



# **Saras**

## **Third Quarter 2015 Results**

### **Welcome**

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

Thank you. Good afternoon ladies and gentlemen. Thank you for joining us this afternoon for Saras' conference call on the Third Quarter results for 2015 and for the first nine months. Of course the presentation we'll be discussing today should have been already sent to you but in case you don't have it please allow me to remind you that it can be found on our website directly in the homepage or in the section dedicated to investor relations.

So at this time I would like to turn the conference over to Mr Scaffardi, which is our Executive Vice President and General Manager. Please Dario.

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

#### **I. Highlights: Group Results**

Thank you Massimo. Good afternoon ladies and gentlemen and thank you for joining our call. As it has already been announced we had an important organisational change in our company, Corrado Costanzo, the former CFO, has decided to pursue other activities in his professional and personal life and as of October 15<sup>th</sup> retired from Saras and I wish to thank him for the invaluable contribution that he has given over the many, many years in which he has proactively served Saras' interests.

In his place Mr Franco Balsamo has joined, as has been announced, and I welcome him on board and of course Franco has been immersed in the last 15 days with Saras' activities and we will have an occasion to present him on a more formal manner when we will have forthcoming meetings with investors and analysts.

So coming to our business I'm very pleased to announce another strong set of quarterly results for Saras that derive from a combination of favourable market conditions and the excellent operating performance of our assets and the hard work and proactive approach to business of all our people.

As we have already pointed out in the previous occasions, and particularly during the Capital Day that we had on 15<sup>th</sup> October, our organisation has changed in a very significant manner in the last



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years. We have used these years of crisis as an opportunity to turn around our business model and particularly the mindset of our people.

So rather than just cutting costs across the board, although we do have strong, strong attention to cost and cost containment, we have invested in training, in expert advice and in key resources in order to become more proactive to the numerous issues such as operational efficiency, active management of ordinary and above all extraordinary maintenance, ability to capture market opportunities to purchase and to trade crudes in a very diversified market. Doing all this with the utmost attention to safety and respect of the environment.

The results are here to be seen and our methodology based on the relentless pursuit of our SCORE Project will benefit also our future results.

If we look at the highlights of this quarter we have a very strong group quarterly EBITDA at €214.6m of comparable EBITDA with the refining part of this which is €155m.

The net financial position is firmly positive at €2m thanks to the EBITDA generation. Operations have been smooth both in the refining sector which has almost been 27 million barrels and power production which is 1.15 terawatts.

The supply chain optimisation has enabled us to capture numerous opportunities on crudes and feedstocks. The contribution from the ex-Versalis plant are exceeding our initial expectations and we are pursuing the initiatives that we have announced on our Capital Markets day.

Adjusted net income over the nine month period I would just like to point out is closed at €300m which is a big change from the negative 108 of the same nine months of last year. Likewise comparable EBITDA is in excess of €600m compared to 32 of the same period of last year.

If we look at the market conditions the quarter that we've just passed has been exceptional in terms of gasoline crack spreads which have been way about their five-year range, in excess of \$20. We have seen these cracks coming in over September and October as is normal during the winter season but we expect them to rebound during the next year because there is quite a demand for gasoline, particularly for high octane components.

Diesel cracks have been healthy, in the range of \$12 - \$14. There has been some down tick in September but the market has rebounded by more than \$2 in the last couple of weeks. We are also extremely positive vis-à-vis the crude oil market, not only because of the absolute price of crude on which we don't make any particular provision, although the general consensus that this should remain relatively low but there is ample opportunities in the market of diversified crude sources which are competing to find outlets therefore the relative values of these crudes are constituting an extremely interesting opportunity for us as we pointed out in our Capital Markets Day. And this trend is absolutely confirmed.



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If we look at the refining and power generation margins the refining margin has been 8.6 which compared to an EMC benchmark of 4.8, gives a 3.9 premium in line with the guidance that we gave: we gave a guidance of about \$4 per barrel if you take into consideration what happened between Q1 and Q2 which should be averaged out to give, as we explained in our previous call, a meaningful quarter and particularly if we add back the maintenance that is normal, and there has been slightly more maintenance in this quarter compared to the previous quarter. So the overall side margin is a very, very health \$11.7 per barrel.

### Segment Reviews

#### 1. Refining

If we look at the various segments refining EBITDA is 155 million barrels in the quarter the comparable EBITDA. And in the nine months it's 434. This has been supported by the favourable market conditions, of course, by the strong gasoline cracks and by the strong EMC benchmark in Q3 that was \$4.8 per barrel which I think is the historical high probably, or at least at a very high level in the last more than ten years.

