



Saras

Full Year 2018 and Q4 2018 Results and Business Plan 2019-2022

Welcome

Operator

Good afternoon, this is the Chorus Call conference operator. Welcome and thank you for joining the Saras full year 2018 and Fourth Quarter 2018 results and business plan 2019 to 2022 conference call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing star and zero on their telephone. At this time, I would like to turn the conference over to Ms. Francesca Pezzoli, Head of Investor and Media Relations of Saras. Please go ahead, Madam.

Francesca Pezzoli Head of Investor and Media Relations, Saras

Yes, good afternoon, ladies and gentlemen, and thank you for joining us today for this conference call on Saras' full year and Fourth Quarter 2018 results, as well as the business plan for the period 2019-2022. I would like to draw your attention to the fact that the analyst presentation is available on our website, both on the homepage and the section dedicated to investor relations.

Our agenda today will cover the results and the business plan. So Mr. Dario Scaffardi, CEO 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 unit. Subsequently, Dario will illustrate the outlook for 2019 and the business plan for the period 2019-22. And, finally, we will take your questions.

At this time, I would like to hand over to Dario.



Dario Scaffardi
CEO & General Manager, Saras

Highlights

Thank you, Francesca, and thanks to Franco Balsamo (CFO) who is here with me. Thank you very much for joining us here today. We have a little bit of a long presentation to go through.

First of all, the results of the full year and of Q4. 2018 has been a strange year; it has been influenced by lower average refining margins compared to the previous year, to higher average and very volatile oil prices during the year that have touched two extremes of the last three or four years, moving from about \$85 on the top end, then going down to \$55 on the bottom end for Brent. Refined products demand has remained extremely strong, and crude oil availability has been abundant, but it has definitely been affected by political turmoil; the Venezuela and Iran problems certainly have influenced greatly the price and the availability of different types of quality of crude oils.

Coming to Saras' numbers, our comparable EBITDA has been €365 million for the full year of 2018, and these lower results compared to the previous year are mainly due to the refining segment, that has been instead mitigated partially by the very strong results that have been posted by the marketing segment, and when we review the segment we'll go into a little bit more detail on the reasons of this. On a quarterly basis, the EBITDA has been €92 million, just slightly down compared to the same quarter of previous year.

Overall, the comparable net results or the net profit has been positive in the quarter; 73 against 55 million of euro, while it's had a 40% reduction based on the full year. Of course, last year was influenced adversely by a depreciation of the inventory, due to the sharp drop in oil prices in the very last part of the year. We're very proud of our net financial position, that, notwithstanding the challenges, is positive and is almost 50 million Euros.

I would say that the crack spreads, particularly the ones relative to diesel, have shown a steady increase in value, as we had anticipated before, and this is due to the changes in the market, the IMO. We have always taken a prudent approach to the effects of IMO but I'm very pleased to say that if we just look at the future graphs of these days in 2024, the crack spread exceeds \$20 per barrel, which is an enormous improvement compared just to the numbers from a couple of months ago. So I would say that the optimism, the market on diesel cracks, has returned.

A totally different picture on gasoline, but I would like to use a saying by Mark Twain that said, "The report of my death was greatly exaggerated." Just a couple of months ago, people were asking us what we were going to do since there was no demand for gasoline, and gasoline was in negative territory, which was of course unprecedented, but I would say also unreasonable. And in the last couple of weeks, gasoline has shown a sharp rebound and we are still at unsatisfactory levels, because today the crack is between \$4 and \$5 per barrel, but it's a lot better than -2 \$/bl.



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In terms of the overall market, I would say that the most significant effect is, of course, the availability, and subsequently the prices, of sour crudes. In our business plans, we had always anticipated there would be a decline, a gradual decline, in the values of these crudes, and to be honest, exactly the opposite has happened, and this is due basically to two main reasons. First of all, the effect of a drop in demand for high-sulphur fuel oil has not really materialised in the market yet. We expect the full effect of the IMO regulations to come into force between the end of the summer and the first months of the post-summer months, basically, so an increasing trend between July to the end of the year, first of all. It hasn't materialised yet.

