



# Saras

## Preliminary FY 2015 and Q4 2015 Results

### Welcome

**Massimo Vacca**  
**Head of Investor Relations and Financial Comms, Saras**

Good morning ladies and gentlemen, thank you for joining us today for the conference call Saras on the preliminary results for the full year 2015 and for the fourth quarter. Hopefully you all received the presentation that we are about to discuss today, however should you need it, please allow me to remind you that it is available on our website, directly on 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 highlights of the period, followed by a detailed review of the results of each business segment. Subsequently, Mr. Franco Balsamo, Chief Financial Officer, will discuss the key financial figures of the Group. Afterwards back again to Mr. Scaffardi for the market outlook and the Group strategy. Finally, we will be delighted to take your questions. At this time, I would like to hand over to Mr. Dario Scaffardi.

**Dario Scaffardi**  
**Executive Vice President & General Manager, Saras**

### **1. Highlights**

Good afternoon ladies and gentlemen, thank you very much for joining us today. I am very pleased to announce the 2015 results of Saras, it's been a record year thanks to the combination of various conditions.

First of all, favourable market conditions for the refining business, a very strong operating and commercial performance on the part of all our units, and particularly the hard work of all our people. Saras has come out of a period, which has been extremely challenging. We have had 4 or 5 years that have been extremely tough but as we mentioned on other occasions, we have used this time to improve



and streamline our operations, so we have been able to fully benefit from the good market conditions that we were able to fully exploit in 2015.

2015 was seen as a watershed year in terms of both market conditions and operating conditions for our organisation. If we look at the quarter, we have some comparable EBITDA of €130m, and if you compare that to the full year result, that is €741m of comparable EBITDA on a full year basis. I think what is important is the adjusted net result, which is €326.3m on the full year. Let me remind you that the dividends policy of the company is to pay out as dividends from 40% to 60% of this figure. The final set of financials will be approved by a specific Board Meeting on 14<sup>th</sup> March because these figures are not entirely definite but might have some minor adjustments and in that same Board Meeting the Board will make a recommendation to the general assembly for the pay-out, whether it's a ratio of 40, 50 or 60. I will imagine it is probably reasonable to imagine something in the middle.

Our net financial position continues to remain strong at €162m at the end of this year, but of course Franco later on will give you a little more flavour and details on the figures. Regarding the actual crude runs and so forth we'll talk about this when we get to the various segments. Let me just give you a broad overview of the market.

First of all as usual we talk about diesel and gasoline crack spreads, which are key determinants to our value.

As we can see from the graph here, gasoline had an exceptional year in 2015. Crack spreads have been at the highest level in the last 5 years and that's even more remarkable if we mention the underlying absolute price of Brent has been much lower, but I will go into a little more detail on the next slide, I will try to give you some flavour of the way these things move.

On the diesel side apparently the crack has come down, you can see particularly in the last quarter of the year it has been below the 5-year average, nonetheless margins have been extremely robust because at the same time the price of crude is almost a third in the last quarter compared to the same period of the previous years.

So one of the things that I would like to stress that has been particularly important for investors is that the crack spreads are just a partial representation of the economics of our business. It is of course important but crack spreads are not always equal. The \$10 crack spread on diesel when crude is \$100 is at 10% margin, if it's the same value at \$30, it is a 33% margin; so it is an entirely different situation. So the notion of crack spreads has a historical origin when the variability of the absolute price of crude was more limited, so it made a certain amount of sense. When you are talking of an absolute price that moves from over \$100 to \$30, the same set of crack spreads are no longer valid. This is why we introduced a measurement, a metric we use internally very much which is the ratio between the crack spread and the absolute price of Brent. Also this measurement does not give the full story. You have to look at it in conjunction with the crack spread to give a good representation of our margins. But if we look at the second part of the graph on page 6, you can see that from the period of 2012 to mid-2014, if we look just at diesel for the time being, which is the green line, we had a ratio of below 20% and then starting from mid-2014 right into 2014, this ratio went steadily up, to around 30%. It touched even in certain moments 40%. And this you can see is directly countercyclical to the absolute price of Brent, which is the blue line. The exact same thing happened with gasoline with even stronger swings. It went



from below 10% to 30% - 40% range. In certain moments, it even touched 60%. So, even if the value of the crack spread is much lower than what it was a year ago, margins are still robust and strong thanks to this fact, which must be contemplated of course.

