe do what can the governments do in order to change the balance in order to help industries, it's not just the refiners it's the chemical makers as well? do you have any thoughts on that?



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Dario Scaffardi

I think what Europe can do is try to put Europe on the same basis as the US, so possibly have access to energy, if not at the same price as the US but a much more competitive price, so it should make a policy not only for refiners even for individual consumers for the gas that they're using when they boil their pasta, so it should do quite a lot to improve the landscape for all the industries which are using energy and Europe is paying much more for that.

Nidaa Bakhsh

Okay maybe I could touch base with you afterwards as well just to further this discussion. That's it from me but I'll be in touch with Massimo perhaps to talk further on this topic.

Dario Scaffardi

Of course.

Saumya Senepati, Bank of America

Hello good afternoon. I have two questions from me please. First on the marketing business I just wanted to get a sense from you guys on how do you see that business evolving? Has it troughed substantially and is there a certain demand recovery that can be seen in the European market?

Secondly a couple of housekeeping questions, I see that the deferred tax assets item has jumped significantly this quarter as has the short term debt, if you can just provide some clarity on that? Thank you.

Dario Scaffardi

Saumya, hello, thank you. Can you repeat your second question because I don't think we understood perfectly what you were referring to?

Saumya Senepati

The second question was just a housekeeping question on the jump in deferred tax assets on the balance sheet as well as the short term debt during the quarter?

Dario Scaffardi

Well let me answer on marketing while Corrado looks through his numbers and can give you a more meaningful answer. On the marketing business we are quite satisfied with the way our colleagues in Spain and in Italy have been able to weather the storm. In Italy our marketing arm which is called Arcola has been able actually to increase its volumes so it's had an increase of about 8% in sales and in a declining market. In Italy gasoline consumption over the last five years has gone down by 32% and diesel consumption has gone down by 11%. So in this extremely challenging scenario we've been able to level off, also the margins have been at least reasonably stable.



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In Spain the situation has been different. We have significantly reduced sales in Spain due to the fact that Spain has moved from being a country that was net importer of products to being a net exporter. So it's like trying to sell ice-cream to the Eskimos. Our Spanish affiliate has changed its policy, it's relying more on purchases of products locally and as a more active, it chose its various marketing channels more carefully and has undergone a process of cost reduction. So today our Spanish affiliate, Saras Energia, is in a much better shape than we expected to be able to maintain current volumes.

Also as usual when you have a crisis funny things happen, in terms of the retail network that we have in Spain the whole dynamics of this has changed. In a market that has been focused very much on price now retail networks like ours that don't have a big brand of course compared to the majors but rely exclusively on price have actually been privileged because we have a lot of small retail stations that we have undertaken investments to make them automatic, so reduced fixed costs and we compete on price and we're able to be competitive and actually the sales that we've made through our retail network has actually improved a bit. So now maybe Corrado can give you a little bit of flavour on the tax issue.

Corrado Costanzo

The deferred tax assets diminished by about €137m during the first nine months actually, I'm looking at a nine month period and that is directly linked to the fact that we wrote down the value of the CIP6 contract by roughly €230m. So most of those €137m, not all of them but most of them, does reflect the tax portion of the €230m that were written down. So €230m was a gross figure and there was over €100m of deferred tax assets directly linked to that and those had to be written down also but no cash moves when you do those. Those are purely accounting entries.

Niccolò Storer, Mediobanca

Good afternoon gentlemen, two questions. The first one I was trying to understand to what extent reduced sales of steam and hydrogen from the plant impacted basically the profitability, the EBITDA of the power gen business?

And secondly I was wondering how things are working at a European level on refining, a "Fitness Check" is being carried out by the EU commission and I was wondering when do you expect an outcome from these? And then in case of a positive ruling which could be a reasonable timeframe for the new rules to become fully effective? Thank you.

Dario Scaffardi

Niccolò, sorry going on your second question regarding the "Fitness Check", the "Fitness Check" there will be a meeting in Brussels on 27th November in which the European Commission will present, I'm not quite sure if it's the final report on the so called "Fitness Check". We don't have too many hopes on this because basically the European Commission is trying to understand what the impact is. The various national authorities have made independent studies and particularly the UK, the petroleum international strategies of the UK, PIA, has made a very comprehensive study and has submitted to the authorities. What exactly the outcome is going to be in terms of legislation



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or any other type of actions from the European Union it's not clear to me, not only what they want to do but what they can do actually. I think that at least the only positive thing is that they've maybe understood finally that there is a problem. That would just raise something. But if you want an accurate verdict let me not say that, nothing.

Niccolò Storer

So you do not have in mind a timetable, a timing for the ruling or decision or anything?

Dario Scaffardi

No honestly I don't know. If there is one I don't know.

Corrado Costanzo

Going back to your first question the impact was close to €5m during the last quarter. But these somewhat reduced sales are strictly a function of certain maintenance that was performed on the mild hydrocracking unit. So on average if no maintenance is performed on these units which are the main uptakers of hydrogen those sales tend to be constant. During 2013, however, the mild hydrocracker was going precisely through a major maintenance cycle so we also had lower sales of hydrogen. However also you have lower sales but you also have lower costs because hydrogen now is not for free. So that doesn't translate exactly 100% into EBITDA, the EBITDA is less of course.

Closing Comments

Massimo Vacca

Okay then I would like to thank everybody very much for their attention and interest in this call and we shall speak again for the next quarterly results call. Good evening.