And, of course, we had this unaccountable and unprecedented combined effect between Iran and Venezuela, which has removed at least between 2 and 3 million barrels a day of heavy sour crude from the market, and the impact is very strong. If, on top of this, you sum the effect of the new crudes from the USA, so a lot of light crude that is being put on the market, and OPEC is trying to counter this trend by removing further crude from the market, and this remove heavy crude, I would estimate at least 4 million barrels of heavy sour which are missing, and which of course are affecting prices. And I would say that one of the first things one could look at is the value of Ural as a proxy for the heavy-light differential, which through the course of 2018 moved from -1.6 to -0.3. So, a huge appreciation in value that negatively affects margins of crude to an extent.

Also surprising is the very, very strong performance of low-sulphur fuel oil, which again is not necessarily linked to the IMO. We are looking with a lot of interest in what is going to happen on the very low-sulphur fuel oils of the 0.5 material, which as we will explain later on in our business plan, we're getting ready to produce.

All this is reflected in our standard refining and power generation margins. The EMC started the year at a 1.7 and increased to Q2 and Q3 on the back of strong demand for oil products, and I'll say again it decreased in the last quarter due to the dismal performance of the gasoline and the strength of the sour crudes. As Saras, we have moved from adding about 2.1 in the First Quarter, which was a quarter affected by strong maintenance, and moved into a higher territory at 2.8, around the two subsequent quarters, and then it stood back at 1.8 in the last quarter due to the overall market and also to the outages that we had in our refinery due to the fires that affected our plant at the end of September and created some supply disruptions in the subsequent months.

Segment Reviews

1. Refining

If we go now into the various sectors, first of all starting with refining, we had, on a full-year basis, lower runs compared to last year's crude, so we had about a 4% reduction in crude runs, which were at about 98-point-something, almost 99 million barrels, compared to 103 million in 2017. This was partially offset by higher runs on complementary feedstocks, which increased by about 30-40 thousand tonnes, compared to full year of 2017. The effects on the refining margin were basically what we outlined before: higher oil prices, higher prices of sour crudes, and a weak gasoline, in particular in the very last quarter and the first quarter of the year, which was offset by a strong performance by the middle distillate sector.



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On the quarter, instead, this quarter was affected by all of the items that I just said before. On top of this, of course, there was the outcome due to the fire, which created a certain number of supply disruptions. Also, I will say there's a negative effect due to higher electricity, higher CO₂ costs, and a hydrogen cost which has been higher because it's linked directly to the price of energy.

If we look at our crude oil slate and our oil products production, the overall slate from 2017 to 2018 hasn't changed very much. We disclose these data only on a yearly basis because it's not really significant to concentrate on a quarter. Our average API has been 33.7, so outlining the fact that we blend very light with very heavy material. We have increased the quota of heavy sour or heavy sweet also, notwithstanding the difficulties in obtaining these materials, but this has materialised more in the very last part of the year, and we try to reduce the quota of medium sour, which is the less profitable amongst the various types of crude oil that we're able to operate.

On the products, we show an increase in percentage of both middle and light distillate, and a sharp decrease of fuel oil, which shows that basically although we had less runs in terms of crude, the incremental runs tend to produce more fuel oil, so the damage that we have from the incremental crude runs is less pronounced. Also, we try to maximise the production of TAR, which is the feedstock that we use for our power generation unit, and which we will talk about shortly.

In terms of fixed and variable costs, they are basically in line with the previous year and for the guidance that we have provided. If we look at the variable costs, they were higher mainly due to electricity, hydrogen, and CO₂ unit prices. Also, we have increased consumption of catalysts because we are changing the type of catalysts we are using in order to run more challenging crudes. And these catalysts are more expensive, of course.

2. Power Generation

If we look at the power generation segment, we've had an outstanding year. We have almost matched our record in terms of power production; we have reached 4.36 TW, which is about 7% more than the previous year. This is also higher than our budget, because one of the things that we have been able to apply to our power generation unit is all the activities that we are doing in our digital drive. Among the activities in the digital drive is predicted maintenance, something that we have talked about many times and for the first time we have applied this on our gasifiers. One of the gasifiers was due to shut down in October, and the data coming from the analysis showed that the performance was still positive, so we decided to postpone - contrary to what was the common custom - the maintenance until January, and we're very pleased that the gasifier performed perfectly up until the moment it was stopped. So this is a very, very positive sign on our digital program, which is working very satisfactorily.