If we look at our quarterly performance in terms of the Refining and Power Generating margins, the EMC benchmark in the fourth quarter went down, from a historical high of 4.8 in Q3, to 3.1 in Q4, which compares to 0.9 in the same period the previous year. The Saras margin was \$3.5 above this value or a bit lower than the usual \$4 because during the last quarter we had some planned maintenance that had a higher effect than was initially anticipated, but we will mention that in the segment reviews.

## Segment Reviews

### **1. Refining**

If we look at refining, I would like to concentrate a little more on the full year rather than on the quarter. First of all, let me talk about the runs. Runs for FY 2015 were \$14.6m tonnes of crude compared to \$12.43m in 2014, and on top of that we had what we call complementary feedstocks, which are a variety of oil products. We used over 1m tonnes of feedstocks compared to slightly more than half a million in 2014. So that's been a very very significant increase; 17% more in terms of crude runs, 87% more in terms of product and feedstock runs. So 2015 both in terms of economics and in terms of quantities was a record year. And this is due to the exceptional operating and commercial performance that we had during the whole year. Further support comes from the exchange rate. In Q4 the exchange rate was 1.1 versus 1.25 in the same period of 2014 and a stronger operational performance in Q4.

### **2. Production and Crude Oil Slate**

If we look at the next slide, we get a little bit more details on the crude mix. First of all, what is remarkable is that we have lightened the crude slate in a very significant manner. We moved from an average of 32 API points in 2014 to 33.7. Again, we look at the full year because these numbers are not very meaningful if measured on a quarterly basis. So this basically tells you that we have lightened the crude slate in order to take full advantage of the very swamped gasoline market so we did all that was possible to increase gasoline and diesel throughput. We have a very clear manifestation in the lower part of the table and I would like to point to your attention the absolute value rather than the percentages. When you look at the absolute value you'll see that in 2015 we produced over 750,000 tonnes more of naphtha and gasoline, over 1.3m tonnes more of diesel and only 150,000 tonnes more of pure oil and basically the exact same quantity of TAR which is the feedstock for our gasification unit, so it shows you that we have modified the slate of the crude oils we run, in order to keep the gasification unit fully saturated to produce the maximum possible electricity and we will go in more detail afterwards. At the same time we increased throughput of like to little estimates.

### **3. Fixed and Variable Costs**

If we look at the fixed and variable costs, we are more or less in line with the guidelines that we've been given. Again, the quarterly review is not very significant, it's better to view on a full year basis. If we look at 2014 compared to 2015, the big difference is the fact that the variable costs, which used to



be the payment of the agreement we had with the former Versalis plant have become fixed costs. It went up from €220m to €250m per year. While the variable costs have been reduced, variable costs are strongly linked to absolute energy prices so they have decreased from €175 to €148 and at the same time there has been a very significant decrease in terms of \$/barrel since the increase runs from 90m barrels in 2014 to over 100m in 2015.

#### **4. Power generation**

If we look at power generation, the last quarter of the year is generally influenced by the equalization procedures, which are used in the representation of the IFRS numbers for our Power Generating Units. Let me remind you that we spread all revenues and costs over a 20-year period of the contract, so there are some effects which are not immediately evident. Every year we have to use new updated curves for gas prices, electricity prices and so forth. And of course at the same time Brent prices, which have a strong influence. The last quarter is used to reassess and to readjust the numbers.

Basically, we had a lower CIP6 tariff, about 5% less compared to the same quarter of 2014. The value of steam and hydrogen in the refinery was of course lower, and that was partially compensated for by the reduction of the price of the TAR that the CIP6 plant buys from the refinery.

If we look at this on a full year basis, the curve shows that the full year comparable EBITDA goes from 240 in 2014 to 208 in 2015. If you want to have a better representation of the cash flow, we should look at the Italian GAAP, which shows an increase from 148 to 168. The power produced in the IGCC unit is again a record 4.45 in 2015. In 2014, it was 4.35 so there is a 2% increase with a power tariff that declined by about 5% from 10 €cents to 9.6 €cents.