Throughput has been healthy at 26.8 million barrels with a 28% increase vis-à-vis the same quarter of last year. And particularly interesting that I would like to point out is that what we call complementary feedstocks have strongly increased. So if you look at the nine months which is always a more meaningful measure, particularly when we're talking about volumes and crude runs and so forth because the various phenomena in the quarters tend to get ironed out a bit we show that overall refinery runs in the period have been 81 million barrels compared to 67.8 of the same nine months of last year, with a 19% increase.

But importantly we have used complementary feedstocks and complementary feedstocks are generally semi-finished products that other refineries are not able to transform into finished merchantable products which we buy and feed directly into our intermediate units. These runs have been for the first nine months 740,000 tonnes compared to 398 of the same period last year with an 86% increase.

#### 2. Production and Crude Oil Slate

In this slide we give a little bit of a flavour on crude runs and the type of crudes we use and the output. What I would like to point out here again, I think a more meaningful comparison, is the nine months. The average API of the first nine months of 2015 has been 32.8 compared to 31.2 of the same period of last year. This is a very, very significant change in our business, a 1.6 increase in the API means that the overall slate of our crudes has become much lighter and the reason for this is that we've taken full advantage of two main factors: first of all the very strong gasoline cracks that incentivised the production, the maximisation of gasoline production clearly. So using crudes that produce more an after cut that can be used in our reformers.



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Secondly the acquisition of the former Versalis plant that had a reformer unit which is a unit that is able to transform naphtha into finished high quality gasoline, plus other plant. So in order to maximise throughput through these units within importing naphtha which would have been much less economical we have maximised runs of light crudes.

And you can see that of course in the output where we have an important increase in the light ends, in naphtha, in LPG and in diesel which has a significant percentage decrease of the heavy part although of course the overall quantity of tar produced remains constant because we have the clear objective of filling up our gasification unit to its absolute maximum capacity.

### 3. Fixed and Variable Costs

In terms of fixed and variable costs we've had a shift again if we look at the nine months we have increased our fixed costs because of the acquisition of the former Versalis unit. At the same time we have reduced variable costs because prior to this last year we were paying a fee to use part of the unit. Of course having also increased runs fixed costs in the unit variable costs have come down in an important manner and this is worthwhile to underline.

### 4. Power Generation

In terms of power generation slightly less EBITDA than what we had expected. This is due to the fact that at the beginning of the quarter we had a couple of days of shutdown of one of the gasification units due to a small technical hiccup. This resulted in lower production of hydrogen and steam to be transferred to the refinery. So this, together with a slightly lower CIP6 tariff, is the main reason why we have a slightly lower EBITDA.

If we look instead at the nine months we see that the nine month comparable EBITDA is above that of the same period of last year but almost €10m. Likewise also Italian GAAP which is a more accurate measure of actual cash flows is €131m compared to 99.6 in the same period of last year. This mainly due to the steep decline in the price of feedstock and higher production which offset the slightly lower CIP6 tariff.

### 5. Fixed and Variable Costs (IT GAAP)

Nothing much to say on fixed and variable costs for the power generation while marketing is a different picture.

### 6. Marketing

We have had a strong rebound from the previous quarter which was extremely negative, although it's still well below the same quarter of last year. The reason for this is that in this business there is certainly a seasonal element so margins tend to be higher during the warm season because of density adjustments and tend to be penalised during the winter period. At the same time the margins



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are under pressure in Italy, the market tends to be slightly oversupplied thanks to the fact that there are strong refinery margins so refineries are running at maximum capacity and trying to push product to the market.

Instead we're having some positive feedbacks from Spain where the situation seems to be improving and the margins in Spain are better.

Both in Italy and in Spain the overall consumption of oil products has finally balanced. In Italy there has been an increase of 76.5% in Q3 of this year compared to the same period of last year and also in Spain there's been an increase in demand of 1.2%.

We have done extremely well in terms of sales. Q3 of 2015 compared to the same period of last year in Italy shows a 7% increase and a 12% increase in Spain, albeit with slightly lower margins than last year.

### 7. Wind Power

Wind. Unfortunately this quarter has been very warm and with very fair weather so very, very unseasonably low wind so production has been disappointing. The power tariffs or the green certificate tariffs have remained broadly in line with those of the last year. So power tariff has been in the first nine months 4.7 Euro/cents per kilowatt hour compared to 4.6 of last year and the green certificates 9.8 compared to 9.9.

### 8. Others

Our other segment is small but it shows clear signs of an improvement which is part of what we're doing with our company which is called Sartec which is increasingly becoming a more proactive company with its own processes and we have some very interesting results here.

