SARAS

First Quarter 2014 Results

14 May 2014

Welcome

Massimo Vacca

Head of Investor Relations and Financial Communication, SARAS

Thank you very much. Ladies and gentlemen I would like to thank you all for joining us today for this conference call on SARAS results for the first quarter of 2014. Hopefully you all received the analysts' presentation which we are about to discuss today. However if needed the presentation can be found on our website www.saras.it and it can either be downloaded directly from the homepage or in the section dedicated to investor relations.

Our agenda today as you can see is the usual one. We will start with Mr Dario Scaffardi, Executive Vice President and General Manager of the SARAS Group who will illustrate the overview of the results and he will cover the highlights of the period.

Subsequently our CFO, Mr Corrado Costanzo, will provide a detailed review of the results of each business segment and he will later discuss the key financial figures for the group.

Afterwards back to Mr Scaffardi for the market outlook and the strategy. And finally we will be glad to take your questions. Dario please.

First Quarter 2014 Overview

Dario Scaffardi

Executive Vice President and General Manager, SARAS

I. Highlights

Thank you Massimo. Good morning ladies and gentlemen and thank you for being with us.

Another tough quarter for the refining industry. The first couple of months of the year started off on a very negative tone and was just a slight improvement on the EMC benchmark refining index in March. Overall the quarterly figure has been -1.9, just slightly above the absolute minimum of Q4 2013, which was -2.4. There has been a little bit of improvement now at the beginning of Q2.

Our financial results have been rather disappointing for this reason first of all. Secondly because we have been expecting Libya to come back fully on stream at the beginning of this year. We had some hard information towards the end of last year that loadings would be resumed and we based our programmes on availability of Libyan crude which then during January did not materialise and has materialised just in recent weeks and as a matter of fact Saras has been amongst the very first lifters of crude from the eastern ports of Libya.

On a more positive note we have a pretty tight control of our financial position which is broadly in line with what we've been showing in the other quarters.

There is some improvement in the cracks now but overall during the quarter they have been, as I mentioned previously, fairly bearish.

Corrado will now take you through the various segments in more detail and then we will devote some time to the situation, strategy and of course your questions.

Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Well thank you Dario. And let's start with Refining which is undoubtedly the sore spot. Extremely disappointing margins, extremely difficult scenario, minus $1.9 per barrel EMC benchmark. We were able to add about $2.4 on this benchmark but still it was not enough to take the EBITDA into the black. Certainly costs were under control. The overall performance of the refinery was fairly satisfactory but the market conditions were in fact very, very tough during the last quarter.

2. Fixed and Variable Costs

So I would comment very, very quickly on the fixed and variable costs. As you can see broadly in line with our guidance and projections. So tightly under control. Also for those of you that were also attending our presentations in the past the variable costs used to be close $3 per barrel and thanks to partly some utilities' price dynamics but also to our Focus project we were able to save significantly particularly on energy costs. So that is clearly something that is helping the bottom line and is there to stay. Again, at least during the past quarter, still not enough to bring our EBITDA in the black.

3. Power Generation

Power Generation performed quite well again from an operational standpoint. Production was back up to 1,100 megawatt hours, roughly in line to the last quarter of last year, Q4 2013, so fairly stable production there, and it's about 16% more than the same quarter of last year, Q1 of '13, but because there was some planned maintenance back then.

So again production in line, however the tariff was down about 14% since it now reflects fully the effects of the so-called Decreto del Fare which was passed by the government last August and basically switched the energy component of the tariff from Brent-related to spot gas related. The power tariff is still extremely attractive compared to wholesale electricity prices however it is lower than it was last year. And you might remember that we also took a hit during Q3 of last year in order to fully book the effects for the future of this decree passed by the government. So the IFRS EBITDA is fairly stable because of its own mechanics. It's quite removed I would say from the day to day reality of this business and so those are still pretty much stable and our guidance is still around €190m per year.

4. Fixed and Variable Costs (IT GAAP)

The Italian GAAP is more volatile but we think it's still going to be somewhere around €150m per year because also however there is a possible impact coming from gas prices which might add or also take from the €150m.

Costs were definitely under control here also. So I would skip the table there's really no meaningful difference to talked about.

II. Marketing

Marketing is a bit complex to explain this quarter. There's basically the combination of two effects. One is coming from competitive market pressure, especially in Spain and the other is coming from pure mechanical effects relating to the LIFO mechanism. We do not include in this presentation the reported EBITDA however if you looked at the press release where the reported EBITDA for marketing is clearly outlined this difference vis-à-vis the same quarter of the previous year is less than €5m.

On a comparable basis the difference is close to €10m so there is as I said this accounting effect of LIFO when you lower your inventory levels and sometimes then you go back to the previous levels, they first you might have a positive effect coming from that and then you might have a negative effect. This time we had a negative effect.

