



SARAS

Third Quarter 2014 Results

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Welcome

Massimo Vacca

Head of Investor Relations and Financial Comms, SARAS

Thank you very much. Good afternoon ladies and gentlemen. Thank you for joining us today for this conference call on SARAS results for Third Quarter and for the first nine months of the year 2014. Hopefully you all received the analyst presentation that we will be discussing today. However in case you still don't have it's available on our website www.saras.it both in the homepage or in the section dedicated to Investor Relations.

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

Subsequently we'll move to Mr Corrado Costanzo, Chief Financial Officer, who will provide a review of the results of each business segment and later he will discuss the key financial figures of the group.

Afterwards back to Mr Scaffardi again for the market Outlook and the Strategy. And finally we will be delighted to take your questions. Thank you.

Dario Scaffardi

Executive Vice President and General Manager, SARAS

I. Highlights: Group Results

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

This last quarter has been a quarter of paradigm shifts in the oil market, particularly in the refining sector since there's been a huge shift in the fundamentals. The refining margin has posted some remarkable improvements and if we look at the EMC benchmark it was in June USD-2.5 per barrel and it turned a positive of USD1.3 in September although during July and August it was still in a negative or flat territory. The main reason behind the shift in sentiment has been basically the fall in crude oil prices which has posted a 25% loss between June and October and this is mainly due, in our opinion, to an oversupply of crude oil in the market with flattish demand from the majority of the areas, even for those of high growth rate in so-called developing economies.



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This environment is giving some very interesting opportunities to a company like SARAS because thanks to our fully controlled company, Sarlux, which operates our refining we have the technical capability of taking full advantage of the opportunities that are arising in this market and these opportunities today are very significant.

We have many new streams that are coming into the market of new crudes, even of heavy crudes that were sort of absent from the market in the last couple of years, with some very, very interesting discounts to the official crude oil markers which not necessarily always reflect the true market values because not necessarily the quotations of Brent and Urals actually reflect the physical market for certain other crudes which are based on that.

So very interesting opportunities in a variety of crudes: from West Africa; from the Caribbean area; from the Middle East; even from Europe.

Also a very interesting opportunity developed in the market is the fact that notwithstanding a very uncertain political situation Libya has resumed exporting in a significant manner, still below its historical maximum but with very important levels that have contributed significantly to making the market for crude in the Mediterranean a bit longer, therefore easing market premiums particularly for the alternative grades of crudes, alternative to Libyan.

So all in all some very interesting developments and we'll maybe talk about it a little bit later in the Strategy and in the Outlook.

Also on the side of the product cracks, very significant improvements. We've seen gasoline cracks almost go to USD10 per barrel and gasoil cracks in the recent weeks have been close to the USD20 per barrel level.

Our company has had an important turnaround for a very important unit which is a FCC and other accessory units during the month of September and October and I think that in a way we have contributed to the spike in margins which you have seen in September due to the fact that we were absent in a significant manner from the market. This turnaround has been very successful. First of all it's been the longest in our recorded history, the last turnaround was more than 4/5½ years ago so this is the first time that we are able to exceed the five years which over time has a significant impact on the maintenance cost of the refinery. The units are all fully back on stream now and for the next year we do not expect any important maintenance apart from the usual.

I think I've gone through all the main issues and I would pass on to Corrado who will go into a more detailed review of the various sectors.



Corrado Costanzo
CFO, SARAS

Segment Reviews

1. Refining

Well thank you Dario. Let's start with the review of the Refining sector as usual and it is certainly helpful to take a look at the graph that we attach every time to our presentations and finally after so many quarters of absolutely disappointing spaced margins from the market we are finally starting to see the light and we are obviously relieved by what is unfolding on the markets.

Then let's move straight to our results.