### 9. Financials - Net Financial Position

I would skip the financials where we can maybe during the Q&A answer more specifically some of your questions.

## **Outlook: a set of key factors leading to successful 2015 and beyond**

And going to the outlook we would like to basically maintain the view that we have already expressed, the market conditions and the opportunities that we saw in our Capital Markets Day forward are all there and we have strong signals that confirm our views. The differentials of certain crudes have touched their historical lows. Just to give an example of crude which is an important



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marker in the Mediterranean, Azeri light, has reached a \$1 premium over Brent while its historical high was five and its five year average has been in the range of \$3. So they are extremely encouraging signals on our plan that we can maximise through the feedstocks.

And the same thing is true of course, Azeri is a light sweet crude but the same thing is even more true for the heavy sour crudes which are even more challenging and we expect increased competition in the market once various factors that at the moment are absent will come back.

We think that the US dollar/euro exchange rate will not alter very significantly so we expect something in the range of 1.10 to 1.14.

The refining sector, although cracks are lower than what they were in Q2 and Q3 are still extremely interesting and we trust that we will be able to reach 110 million barrels of refinery runs in this year with a 20% increase compared to last year. We expect to exceed €20m of extra EBITDA from the acquisition of the former Versalis plant.

And our various initiatives that have been explained are on schedule. We have incorporated our new trading company in Geneva, the offices have been unofficially inaugurated. Some people have already moved there and we expect to be operational by January 1<sup>st</sup>.

I think I went through all main topics and would like to leave a little bit more time for your Q&As.

## Questions and Answers

### **Niccoló Storer – Mediobanca**

Yes good afternoon to everybody. I have one question could you please give us some colour on the diesel environment in the Med? Leaving aside the seasonal weakness it seems that cracks are quite weak and weaker than last year over the last few months, so where is such pressure coming from in your view? And what do you expect going forward? Thank you.

### **Dario Scaffardi**

Thank you Niccoló. That's actually quite an important question. Diesel in the Med worldwide tends to be, at the moment, oversupplied and we saw cracks coming down from the very, very high levels of \$18 - \$20 and hit below single digit figures. They have since come back. Today, if I remember correctly, the number in the Med is 13.9. So something that I would call a healthy number.



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Storages tend to be full but at the same time the arbitrage opportunities into the Med are closed. This is again something that during our Capital Markets Day we tried to explain. Everybody is worried about gasoil from the US, from the Far East, from the Middle East, but then when you look at the set of economics with the ICE gasoil values that have come down these arbitrage opportunities, considering the relatively high trade rate, have been closed. So there's actually been strong physical demand for diesel locally.

We have a good barometer, a good pulse of the situation since we are on the market every day, both in and out. We passed the period some weeks ago that there was the idea of a little bit of a link from the market but since then due to the fact that the arbitrage barrels have not been coming into the Med we've actually had strong physical demand for liftings and we are basically sold out for the month of November and the outlook for the term contracts for next year, which is an interesting barometer because we are starting now the season of negotiations with the main client to see who and how much wants to turf out is just starting or having a lot of interest.

So I think the environment overall is healthier than what is sometimes reported.

### **Henri Patricot – UBS**

Good afternoon, thank you for the presentation. I've just one question on the cash flows because we're seeing good results in the third quarter but the cash flows were negative because of the working capital movement so I was wondering if you could give us an idea of what drove that negative working capital and what we can expect in the fourth quarter?

### **Dario Scaffardi**

Thank you I would ask Franco to walk you through the cash flow.

### **Franco Balsamo – CFO, Saras**

At the moment regarding the term of cash flow the main outflows represented by the coverage of the working capital as we have seen in the previous chart are mainly due to the reductions of the payments to suppliers. In terms of receivables the improvement with about €20m so the difference between the two represents €180m of outflows. So this is the main driver on the third quarter.

### **Henri Patricot**

Okay and what do you expect to see in the fourth quarter?

### **Franco Balsamo**

In the fourth quarter we are expecting to recover part of the working capital for most of the suppliers are in line with the expected payment term and the cash flows generated by the activity will allow the company to cash in within the end of the year. Obviously the cash flow should be in line with the EBITDA generated by the opposition.



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### **Joshua Stone – Barclays**

Hi good afternoon. I've got two questions please. Firstly on the fixed costs in refining they seem to come in on an absolute basis a bit lower than previous quarters, I just wondered at your Capital Markets Day you talked about guidance around €240m, €250m it would imply a step-up in fixed costs over Q4 in refining so I just wanted to see if that guidance still stood and if not what your expectations were for fixed costs?