#### **5. Fixed and Variable Costs**

In terms of fixed and variable costs, things are absolutely comfortable in the fixed costs, there is a slight reduction of the variable cost due mainly to the price change of energy-related commodities.

#### **6. Marketing**

Again, I would maybe look at the full year figures rather than the quarterly figures. Full year figures show that for marketing, which is the activity of sales and wholesale, markets in Italy and Spain have been challenging. This was due to the fact that mainly the department of high-margin has pushed availability of oil products, thus depressing the prices on the wholesale, creating big competition. Whilst we have been able to retain more or less a constant presence in terms of volume, so we defended our market share, which broadly has been more or less equal; we sold in Italy over 2.5m tonnes of products over the full year; from 2.4m in 2014. In Spain we sold almost 1.4m tonnes compared to 1.2m, so a 12% increase in 2015. Notwithstanding the increase in volume, the performance has been disappointing due to the very small marketing margins and also due to the higher blending costs inherent with using compulsory biodiesel and ethanol blending in the gasolines.



## 6. Wind Power

Again, if we look at a full year basis rather than a quarterly basis, comparable EBITDA has been below 2014, mainly due to the fact that there was less wind. So no other operational issues, it's just a question of the weather in 2015 being better than the year before.

## 7. Others

The technological company, Sartec, showed improved results in 2015 compared to 2014. The numbers here as small: full year is €3.8m of comparable EBITDA compared to €3.3m in 2014, but half a million more EBITDA for a small engineering company is no small feat.

I would ask Franco to go through the various Key Income Statement figures.

**Franco Balsamo**  
**Chief Financial Officer, Saras**

In the Key Income statement figures from the fourth quarter of the year 2015 we have a €6m negative EBITDA and a positive comparable of €130m, we see later the adjustment of those two elements. We have depreciation and amortisation for €55m compared to €100m positive of the last quarter of last year due to the reversal of the write-off of the CIP6 contract for a net of €180m in combination with another write-off negative of €23m.

As to interest expenses, we accounted €7.6m compared to €12.7m of the last quarter and in terms of other financial income, €23.4m is the benefit driven by the hedging policy, this is a combination of €25m of gains on derivatives and €10m due to the difference of foreign exchange between invoices and purchase of crude oil. The net result of the last quarter is a negative of €53m and positive with the other adjustments. In terms of full year, the EBIT showed a positive €310m. We have €35m of interest expenses, and a benefit driven by the hedging policy for €78m. The fixed income figures are lower than in the past and they cover €33m.

On page 19 we explain the main adjustment between reported and comparable, €108m, is the difference in inventory level. €12.5m are a couple of non-recorded items that are typically charges for legal and tax litigations. We have €64m that benefit from the hedging policies. The reported net result is €223m, compared to the adjustment at the close of the year of €326m.

In terms of cash flow generated by operations, we closed the year (on page 21) with €54m positive cash flow before dividends. This cash flow was generated by the operations plus the contribution of €64m on the derivatives realised and on foreign exchanges. We have a €40m gap on the accounting of the power activity and this liquidity more than compensates the utilisation of cash for working capital activities, which is €440m. Capex are in line with expectations at €86m and the interest expenses at €35m. This allows the company to close the net financial position at €162m, higher than the end of the year 2014.



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**Dario Scaffardi**

### **Outlook**

Thank you Franco. We view positively the forthcoming year because notwithstanding the fact that the crack spreads have come in and there is pressure on supply side, there are extraordinary conditions that we are able to exploit in terms particularly of crude oil availability and non-conventional grades that we've been able to use so effectively in 2015. If anything, this situation is set to continue and possibly improve with new developments on the market of new players, namely Iran coming in and trying to find their place in the market. So we will continue in our pursuit of the optimisation of the supply chain and on improving operational performance and keeping a very, very tight lid on cost and cost structure.

As a matter of fact, we have started a new programme on controlling and cost analysis in order to be able to analyse in depth all parts of the company and see where we can further optimize. We have slightly updated our forecast compared to the business plan presented to the markets in October, of course at the time we were using \$65 for Brent. Now we are using \$45, 50% more or something like that, compared to current market conditions. At the moment we don't believe it's very likely to see any significant increase in the price of crude, we believe the current conditions will maintain. Of course there's always the possibility of imponderable political event which might alter but the basic supply and demand balance we consider is that the market will remain oversupplied certainly for 2016, possibly for 2017, before we see some recovery of the price of crude.