So these two factors were sort of compounded. So about €4m or €5m difference comes from market pressure and lower margins, as I said particularly in Spain which were a bit unexpected and the other half comes from mechanical effects of LIFO and LIFO has been calculated on a separate basis for Spain and the absolute levels of inventory are fairly small. So one cargo more, one cargo less being discharged a few days prior to the end of the quarter or after the end of the quarter could make a big difference and this is exactly what happened during Q1 and you can clearly tell from the difference between the comparable EBITDA and the reported EBITDA if you look at our press release.

III. Wind Power

Moving on to Wind uneventful I would say although yes there are significant difference vis-à-vis last year. Production is down 21% but no big deal really because the first quarter of last year was the single best quarter during the life of this project and we're talking about many, many years. So we never hoped for that to be repeated or we never budgeted for it and what we're looking at now is some very satisfactory performance in terms of Wind and also by and large the overall tariff is roughly in line, we're talking still about 15 €cent/KWh although the mix is different, the base tariff is lower, a lot of competition in the electricity market and green certificates are up and almost fully offset what was lost with the power tariff. So overall we can still count on stable €25m per year or something like that of EBITDA.

IV. Financials

1. Key Income Statement Figures

Moving on to the financials very quickly what is really important here is to point out one more time that we are still very much focused on working capital management. We have discussed many times over that €50m – €100m on a quarter to quarter basis really do not mean much so going from -€8m to -€55m doesn't mean much considering that we are managing millions of inventories, billions of receivables, payables and such. So a difference below €100m is fairly casual, it's not even worth me discussion. What is worth discussing is the fact that CAPEX is also tightly under control and we spent during the period overall for the group €23.7m vis-à-vis €48.5m worth of amortisation and depreciation. And we confirm our guidance about €120m to €130m basically because there's going to be some fairly intensive maintenance during Q3 and that will add. However the average for a normal quarter is below €25m. So on a longer term basis we're talking about €100m or less per year and on a case by case basis we might see a different quarter but we will let you know in advance and we're letting you know this year we're going to have this maintenance in Q3. However also even counting that additional CAPEX linked to some heavy turnaround maintenance we're still well below amortisation depreciations charges and that sort of explains how also the working capital management and the CAPEX management explained why our financial position continues to be in check despite the very disappointing conditions of the refining business. And also of course we're counting on the contribution coming from the power sector and the wind sector. So this is about it and back to Dario for an outlook on the future.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

Thank you Corrado. Conditions are still quite challenging for refiners. All the positive aspects that we were hoping to see mainly on the crude oil side which is the key driver to oil margins in this market, in this scenario, are delaying in coming through and the political turmoil with Libya is still there although we are seeing signs of improvement, the ports have been reopened. As I mentioned at the beginning we are among the first lifters of crude out of Zueitina. So we are cautiously optimistic that the situation there is being resolved and it means a very positive effect directly on the availability of alternative crude sources from the ones that we are using today which are mainly from the former Soviet Union and from West Africa and Libya provides an obvious alternative which has advantages, both in terms of quality and in terms of geography. But most importantly it has an effect on the overall market. So I would expect that as soon as Libya is fully back on stream we would see some downward pressure on the premiums paid for sweet crudes, which is one of the three main components of the refining margin and just a reduction of a couple of dollars on the premiums paid for the low sulphur crude would have a very significant impact on our accounts in the range of a triple digit figure.

On the Iranian side again we are waiting for developments as well. As you probably all know next week there is an important meeting in Geneva between Iran and the Five Plus One Committee. We hope to see some developments there as well that again would bring some pressure on sour prices which have done something very unusual over the course of the year. So if you compare quarter to quarter the value of fuel oil has actually gone down, we've seen the fuel oil cracks move a couple of dollars down; today we are -17 if I remember correctly in terms of the high sulphur fuel crack and last year we were -13, something like that, but, but the price of sour crude has not changed. In Q3 of last year Urals was at -1 about and last quarter it was -1 about. So there is this linkage between the price of sour crudes and fuel oil in itself which is sort of counterintuitive and it's basically based on the fact that there is a relatively strong demand for sour grades and relatively small availability so it tends to follow its own dynamics. But again with more availability on sour crudes on the market, apart from Iran there are some very positive developments from Iraq which has gained over the year almost a million barrels a day of production, we would hopefully see some easing of the crude premiums which I think is the single most important fact to bring some marginality back to the refining sector.

In terms of Saras' strategy we continue to remain very prudent in our financial management. So as Corrado was outlining a very, very tight control of our costs and the way that we're managing working capital. And we keep on working on our optimisation programmes. We are further reinforcing them. We are now concentrating very strongly on the optimisation of the process in refining in order to be able to take full advantage of the opportunity crudes that still exist on the market from time to time.