And then my second question on the financials, on the gain from derivatives and Forex is quite large at around €42m, I wonder what that related to and what your expectations were again there going forward? Thank you.

### **Dario Scaffardi**

Thank you Joshua. Well in terms of fixed costs we maintain our guidance of €240m for the year. So it's just the variable costs that would increase and in runs tend to increase. On the derivatives maybe.

### **Franco Balsamo**

The gain on derivatives is about €48m. So, despite the negative result in the coverage of the foreign exchange, there are those positive positions (of the derivatives), and their combination is positive for about €42m.

The open positions on derivatives, that in any case are accounted on the fair value we see in the EBITDA level, are about -€3m, so not material compared to the amounts of position in place.

### **Dario Scaffardi**

This is sort of abnormal with the way we operate and in this quarter we've seen a decline in the price which started with a relative high towards the end of June and it went down consistently across the quarter. So when we have this sort of period we try to level out the price as an average during the quarter so it's normal that in a declining month we would cash in from derivatives while in the previous quarter the opposite happened, we had a negative result if I remember correctly €24m/€25m in the previous quarter.

### **Domenico Ghilotti – Equita**

Good afternoon. My first question is a follow up on the answer on the cash flow for Q4 and the working capital, I presume that you are excluding from your answer the one-off potential payment to Iran, so I wanted to check this? And more generally speaking clearly this year we have seen some kind of normalisation in the payables compared to the abnormal level of last year, I wonder if the level that we will see at the end of this year can be considered a sustainable, normalised level?





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And then the second question is related to the premium achieved in Q3, you were guiding to around \$4 and I wanted to check if you are in some way including in your guidance the impact of maintenance or if it is a premium excluding the maintenance impact and if you see Q4 the \$4 as a sustainable level given the current trends in the scenario?

### **Dario Scaffardi**

Well the guidance that we gave on the premium was about \$4 excluding maintenance, so we had a higher level in Q2. In Q3 we have slightly more maintenance so if we add that up it comes to a number which is 4.1 while instead it's 3.8 or 3.9, I don't remember the actual numbers. Looking forward we are going to have slightly more maintenance in Q4 so we will have to subtract a certain amount from the guidance of about \$4 to take into consideration the normal maintenance as per the guidance that is provided.

### **Domenico Ghilotti**

And do you see \$4 as a reasonable level looking into October and mid-November levels?

### **Dario Scaffardi**

Yes, apart from maintenance absolutely yes, because our margins are healthy because what has been lost because of crack spreads in terms of gasoline has been compensated by opportunities on the crude market which is the single most exciting factor in this moment. So we are confident of being able to maintain this \$4. Sorry you had a question also on the working capital?

### **Franco Balsamo**

In terms of working capital your question referring also to the round positions at the end of September, the methodology used for these issues is in line with the previous quarter so nothing has changed.

### **Domenico Ghilotti**

No my question was just a clarification because you were commenting on the expectation for Q4 saying, well we expect to have some balance in the working capital in Q4, I presume that you are not including in your answer the potential payment to Iran?

### **Dario Scaffardi**

Well we don't expect any change also in Q4 because the situation vis-à-vis Iran is still not resolved. So we expect maybe the agreements to be in place sometime in Q2 of next year. So although at the moment I can almost rule out anything happening in this year, miracles happen of course, but as I say at the moment it's very, very, very unlikely, instead at the moment the consensus is that something should take place, if everything goes smoothly of course with the various procedures of controls etc. etc. sometime in April/May of next year.



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### **Monika Rajoria – Société Générale**

Thank you gentlemen for the presentation. I have one question regarding the 2015 maintenance, I would like to know more whether this would be spread across quarters? Do you have some flexibility? Any colour would be helpful. Thank you.

### **Dario Scaffardi**

Well first of all let me make a general comment, I think that our planning people have done a superb job in planning the maintenances of this year because some of these maintenance were actually initially planned for Q2 and once we saw the very strong market environment we tried to push it back to Q3 and then to Q4. And we've been successful in being able to do so and basically we've been able to maintain a Q3 without any significant maintenance.

Of course sooner or later if you want to maintain certain standards and particularly continue to operate will full respect of safety environment, maintenance is unavoidable and it has been concentrated in Q4. The maintenance in Q4 is going to be in one of our hydrocracking units so this will basically mean that there will be slightly less production of diesel and one of gasifiers, actually two gasifiers have been put under maintenance in Q4. And when we stop and we slow down the gasifiers of course we tend to do work also on the visbreaker which is a plant that is necessary to feed the gasifier and tends to have a relatively short lifecycle because it tends to become dirty quickly.