We have updated the maintenance schedule for 2016. In 2015 we tried to move all our maintenance into 2016, we were largely successful in this although we had some minor hiccups towards the end of 2015. We've had a first quarter of 2016 which has been relatively heavy on maintenance, one of our hydrocrackers just completed its maintenance one of our vacuum units are given maintenance, and the usual scheduled maintenance on the gasifiers and the power trains.

So thank you very much for joining us today, we would be pleased to answer any question you might have.

### **Questions and Answers**

**Monika Rajoria, Societe Generale**

I have two questions please. I would like to understand the reason behind the increase in gasoline crack consumption on slide 26 and also I would like to understand if there is any further flexibility to increase the gasoline production from current levels, thank you.

**Dario Scaffardi**

Thank you Monika, the gasoline crack was updated to \$11.5 per barrel based on the forward curves at the time in which the plan was made so the prevailing opinion was that gasoline would continue to remain extremely strong in 2015. We have this impression from the physical point of view apart from



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what the forward curves may do. For instance, even in these months which are traditionally very slow months for gasoline: December, January, February are slow months for gasoline from a historical standpoint, we had extraordinary requests for high octane components coming from all over the world. So we've been extremely surprised to be able to sell at extremely interesting values high octane components that are to be shipped mainly to the Far East. So we believe the gasoline will be well sustained in spring and in the summer.

In terms of our possibility of increasing the yield, we do not so much in percentage terms but we try to do that as I explained when we went through overview of the crude oil slate and production, in terms of tonnes, of the absolute value. The possibility of switching from diesel to gasoline is relatively limited in terms of percentage. In terms of quantity, depending on the type of crude that you run, that is more of a possibility and we exploit it to the fullest. But for us it's always an economic decision of course. As we tried to explain in previous calls, our economic activity is managed by a supply chain model, with whatever the model dictates. Sometimes the result might be counterintuitive, in the sense that sometimes, as I mentioned before, it might be more profitable to sell components instead of finished gasoline, like blend stocks, so that value of these components together is higher than the value of the finished gasoline, or buying feedstocks or crudes which are simply different but yield a higher value.

### **Joshua Stone – Barclays Capital**

I've got two questions, please. Firstly, looking at Kurdistan, I see there's been an announcement there from one of the pipelines, I wondered how significant that was for Saras, how much crude you've been taking from Kurdistan and how easily you would be able to switch if so.

Secondly, looking at the refining margin and the premium to the EMC, are you able to give any indications of how that's been trending over the first two months of the year or if not some sort of range of where we should expect it to be this year.

### **Dario Scaffardi**

We don't give any specific information regarding our sources of crude. Last year alone we took over 42 different crude oils from over 26 countries. Among these countries there are various Middle Eastern countries of course, so the fact that there were some hiccups on the pipeline, I don't believe that will be a major issue for us or for the market in general. The market is amply oversupplied. I think we have demonstrated we have been extremely capable of switching quickly our sources of supply. I'm sorry if I'm not more specific but we need to protect our suppliers and not divulge any specific information in that respect. In terms of EMC, we confirm the guidance, that these sorts of levels \$3.5/4 premium, are reasonable, pre-maintenance of course: in our first quarter there is large maintenance so the first quarter is going to be a little different. But on a FY basis that's a reasonable assumption.

### **Henri Patricot - UBS**

Thank you for the presentation. Two questions for me. Firstly, on Iran, are you able to give us a few more details on where you are in your negotiations with Iran, when you expect to be able to repay them and get some crude from them.



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Secondly on your new trading unit, I know it's only been a few weeks but have you been seeing any benefits already?

**Dario Scaffardi**

On Iran we have always maintained very good relationships with them all through these years so we are basically ready to pay when it will be possible, because to our knowledge at the moment the European banking system is not open for business with Iran, I'm not sure why, I'm not an expert in this field but Italian, European banks at the time being are not effecting payment to Iran. I think this has to do probably with clarifications from the American authority regarding the possibility of doing business in the future and so forth. I think this is what's delaying it. So at the moment no instruments are in place to materially effect payments.