Well looking at the comparable EBITDA we posted still for the quarter a negative EBITDA for the Refining Sector EUR-34.5m. This was affected as Dario was saying in a significant way by the five year turnaround maintenance of the catalytic cracking unit. We estimate that this basically took, compared to the same period of last year, about EUR25m so we doubt that maintenance and if we only had routine maintenance activities we would have reported something more around EUR-10m EBITDA. Still disappointing but less disappointing of course.

Bear in mind that the rebound in margins started at the beginning of September, it is continuing today which is very encouraging but on average during the quarter margins weren't that great after all, so the EMC benchmark margin was only about USD0.3 per barrel. That's why even if we weren't performing this major maintenance the EBITDA would still be struggling because anyway there were two months, July and August, of negative margins.

Well if you look at our premium it's USD0.8 per barrel but then it's simple maths. If you add the impact of the catalytic cracking unit turnaround you end up with at least a couple of dollars: precisely EUR25m divided by the barrels and multiplied by the exchange rate, simple maths, and you end up with a potential refinery upgrade between USD2, and USD2.5 per barrel so it's business as usual, at least in theory from that standpoint. No surprises coming from the refinery performance which was in fact in line with expectations.

We've also seen the exchange rate to the dollar move through the period. Again averages don't tell the whole story. We started with 1.37 and we ended at something like 1.29 which also is encouraging because, as you all know, our margin is basically created in dollars but our costs are mainly denominated in euros. So as the dollar strengthens vis-à-vis the euro we are basically boosting our margin potential and the movement has been significant from 1.37/1.38 to 1.24/1.25 today and obviously this impact is even more encouraging when it is implied to tighter margins so that basically boosts the margin by 10% by itself.

Another thing that reduces margins by itself, everything being equal, is the fact that our consumption losses which amount to 5% or 6% of our throughput will cost less and regardless of whether in the future the price of gasoline and the price of diesel will somewhat follow the price of crude oil. Regardless of these relative movements, if the absolute value of crude stays around USD80/ USD85 a barrel we are enjoying a quite sizeable boost to our financial performance. It's



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easy maths and we're talking about at least USD150m, possibly USD180m, a year in terms of EBITDA just because of the lower cost of consumption & losses and regardless of relative movements between the crude and the products.

We have not seen much of all that in Q3 but clearly we are fairly upbeat about what's happened in the markets because we will be seeing it in the future quarters.

2. Production and Crude Oil Slate

And this basically takes us to the following table on Production and Crude Oil Slate. Let's look at nine months, three months never mean much, a little bit less gasoline compared to last year but that's obvious, I mean 26% vis-à-vis 27.4%, it's 1% less, not that much after all but obviously concentrated in the third quarter because of the FCC maintenance.

3. Fixed and Variable Costs

Costs broadly in line, both Fixed and Variable Costs are broadly in line with our guidance. Also a substantial part of the costs incurred for the turnaround maintenance of the FCC are being capitalised, not because we choose to do so but because we have to, just to be clear about that. But still there is an impact. There's sort of a leak that filters through and becomes additional fixed costs for the year, so it's kind of a somewhat heavy year also in terms of fixed costs but at least everything is broadly in line with the guidance.

4. Power Generation

Power Generation not much to say. Not a very eventful quarter. Production in line with expectations and in line with good practice. And the power tariff stabilised around 10 EURcent/KWh, which clearly is down 30% as you can see from last year but because of the government decree that dates back to August last year which is now in full force and effect but it's now stabilised around EUR10 which is still a very significant uplift vis-à-vis the prevailing wholesale electricity market prices today.

5. Fixed and Variable Costs (IT GAAP)

Also the IFRS the EBITDA is always pretty constant and you can have a better idea of the actual performance for the quarter from the Italian GAAP EBITDA which as you can see is higher than the previous quarter, also thanks to somewhat lower maintenance costs. In general, also it was a good quarter from a production standpoint.

And again the variable fixed costs everything is broadly in line.

6. Marketing

Marketing. Different numbers of course. Fairly satisfactory quarter for marketing. We're all still disappointed about Q1 and that influences the cumulative performance for the year but as you can see the following quarters have been somewhat more encouraging and also vis-à-vis last year.