In terms of EBITDA the guidance is what Massimo has reported in what we published, so something in the range of \$18m - \$22m in terms of EBITDA lost runs that are going to be slightly lower than the records that we hit in these quarters. So something in the range of between 26 and 27 million tonnes. And power slightly lower than the 115 of the previous quarter.

### **Monika Rajoria**

Okay and regarding 2016 any particular units that would be shut?

### **Dario Scaffardi**

In 2016 we are formalising now our budget and I think we have a clear idea of the plants that need to be shut down. We have usual work on the CDU units; on the vacuum units; on one of the gasifiers, the one that was not maintained in 2014 will need to be overhauled in 2016. Exactly when we are going to place these maintenance has not been completely finalised yet because it depends on the views that we're going to take on the market. Of course we try to wait until the very last moment in order to have the most up to date information. Massimo will keep you posted as things develop.

### **Monika Rajoria**

Okay and also what kind of EMC benchmark do you use when you guide to 45 – 60 for 2016?



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### **Dario Scaffardi**

Well Monika we need to come back with you on this information but if I remember correctly something in the range of \$2.5 to \$3 roughly we have used for budgeting purposes. But Massimo can be a bit more precise I think.

### **Joe Mares - SG Securities**

Hi thanks for taking the question. I guess staying on Slide 26 I'm just wondering it doesn't look like, just doing simple division of the refinery runs by tonnes, that you guys are incorporating a lightening up of the barrel next year and I'm wondering, I mean obviously it's difficult to exactly calculate what you're going to run next year but I presume that you expect to be able to continue to lighten up your input barrels to run more gasoline and take advantage of that?

And then also related to your earlier point on the differentials of Azeri versus Brent in the Med how much of that do you think is a function of just a lower crude price environment, obviously when crude is super scarce the light barrels become even scarcer and the light heavy blows out whereas when they're a lot of it frankly everything compresses in those spreads, so how much of that is that versus how much is a mix of crudes on the market do you think? Thanks.

### **Dario Scaffardi**

Thank you Joe. Well an interesting question. First of all for planning our refinery runs we tend to use a standard number, a standard conversion of 7.3 of the tonne to the barrel and we have not taken into consideration in our forward planning the lightening up of the stream for budgeting purposes. Of course we take a view as things have progressed so if we see opportunities since we don't commit to large term contracts of any type of crude we are able to switch the crude slate very, very quickly around. So if the stream from gasoline will continue we will keep on using, maximising the lighter crudes rather than the heavier crudes although we're not talking huge swings here in terms of quantities. We still have between six to eight million tonnes of the heavy stuff and that depends how heavy, so if it's very heavy what would happen in an environment like this year is that we will try to maximise the heaviest part in order to minimise capacity usage by the heavy crudes in order to leave room for the light crudes. So if the market next year is going to be similar to this one we would expect something very similar.

In terms of the values on the market I don't think there's a strong correlation with the absolute values, what we are seeing is a market that is very, very clearly, in my opinion, oversupplied with suppliers which are strongly competing for market share and this is something that we are just not used to. We have not seen this for ages. I mean I have to go back to maybe sometime in the 90s to think of situations which are similar. Suppliers are calling offering crude and it's on the press that Saudi Arabia is marketing Saudi crude in Poland, which is connected by pipeline to Russia. So this is an absolute first. I've never seen crudes for barrels being displaced by imports. It sometimes happened in the past but because there was some sort of commercial row. So I think this, together with others, is a clear sign of a market which is very well supplied.



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Just recently the other day you probably read that the Nigerians cancelled their tendering process. They tendered to have crude oil to product swap agreements, now I think that they did this just to gain market intelligence because they were able to have quite a number of offers. If I remember correctly they received something like about 100 offers. They want to do business with end-users, so mainly with refiners, so as a company for the first time we have participated in the Nigerian tender and the processes because we think that for the first time something is changing in that country and the process is much more transparent.

Not surprisingly they have cancelled everything because I think that they have been able to gain the information that they wanted and understand who are the authentic players and who were trying to front something. So now they are going to, instead of enact, or so they have declared, swaps, they want to do direct sales and direct purchases which I think is a more direct way of operating and we can only be very pleased for this type of development and I think that Nigerian crudes can become part of our staple which they have been not in the past years.

### **Closing Comments**

#### **Massimo Vacca**

Well in this case I would like to thank everybody very much for their attention this evening and we look forward to speaking with you at the next occasion for our next results presentation. Good evening.