The unit price, also, for electricity has been quite higher in 2018 compared to 2017, almost one cent more by kilowatt, so it was 11% increased, and power margin was thus \$3.8 per barrel, compared to \$3.3. This so-called margin is not an appropriate metric because we are mixing crude runs in barrels with electricity production but we like to show it as a proxy.

If we look at power generation, the fixed costs were lower in 2018 compared to 2017, mainly due to a lighter maintenance cycle and to very good operating performance, which was able to achieve significant



reductions in costs. The variable costs are in line with unit electricity prices; CO₂ is the same before and now the same feedstocks, so that was higher.

3. Marketing

And then if we go to the marketing sector, this has been a bright spot. There's significant increase compared to the same period of last year, which has been driven by various factors. Demand growth, both in Italy and in Spain where we have our activities concentrated, but mainly, I would say, a higher focus on productive channels for sale. So although in Italy, for instance, we have slightly lower sales in terms of tonnes, we have achieved much higher margins, while in Spain we have achieved higher sales at similar sorts of levels. So this has been driven both by the way we operate, by our client base, and also by a market that is showing some signs of improving.

During last year we have finalised the sale of our service station network in Spain. This has been an important agreement, which has been signed with a primary oil company. There are still some very minor details which need to be finalised, so we are not able to announce right now the full details of this transaction, although without working capital, we have sold the service stations for €35 million, and we hope that in the forthcoming months we will be able to give full disclosure to this operation, which enables us to focus on our core business, which is refining.

4. Wind Power

On the wind segment, overall electricity production has been very much in line with that of 2017. The returns, of course, are much lower, because during the course of 2018 the various incentives that we had in the wind segment have expired. So wind conditions have been similar, but with the expiration of the incentives we are providing at our average power price in Italy, which, by the way, has increased. So today it's almost in the range of €60 per megawatt.

5. Others

The last segment is others; this basically includes our technology company, which is called Sartec, which has posted some interesting results. Basically their full-year results are in line with that of the previous year, but they have been able to diversify their portfolio structure, moving from very much based on the mother company to a significant share which is provided by outside activities.

Outlook

If we go into the outlook for 2019, we maintain our previous constructive view on the market. During the course of 2018, we will have the full effect of IMO, which is already showing in the diesel spread, which is at a very high level.

In 2019, we will have a rather robust maintenance cycle, which has been concentrated in the first part of the year, particularly the First Quarter, and the refinery coming out of a large maintenance cycle involving particularly the gasoline plants, so the reformer, the catalytic cracker, and all these plants that produce a lot of gasoline will put under maintenance in the first part of the year; that means that we read the market accurately and now that the cracks are improving, we are able to supply again gasoline to the market and start the summer season, which is looking positive. There's an increase in demand of oil by almost 1.5



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million barrels per day, so all in all, our outlook is positive. We have anticipated an EMC benchmark of something between \$3 and \$3.5 per barrel, and we expect to be able to add to this something like \$2.4 to \$2.8 per barrel net of maintenance. Crude oil runs are going to be affected mainly in the First Quarter, as I said, in which we are concentrating the majority of our maintenance of the year. And also, one of the gasifiers, the one that I mentioned before, has been put under maintenance, so this is the reason why we have a little bit less power production in the First Quarter compared to the others.

Business Plan

The business plan that we have presented to the Board is a continuation of our previous plans, which are concentrated on maintaining our strong position in refining our excellence in terms of know-how in this sector, trying to grab all the opportunities that arise from the market and maintaining the equipment that we have in optimal conditions, without any large new investment projects. So basically, it's concentrated on maintaining the investments related to keeping the plants as state-of-the-art, as improving cost-efficiency, improving HSE, improving energy use, and applying the digital initiatives that we have put in place.

What are we planning to do? Our plan is relatively simple, and it's been consistent through the years. First of all, we expect the diesel crack to increase, and this is supported by all the forward market scenarios in this moment. We expect the crack for high-sulphur fuel oil to increase, and we expect a very strong price for the very low-sulphur fuel oil, which will start to be marketed towards the end of the year. We expect it to be very similar to diesel.