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In general we kind of struggled with margins but slightly increased sales in Italy and then we had the mirrored situation in Spain, we were very focused on cutting unprofitable sales in Spain and managed to increase margins in that market.

And so, the bottom line, it's an easy quarter altogether.

7. Wind Power

Wind well wind also was a little bit better than last year during the same period.

The nine months somewhat influenced by the fantastic first quarter of 2013, hopefully the gap will be bridged during the last quarter of the year which is usually favourable quarter but EUR20m – EUR25m EBITDA for wind is still in sight, especially because the power tariff and the green certificates combined are somewhat in line with expectations, in line with last year, with changes to the different factors but the bottom line is that you're still talking about 14/15 EURcent/KWh even this year.

8. Financials - Net Financial Position

Then talking about financials I would say that the net financial position is, as usual, very, very tightly managed. And the bottom line quarter on quarter doesn't mean much considering we're managing EUR1bn per month in terms of combined turnover. But again we're still very, very focused.

And CAPEX is absolutely in line with the guidance and heavily influenced by the FCC turnaround.

I would say that at this point I'm turning over to Dario for a comment on the Outlook and Strategy.

Outlook and Strategy

Dario Scaffardi

I. Outlook & Strategy

Thank you Corrado.

Well as we mentioned at the beginning the oil market, and particularly the refining market is looking more positive than in the past. Of course we don't think that everything is over because there is still an excess of refining capacity but I think you will all recognise that we have said many, many times during the conferences call that the markets were due sooner or later to receive some impulse from the crude oil side and this has happened.

As a company SARAS is in an ideal position to take advantage of all the opportunities that are coming around and this is giving, at the moment, a pretty good boost to the larger scenario, at least mid-term.

So our basic plan is to build on our model which combines commercial opportunities with programming and take immediate advantage of any opportunity that the market provides us with.



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And luckily for us in these months many, many opportunities have presented themselves and we've exploited them fully.

On the other side we've also been quite happy to have been able to sign an agreement with Versalis which is the petrochemical company of the ENI Group, from which we have signed a preliminary agreement that by the end of this year should be able to have a final definite date for signing to take over a large part of the industrial complex which is right next to our refinery.

This petrochemical unit which has a variety of units, has a reformer which is a unit which transforms naphtha into gasoline. It has various other units that I don't want to bore you with which basically extracts various components from the gasoline blends and also from the propylene which is heavily produced by our FCC. And they have this propylene splitter which able to divide refinery grade propylene which is not worth very much on the market, into polymer grade propylene which is much more precious as a feedstock for fine petrochemicals and has a significant uplift in value.

Of course these units were already integrated with the SARAS system so one could argue that really nothing has changed and in a way this is partially true, we were already using them, the fact is though that that relationship, lasting over 40 years with the ENI Group on these units, was contractually based. So there were rigid contracts governing the exchange and the flows between products amongst the two plants. By acquiring control of these units and when we will be able to integrate a mathematical model of these units into the model of our refinery we expect to be able to extract more value by being able to use them more, according to market conditions, or less, or whatever but there are possibilities, particularly that this scenario is providing us with, for instance, probably you'll have seen that the value of naphtha, virgin naphtha, has decreased significantly. Today naphtha is worth about USD150/160 less than gasoline. It's one of its historical lows. This is due to the fact that petrochemicals are shifting as a feedstock towards the natural gas market or to the ethylene market provided in North Africa and the Caribbean area in the US particularly. So this offers actually opportunity because certain crude oils which are naphtha-rich in the Mediterranean come at a pretty big discount because of the naphtha. If one is able to mainly find optimisations in these units and run more naphtha than what we have been running historically we think that we will be able to increment margin in an important manner if we are able to use it correctly.

It will take a little bit of time. We hope that in the first six months basically of next year we will be able to integrate the Versalis plant into our system, both operationally and technically but we count on being able to add some important margins to our bottom line, this taking full advantage of the way the market is construed.