In terms of purchasing from Iran we hope to be able to resume, but again one of the good things that's come out from the tough years we have behind us is that we have weaned ourselves off any specific supplier so our attitude is an extremely mercantile attitude which is based exclusively on economic considerations in terms of price and revenue. So we would be delighted to purchase again from Iran - it's always been a very reliable and very serious supplier - providing conditions are competitive, and there's a lot of competition out there today, luckily for us.

The trading unit started operations on the first working day of 2016, I think it's a bit premature to make any assessment of how it's going but it is going very well and the fact that it's so close to many other operators in the sector is certainly increasing the possibility of doing businesses and capturing opportunities. So the outlook is pretty good for the time being.

**Domenico Ghilotti -Equita SIM**

Two questions. My first question is related to the inventory build-up we saw in gasoline earlier this year, what's your view on this build-up, which was stronger than last year and probably also stronger than expected? Is it a concern for you going forward?

Secondly, the scenario for this year. In particular, I would like to have your view on the fact that, looking at your update, Saras' margin seems more skewed towards gasoline compared to diesel. Is this creating a risk, or higher volatility? What do you think?

**Dario Scaffardi**

On the inventory build up: sure, the market is an oversupplied market in terms of crude oil so there's an imbalance between crude supply and crude demand of 4/4.5m barrels per day. There is a projected increase in demand of 1.2/1.3m barrels per day over 2016, so that should go towards closing the gap between supply and demand and presumably relatively lower prices will start to affect certain producers. We can expect maybe a little bit less supply. So it's absolutely normal that there is an overhang of crude oil and product as you can see that in the crack spreads which have weakened. But notwithstanding the fact that the price is relatively weak, our margins are still pretty good, for the reasons that I tried to explain in the beginning, relative to the ratio and to the fact of some very competitive crude oil prices. So am I worried that there's a little bit too much product around in the





market? Yes, I would definitely prefer less product around but still we haven't had any major problems in placing our barrels.

**Domenico Ghilotti - Equita SIM**

The second question is on the much higher contribution, compared to the past, coming from gasoline cracks compared to diesel. You also updated your forecast so clearly, margins are more supported from gasoline crack compared to diesel this year and probably last year. Is this creating more volatility, is it a more concern for your or are you neutral?

**Dario Scaffardi**

We are not concerned at all. I think, it's a fantastic opportunity to exploit it because we have two reforming units, a whole bunch of units which are designed to extract as much gasoline as possible for certain types of crude and we've been running them to the fullest. We have been lucky when we acquired the former Versalis plant and integrated it into our system. It is basically a plant geared towards gasoline and gasoline components, so we are not worried at all. Gasoline used to be a very big part of our production historically and then it has been overshadowed by demand for diesel over the last 10 years. But we are ready to resume a strong market presence on gasoline, which has been extraordinarily successful. As I mentioned before we've been able to play the market in a more proactive manner. I would say, thanks to our people in refinery who are very good at separating the components, or our programmers in identifying the possible components and the commercial guys in selling them.

**Domenico Ghilotti - Equita SIM**

Follow-up on the maintenance activities: can you give us a sense of when you expect to start maintenance in Q1, have you already started?

**Dario Scaffardi**

Q1 it's basically finished, in the sense that they started right after the holidays, the large maintenance started around 10th-15th January and was completed around 15th-25th February. We do have one of the power trains which is still in maintenance at the moment, and we have an alkylation unit which should resume in the next couple of weeks.

**Paolo Citi - Intermonte**

I have one question about the outlook in particular slide 26. You highlight in the finance segment lower rents compared to the business plan, and at the same time higher losses from maintenance stoppages which are \$50m if I'm correct, and then you also highlight additional \$10m fixed costs for 2016 compared to the business plan. At the same time, you confirm the overall Group EBITDA for 2016 so my question is where do you think you can offset these lower margins: thanks to better crude sourcing conditions or also higher margins in other businesses, like for example marketing and wind?