Of course, all these expectations mean that the market is very fragmented. It's, as usual, extremely difficult to make meaningful predictions, which is one of the reasons why we try to be very lean and very concentrated. At the same time, we are expecting crude differentials to increase their discounts compared to Brent. Of course, today, this is something complex to say given the current situation, in which this has moved in exactly the opposite way. But still, we maintain that over the medium term and we always look at a long cycle; this is the only possible scenario. We are blessed on the fact that we do not need to make any complex conversion investment to face the situation; our safety and HSE record is impeccable, and again, we are doing everything to maintain in top shape our refinery, so we expect there's going to be a widening in the difference between deep conversion and sophisticated refineries such as our, and the others in this part of the world.

Again, we are strongly based on our model, which is centred on supply chain, on flexibility, on putting together a strong capability in the trading environment, since this is so important to the overall market, but at the same time, maintaining operational and safety excellence.

A very interesting project that we are about to launch is a bunker project. Bunker is the fuel which is used by vessels. We are able—we will be able actually—to produce the new fuel, this very low-sulphur fuel oil, which has a maximum sulphur content of 0.5, and we will obtain this with the existing plant just by blending the various streams that we have and maybe changing slightly certain types of crude that we buy. Saras' refinery in the centre of the Mediterranean is ideally located to market this product, and also we will start our own commercial activities, so although we are able and we do already produce bunker fuels—we sell them to other operators—we will start our own operators, so selling to the vessels that call



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to the port of Cagliari, which currently does not have facilities for bunkering of vessels, while both Cagliari and other ports of Sardinia, are very busy due to the traffic by vessels.

We have limited investments in this project, so the hardware that we need to affect within the refinery is modest. We will lease or purchase one or two lightering vessels. These are vessels that will load in our terminal and then load the various ships coming in the area. As always, we will apply our approach or our commercial expertise to this new business. We'll take it slowly and carefully, of course. Whenever you enter a new business, it seems simple, then you understand the pitfalls going along the way, but we are very optimistic on the fact that not only is this going to be a way to market our very low-sulphur fuel oil, but also to gain access to what we believe is going to be a lucrative market.

In this slide, we summarise the main assumptions for our business plan, so we have just taken values assumed by world—market leaders in terms of the values of the various products, taking the more prudent approach rather than the more extreme approach. I think we've been extremely prudent in the assumption of electricity prices, which, contrary to what is assumed, are continuously increasing, at least in Italy. Refinery runs in this period will remain more or less constant, and we believe that as soon as the situation clears, hopefully, in those countries that are producing heavy crudes, this will create a further opportunity.

We will have some important maintenance in 2019 and 2020. Of 2019 we already talked about. In 2020 we will basically perform the maintenance of the other part of the refinery, which has not been performed in this quarter, so basically we are going to overhaul our FCC unit, which is something which happens roughly every six years. And then after that, the refinery will be able to run in full-speed until 2021. In 2021, when we will have the expiration of the incentivised tariff on which we sell electricity, we will perform the ten-year turnaround. Every ten years, the IGCC plant needs to be overhauled, particularly in the accessory parts—the ones that purify gases and produce hydrogen—in order to put it in place, in order to run until 2031. We estimate our fixed costs to be in the range of €350-360 million per year, as has been the custom, and we have a cost-reduction program which is in use to produce positive results.

CAPEX Plan

The CAPEX plan is front-loaded, so the bulk of the CAPEX is going to be performed in this year and it will slowly decrease and find an average value for 2021 going forward. So the CAPEX plan are basically linked to asset reliability, HSE, and power reconfiguration, in order to face the new situation in 2021. We also have €30 million invested our windfarm, on which we are adding six towers in order to produce 30 MW more of power, and we are also looking into the possibility of revamping the blades on our existing windfarm, taking advantage of a new regulation in the Italian power law, but which has not yet been approved by the Italian government, so it's very likely, but until we see it in black and white, we will not take any initiatives.

Digital; I think I mentioned before the very positive effect on our reliability program with the gasification unit, which from an industrial point of view was one of the pilot projects and has performed very well. We are doing the same thing on all the main rotating machineries, let's say, which are the ones that more easily are adapted to this type of predictive analysis. And then we are starting to apply this concept on process control, which is another area which is extremely promising in terms of financial results that it can give in terms of the way in which the plants are managed.