On the maintenance schedule of this year, for 2014, there is not really very much that needs to be said. We had a very important turnaround that has just been completed very, very successfully with no accidents, which is the most important thing, and it's been completed on time, on schedule and absolutely within the budgeted cost. So that's been a very, very successful turnaround thanks to the competence of our people.

2015 is going to be a year with no major turnarounds scheduled, there will be just the usual maintenances that the various units need according to their individual schedules, like some units



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undergo maintenance every six, seven months, others every 15 and so forth but nothing outside of the ordinary.

So I would stop here and we will be pleased to answer any questions that you might have. And thank you very much for joining us today.

Questions and Answers

Matt Lofting - Nomura

Thanks, afternoon gentlemen. Two quick questions if I could please? Firstly obviously coming out of a heavy maintenance period I just wonder if you could clarify, having completed that, whether you're now in a ramp up phase or whether the asset is fully up and running and able to capture any periods of better margins through the next few months?

Secondly I just wondered whether there was any CAPEX implications looking forward into 2015 as a function of the Versalis acquisition? Thanks.

Dario Scaffardi

Thank you for the question Matt. The maintenance is completely finished and the units have been all started up weeks ago so the refinery is up and running and we trust that we will be able to take advantage of this period of good margins and improve the overall results of the year thanks to the boost in the next couple of months.

Regarding your other question, as we mentioned we have no need to make particular recourse to any financing of the operation but we will be able to be maybe more specific in our next call when the final signing has occurred. Corrado can add something.

Corrado Costanzo

Well I can just confirm what Dario just said. As we have stated there are no particular funding needs and we do not foresee any significant CAPEX needs. Some CAPEX probably yes but nothing out of the ordinary and everything will fall within the guidance that we will give you but will most probably not be significantly different from what you've seen in the recent past.

Henry Patricot - UBS

Good afternoon everyone. Thank you for that presentation. A couple of questions from me the first one on refining. I've heard that you've started running Canadian heavy crude at your refinery I was wondering if you were satisfied with the first run and if you were looking to use more of that kind of crude in the future?

Secondly just on the Rosneft joint venture I've noticed you have not mentioned it in the presentation so I guess that doesn't mean that much progress on this?



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Dario Scaffardi

Thank you Henry. The line was a bit disturbed but as I understand you were probably wanting a little bit of detail on this Canadian crude. Yes the Canadian crude is actually called Cold Lake and it comes from Alberta and I think it's subtracted from the Canadian sands and then it's shipped by pipeline to the US Gulf. We have run several cargoes of this crude but again our policy is to be absolutely commercial and opportunistic so the numbers were working and we of course used it.

Actually at the moment there are a variety of opportunities of similar sorts of things. I mean I know that it made the headlines on the news this Cold Lake because it's unusual to see Canadian crude but we actually ran it a couple of years ago. But there is also crude coming out of Albania, out of Italy. There is crude production in the centre of Italy in a region in the south called Basilicata which is loaded from Taranto and we have also bought crude from there.

There are new crudes coming out of the Middle Eastern areas. There is crude coming out of Mauritania that nobody knows about, nobody knows about, guys in the market do know about but it's not well-known. Or crudes coming from Gabon, from Congo Brazzaville and so forth and Equatorial Guinea. So many new opportunities which are more present into the market because before they would be absorbed maybe into the US market without too much noise and now they are looking for homes. So this whole area is definitely an area of opportunity.

Another area of opportunity sometimes these crudes come in strange sized and we are able to take advantage of these sizes.

With Rosneft the situation is the relationship is actually very good and we are working on a variety of projects together including the commercial joint venture which is not dead but of course the situation and the political difficulties that the sanctions have imposed on Russia make it difficult for them sometimes to be as proactive as they would want to be, so again it's a little bit of a game of wait and see.