Lastly our negotiations with our partners in Rosneft are continuing. The situation has now become more complicated because the overall commercial strategy of Rosneft, there is the very significant introduction of Morgan Stanley and we are pursuing with Rosneft and also with Morgan Stanley many talks to see how the ideas that were developed last year can integrate say into a much larger and much more complex strategy. That has become even more muddled with recent political developments in Russia that has certainly not been conducive to a quick resolution of certain issues.

Thank you for being with us today and now we'll be pleased to answer your questions.

Questions and Answers

Jeremy Aston, Exane BNP Paribas

Hello and good afternoon gentlemen. Two questions please. Firstly in Marketing you attributed the poor performance of the division in part to increased price competition. Have you seen margins recover so far this quarter or is it something more structural here?

Secondly, it's maybe an aside, but can you talk about the rationale behind the disposal of your biodiesel plant? Are you expecting to see any uplift to EBITDA ROCE and if significant what do you intend to do with the proceeds of the sale? Thank you.

Dario Scaffardi

Jeremy thank you. On the Marketing unfortunately our activities are concentrated in Italy and Spain particularly in Italy, I mean about two-thirds of our activity are in Italy and one-third is in Spain. In Italy consumption is continuing to decrease so counter to what is happening in the rest of Europe in which the decline in consumption has sort of stopped in Italy it is continuing. So the environment is increasingly competitive and there's been a very, very strong push on marketing margins during the first quarter. That traditionally is also a very poor quarter. So if you look at SARAS' results I mean the quarter of last year were particularly good but for a variety of reasons.

If you look at other quarters, January, the first quarter, tends to be a challenging quarter for the industry. It tends to be better in the second and the third quarters. But there is definitely price competition but there's also some rationalisation happening in the market, various closures, the market is becoming slightly more orderly. So we are strengthening our presence. We have not lost market share, notwithstanding the overall decline. So we think that we can see some signs of recovery in this quarter and the one next.

Regarding the rationale on the biodiesel plant it is just a question of rationalisation. Biodiesel was facing a very, very negative moment. The introduction of quotas in Spain have made Spanish factories more interesting, more competitive because there is a system of quotas by which national production in Spain is privileged. So we had the opportunity of making an interesting sale with a partner with which we cooperate in the area of biofuels, this is not our core business. Biodiesel particularly on the relatively small scale that we had is a business that definitely needs to be fully integrated in the supply chain with the producers. So we have actually sold this plant to an important palm oil producer which we will be able to divulge once the deal has been finally settled. So it is just a question of rationalising our assets. It was never a part of the core business. The proceeds will be used within the SARAS system compared to the scale of SARAS the proceeds are going to be relatively small and therefore hardly have a huge impact.

Corrado Costanzo

But in terms of figures the impact on EBITDA will be negligible. However, when you combine the consideration for the plant plus the working capital that we are going to be able to dispose of you’re talking about a net cash inflow of several tens of millions. I cannot be more specific because with our counterpart we decided not to disclose figures, but this is, in terms of both our figures how the deal works.

Henry Patricot, UBS

Good afternoon. Thank you for the presentation. A few questions from me. The first one is just to go back on Marketing your guidance of EBITDA for the full year of €30m to €35m is going to be difficult to reach after the one Q, do you have an updated number to give us?

And the second thing on Libya just how reliable the supply is at the moment are you getting the crude on a regular basis or is it just more cargo by cargo? Thank you

Dario Scaffardi

Sorry Henry I didn’t fully catch what you said on Libya.

Henry Patricot, UBS

I just wanted to know if you're getting a regular supply from Libya at the moment or if it is just more cargo by cargo as the situation seems to be still quite volatile?

Dario Scaffardi

I think that the terms regular and Libya together are sort of an oxymoron so it's difficult to put these two concepts one next to the other. Let me just say that just a couple of weeks ago finally Zueitina which is an important port for oil products has been freed and it was product and storage that was freed, loaded and delivered. We are receiving signals from our contacts in Libya that things are progressing well but we really need to see regular flows over months before we can say that things have gone back to normal. Let's keep our fingers crossed and be cautiously optimistic.

Corrado Costanzo

In terms of guidance on the Marketing for the year clearly the inventory loss or adjustment is not reversed you're already missing €5m so by definition you should be €25m, €30m but I would leave it like that because sometimes these charges are then reversed and then you might have an exceptional quarter from a positive standpoint. So we wouldn't say huge differences although yes the guidance needs to be adjusted a little bit at a lower level but nothing dramatic, it doesn't become €10m per year, not at all. There's no signal.

Closing Comments

Massimo Vacca

Okay well then in this case I would like to thank everybody for their attention today. Of course analysts and investors know that if they have a follow up they can call me directly later on. Thank you very much and I wish everybody a good evening.