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Here we give some guidance on the profitability, starting first of all with the EMC benchmark, which is derived exclusively from those numbers that we showed before, on top of which we should add Saras' premium net of maintenance, which we expect to be highest in 2020 because of IMO. In 2021 we will change our structure, because we are going to incorporate the power segment directly into the refining segment, so this is the reason for the higher premium, so we will not record it as a separate EBITDA, but it will just be integrated into one single margin. We expect to be able to consolidate the current positive results of the marketing sector and the wind will increase, taking into account the new capacity which is going to become operational towards the end of the year.

One of the things that we're often asked is our IGCC plant, our gasifier, post-2021, when the incentivised tariff is going to expire. This plant is very different from other plants that have been built in Italy, which have been built separate from the refinery, outside of both of the refineries, physically, but also, I would say, outside conceptually from the way in which this plant is integrated in the overall production cycle. Our plant is inside the refinery physically, and it's inside the refinery model. So the way to look at our refinery is basically as a high-production refinery, which as one of its products has electricity as an output instead of having the usual slate of oil products. We expect that the increase in price of diesel looking forward and the increase in discount of the heavy crudes, which the gasifier is ideally suited to destroy, to contribute to a very positive result of this plant.

One thing that is worthwhile to underline is that we expect that the markets will have available of a certain amount of high-sulphur fuel oil that we'll have difficulty finding an appropriate home, one home can be our gasifier, of course, because fuel oil can be burned in the gasifier once we've extracted the light products from it through our Toppings and vacuum units. The residue can be fed to this, so this is all the market that will need to be explored as it develops. Right now, it's difficult to make some firm views going forward. Our firm view is that this unit is crucial and it will maintain its positive contribution to our group.

On these other sources and use of cash, I will ask Franco to help me on this.

Franco Balsamo
Chief Financial Officer, Saras

Financials

The cumulated projection in terms of cash from operations are between €2.1 and €2.2 Euro bn in the next four years. The use of this liquidity will be mainly for investment, in order to keep state-of-the-art plants, to update operational and technological leadership in the long term, so it's one of the largest investments of the most recent years into the company.

Taxes are mainly represented within the amount of outflows of €510 million. The working capital is not material, due to our commercial activity that tries to operate with a very balanced working capital that is an expense that is in line with the existing net financial position that in this case will be increased over the year, so it's in a range of €12 million per year.



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Finally, the cash flow generated by the business, net of all the other outflows, should be in the region between €750-850 million. Most of the liquidity will be generated in the years 2021-2022. The year 2019 will be, in terms of cash flow generations, lower than in the final part of the period. This liquidity will be mainly utilised in order to pay dividends, in line with our strategy. As you see also this year, the board has approved the dividend for 8 cents for shares that represent the higher part of the dividend policy, that at the time being is very close to 60%, (the maximum level of the dividend policy bracket) and that more or less is a dividend yield of 4.5 - 4.6%.

Francesca Pezzoli
Head of Investor and Media Relations, Saras

So we have now finished and we are ready to take your questions, thank you.

Questions and Answers

Operator

Excuse me, this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. To remove yourself from the question queue, please press star and two. Please pick up the receiver when asking questions. Anyone with a question may press star and one at this time. The first question is from Alessandro Pozzi with Mediobanca. Please go ahead.

Alessandro Pozzi – Mediobanca

Thank you for taking my question. I have two. I was wondering if you can clarify how exactly you are getting ready for the IMO 2020 in terms of reducing the sulphur content in the fuel oil. Is it mainly so it changes slate, or is it changing how the products flow into the refinery at the different stages? That's the first one.

And on the second one, I believe you are assuming a higher premium to the EMC compared to what we've seen in Q4. I'm just wondering if you can maybe give us an update on the premium that you're seeing in Q1 and what you're seeing that is going to change in the second half of 2018. Is it just a minimum version or do you expect it's the IMO effect, or do you make assumptions on whether some volumes of heavy sour are coming back to the market? Thank you.