Domenico Ghilotti – Equita

Good afternoon I have a question on the situation in Libya I didn't catch the point if you are seeing now normal flows and so I would like to have a check on this?

And also if you can update details on the Iranian situation?

Dario Scaffardi

Well Domenico thank you. On Libya we don't have much more information than what is available on the press. Let's say that in the last four or five months shipments of crude have become much more regular than in the first part of the year when they were basically completely blocked.

Having said that as far as we can gauge the exports are roughly half of what they used to be. I mean the exports from Libya, maximum 1.5 million barrels per day and we are seeing stuff like 6/700,000 bl/day, more or less, and going up and down.

This is of course surprising because it happened in the moment of what appeared to be maximum political tension so the country at the moment seems to be completely split with almost two governments, one in the east and one in the west. But having said that exports are not normal but



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they are taking place. Again we are waiting to see and we don't really have any much more information than what can be available on the press.

On the Iranians are you referring to the talks that are supposed to take place on the 24th between the group of five or six?

Domenico Ghilotti

Yes but in particular if you see a scenario where the trading activity can be normalised and so your payment to Iran can be normalised by year end?

Dario Scaffardi

Well I have no more information. The only information that I have is what I read in *The Financial Times* so I don't have any inside information. Having said that I think it's sort of unlikely that all of a sudden the situation becomes normalised from the way I know the Iranians, but again I know the Iranians just for a moment from the business point of view but I've been dealing with them more than 25 years, it seems a bit unlikely but this is just my very, very personal opinion I have, no hard facts or information to back this.

Lydia Rainforth – Barclays

Thanks gentlemen and good afternoon. Two questions if I could please. The first one I don't know if you could just comment on what you're seeing ahead of the changing fuel oil specification first half of the year, are you actually starting to see that market move at all in terms of the low sulphur fuel oil specs?

And then the second one was, just I missed part of the call, but, on energy cost can you just talk about how much your own energy costs have come down with the oil price at the moment? Thank you.

Corrado Costanzo

Lydia I will touch with the energy costs quickly and as a start certainly the costs are going down and also might be going down even more significantly for large consumers because of certain provisions that were passed by the government. And this might have a significant impact on talking about something in the order of magnitude of EUR15m per year and we might see most of that also even this year and this is public information. These provisions obviously are public and we believe that we will enjoy some status which will then enable us to save some significant amounts of money on our electricity bill regardless of course of how the wholesale electricity price moves and it's been sluggish as you know. But it's hard to say how it's going to move in the future. So that might have already an impact for this year.

And then, I don't know you probably refer to my simple equations when I was commenting on refining, and I said well since consumptions and losses are somewhere between 5% and 6% our throughput is roughly 100 million barrels per year and so we're talking about five or six million barrels per year of crude which basically vanishes let's say. So if I pay USD110 per barrel or if I pay USD80 per barrel for something which disappears that's a big difference so USD30 times six million barrels it's USD180m. You can make it USD150m but it's still a very sizeable amount of



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money especially because we are also being helped by the strengthening of the dollar vis-à-vis the euro.

So compared to three months ago these are even more euros because at the end of the day we pay salaries and contractors in euros. So USD150m per year is, what, EUR120m per year or EUR30m per quarter. Simple maths but not so far from reality.

And regardless of whether product prices will catch up with a fall in the price of crude oil, regardless of that as long as crude oil prices stay around USD80 per barrel that's the maths compared only to quotations dating just back to June/July.

I hope I answered your question.

Dario Scaffardi

Lydia on your other question, yes of course the fact that the new specifications for bunker fuels particularly in Europe and the US will have some sort of positive effect. Of course the quantities involved are not huge because we are talking that the limits and the SECA areas, which mean ship emission control areas which are going to be more or less a large part of the coast of Europe, affects only ships when they enter the coastal areas. So long haul vessels, like container vessels or tankers that go from east to west will need to run low sulphur fuel only for the time in which they are in these areas.