**Dario Scaffardi**

Compared to the business plan we hadn't planned for some further maintenance in 2016; that was not expected at the moment of the plan, so this basically reduced the planned refinery runs from 15.2 to 14.8. One of the things that we need to follow very closely is the fact that we always give guidance on overall refinery runs but there is a very big influence from what we call complementary feedstocks. As a matter of fact in 2015 we used more than half a million more compared to the previous years so there is the possibility of trading off between crude runs and complementary feedstocks. The main reason why we believe we are going to be able to maintain EBITDA is due to the fact that there is stronger influence on the absolute price of crude, and the discount we are able to obtain on crude. Notwithstanding the higher costs and the lower crude runs.

**Hervé Guez, Dorval Finance**

I have one question about your capital structure. Are you able to give us some colour about the Rosneft situation? Mr Sechin has resigned from the Board and another gentleman from Rosneft has replaced him. What sort of conclusion do we have to draw from that situation?

**Dario Scaffardi**

I would not draw any particular conclusion, I mean Igor Sechin has clearly been an active member of Saras' Board for almost 3 years and he contributed strongly to any new ideas. I think he is just overwhelmed by the amount of engagements that he has and he nominated Andrey Shishkin whom we know well and who participated closely in all dealings between Rosneft and Saras, he is probably able to devote a little more time to Saras than the busy schedule of Mr Sechin would allow, so I would not give this any particular flavour, it's just a question of practicality.

**Yulia Veselova - BoA Merrill Lynch**

Just a quick one, if I may, on the alternative feeds, you have mentioned you were using a lot of them in 2015 and I was just wondering whether you can comment on the outlook for the use of these feeds, actually whether it's just an opportunity to relate to the market conditions or there is any change in your approach?

**Dario Scaffardi**

Thank you Yulia. It's an interesting question, thank you. Let's say that it's a bit of both of what you are saying. On the one hand, we have always used feedstocks but clearly the fact that we have devoted so much energy and so much effort in the optimisation of the supply chain has shown that we look for new sources of feedstocks and we have found ways internally to exploit this. On the other hand, there is also more market opportunity clearly. These stronger market opportunities started when oil prices were higher, so higher oil prices incentivised the use of certain feedstocks. And with the collapse of prices and high refinery margins it made it available for many other refineries which are less sophisticated than availability of selling finished products so they both effect. It's the market effect and our capability of using it. For the time being in this type of scenario I don't see things changing that much.



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**Yulia Veselova - BoA Merrill Lynch**

That would be your comment for 2016, how can we think about your usage of your capacity in the future?

**Dario Scaffardi**

Let's take one thing at a time. We do monthly programmes that go down to weekly programmes, updated twice a week. Thinking of what we are going to run in 2017 is really far away. I have no idea. Our attitude is very opportunistic; we have people who scout the market to see what is available. And what is going to be available? I have no idea; I hope it comes as a pleasant surprise.

**Matteo Bonizzoni, Kepler Cheuvreux**

I have two questions; the first is on free cash flow conversion of your business. In 2015 we see free cash flow slightly in excess of 50m, that is much below net profit despite low Capex, this was due to more than 400m of working capital absorption so, going forward, are we going to see, excluding the servicing of the Iranian payables, free cash flows more aligned to the adjusted net profit in 2016?

Second question is on the tax rate. In 2015 the tax rate was close to 35% and was probably the key issue as to why net profit was a little below expectations and profit adjusted, so going forward what kind of tax rate are we going to model in?

**Franco Balsamo**

In terms of tax rate we don't expect big improvements due to the fact that in any case we have a capability to recover part of the losses done in the past in terms of cash flow, we have a deferred tax aspect that we have utilised over the year 2015. Internal tax rate would be about 30%, something like that.

In terms of cash flow, as we've seen before in the chart, in 2015 we have the option of cash-out due to the repayment mainly on the supply side. In the budget we have elaborated, we are expected a combination of supply and receivables so we have embedded in our accounts a positive working capital for the capability to extract liquidity from our operations activities. In terms of financial expenses, we are proceeding in cost in line with 2015. In terms of tax we are not forecasting any additional cash-outs so taxed assets will be good enough to recover the expected tax for the year 2016.

**Closing Comments**

**Massimo Vacca**

Thank you very much. We would like to thank you once more time for being with us and look forward to our next appointment.