Notwithstanding that we expect a boost on the consumption of marine diesel which is a diesel oil which has 0.1% sulphur and a little bit more pressure on prices on heavy sulphur fuel oil which is actually beneficial for us since we are in a position to run very heavy crudes. This is reflected somewhat in the price of these crudes, so in the benefits that we are able to accrue.

But more broadly speaking, just building on an interesting comment of Corrado an environment in which crude is USD25 less than what it was some months ago is very beneficial for the economy I would say because it adds to GDP but also very beneficial for us because the energy costs are very important and with all the other factors being equal it's a minor cost because the refining market never adapted to the margins that were necessary in a USD110, USD120 environment of oil because our competitors, particularly those in the Middle East or in the US, had energy costs that were negligible because they were basically subsidised so it's very difficult to compete with a refinery in the Middle East that does not pay for energy when energy is the highest single cost that a refinery has. But I think that these are also relatively temporary because sooner or later they will need to pay for their energy costs so I think that sooner or later the market will be able to level out.

Roberto Ranieri – Banca IMI

Good afternoon everyone. Just one question about the Versalis deal and the question is: I'm trying to understand the rationale of the deal, I understand that in the short term you basically will receive raw materials from the ex-Versalis plant to be used in the gasoline blend and in that case I would like to understand if you will have any synergies or lower operating costs from this deal in the short term?

My second question is more strategic, in the process too in this light you are showing that you will have a propylene polymer grade so my question is: are you going to enter into the petrochemical



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business and therefore using this propylene polymer grade to produce polypropylene? In that case I suppose you will need some additional investments in the very long term I would say. Or you are going to sell this polymer grade propylene as a commodity? Thank you very much.

Dario Scaffardi

Thank you very much for the question because it's very interesting and it enables us to maybe explain a little bit better the rationale. A modern refinery generally stocks at base petrochemical feedstocks. So let's say that for a modern refinery it would be normal to sell propylene polymer grade, it would not be normal to have a polypropylene plant, that is an entirely different business. But it would be normal to sell, instead of refinery grade, propylene which is basically not useable by the market. The way our plant was built was we were producing this refinery grade propylene that had to go to a propylene splitter next to us belonging to the ENI Group because refinery grade propylene is not merchantable it needs to be reprocessed one way or another.

By acquiring this plant we will sell directly propylene polymer grade and of course it will be in our interests to try and maximise the throughput and the production being all within one hat. I'm not saying that this was not happening before but of course having two hats and having a contractual relationship meant that the individuals were trying to maximise the contract, not necessarily maximising the overall economic objective because there were two economic objectives and it was difficult to make then necessarily consistent. So we expect a boost through this.

We will also enter into the benzene market. Again the benzene is a very interesting product in which price has gone up significantly and we will sell benzene. Of course we have a very good relationship with ENI Versalis and they will probably be our main customer for the next years but this does not mean that we will not necessarily explore other avenues.

So just taking a step back to explain what is happening the unit next to us, the former Versalis unit, was taking the majority of its feedstocks from SARAS and the majority of its output was going back into SARAS apart from these speciality products, benzene, propylene polymer grade, sometimes cymenes and other, let's say, minor products. By being able to optimise the economic function if the market warrants it we will try to increase throughput of these units because we have all the incentives to do so.

Also the energy that is used by this unit will be able to come from our plants, so also the energy costs we'll be able to optimise. And of course there are other synergies that will take a little bit more time to develop which are more industrial in nature, optimisation of the units, of the workflows and so forth. That of course will take a little bit more time but being able to optimise the unit feeds and optimise also the type of crudes that we purchase from the market is something that we will be able to implement in a relatively short time – just the time that it will take to fully analyse the mathematical models and build a new one. So we would like to be optimistic and say weeks but maybe one or two months is more realistic.

I hope this explains maybe a little bit better the deal.



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Closing Comments

Massimo Vacca

Okay in this case I would like to thank everybody for the attention this evening and I look forward to the next conference call. Thank you very much and good evening.