Dario Scaffardi

Thank you for the question, Alessandro. So on the very low-sulphur fuel oil production, we have a production of about—on any given year, we produce between 700 and a million tonnes of fuel oil. This fuel oil is a mix between high-sulphur, medium-sulphur, and low-sulphur, and of course, we try to make



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product which is marketable. At the moment, the two grades are 1% and 3.5%. We will be able to produce this 0.5% through the use of some other stuff that we have within the refinery, by using what is one of the bottoms of the FCC unit, which has always been considered a by-product, and now is a very crucial product because it's going to comply fully with the IMO specs, actually it's going to be much better, and there was also going to be a slight shift in crude qualities, of course. So the incremental crude that today could be either high-sulphur or low-sulphur, tomorrow will be more low-sulphur once we've satisfied our diet of heavy crudes to maximise throughput through the gasification unit.

There is no investment in hardware; there are some investments in tank allocation and minor stuff that is not worth talking about. And then there are some investments in people, and vessels, and in setup of office operations in order to follow what is a very fragmented market.

And the other question you had was relative to the EMC. The EMC, on the First Quarter, does not look particularly encouraging, of course. We started the year with the EMC at zero. In February, it improved, and in March it's looking a lot healthier. Our premium, of course, in the First Quarter, will be negatively affected by the intense refinery maintenance that we've had.

Alessandro Pozzi – Mediobanca

Thank you.

Operator

The next question is from Henri Patricot at UBS. Please go ahead.

Henri Patricot – UBS

Yes, hi everyone. Thank you for the presentation. I have three questions, please. The first one, on the Fourth Quarter results, can you breach between the comparable EBITDA of 46 to the comparable net income of 74, what's going on between the two? And then secondly, on what you're saying about being conservative, but seemed quite an interesting spread on the Fourth Quarter, whether you've been hedging some of the crack spreads. And lastly, if you can give us some indication of the crude differential that you use in your business plan forecast. Thank you.

Dario Scaffardi

Thank you, Henri. Maybe we'll start off with Franco on that.

Franco Balsamo

As far as that first question is concerned, if you go to page 28 of our presentation, there is the gap between reported and comparable figures. So looking at the EBITDA levels, we have €75 million of gains and losses, in this case losses, on inventory. This is a factor of the average oil price increase over the period,



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because we have \$54 in the full year of 2017, against a 71 dollar in full year 2018, so this created this negative effect.

We have about €60 million of non-recovering items. It is mainly the combination of two different facts; one is related to the provisions for €22 million, related to the free allocation of CO₂ quotas due to an old dispute on the North Plant for the period 2015 and 2017. So we have requested the new allocations to Italian and European commissions; we are still expecting the approval, but in this case, this has generated a gap of quota equal, as discussed, to €22 million. In addition, we have one write-off of receivables for €29 million, this following the decision of the Council of State in November of this year, that related to the expected reimburse of Green Certificates purchased between 2011 and 2013, and we have written off €29 million. This is not a cash out for the company

Finally, we have the positive effect on the realised and unrealised hedging on commodities and the foreign exchange, that balance, of course, the impact on the EBITDA. In terms of net income, we have moved from €140 million of net results in reported accounts to €133 million that is made the same effect that I have discussed before, net of our tax ratio.

Dario Scaffardi

Henri, you were asking before about hedging of crack spreads. Well, the short answer is no. As a policy, we do hedge but we hedge on short-term in order to manage short-term price risk. We don't take long-term views on the market. This does not mean that we might not do something in the future, but since our variables are linked to so many different factors, it could actually be a risk to take an absolute view on the crack spread. Our economics is not necessarily linked only to the crack spread. It's linked to a variety of things: the prices of crude, the absolute price, the relative price, the value of the different cracks. So through experience, we've always seen that it's extremely complex to forecast the refinery margin and, particularly, to hedge it. The difference is we're taking a speculative view. Now, if right now, as a trader I look at the forward crack at \$20, it might be worthwhile to sell it. But then on the other hand, it might just go higher. So this is not really our policy, to take speculative views, if not on small quantities, very small quantities.

In terms of crude differentials, I think your question is a very good question, a very valid one. It's one of the extreme variables that we do have. If I just look at Urals, as I said before, today it's in the range of being almost neutral to date, and its beginning of year is 1.8. We consider the beginning of the year as being a more normal scenario, so looking forward we projected numbers that were sort of averages between 2017 and 2018, rather than what is happening in this moment, which I must agree is very, very different, of course.

Henri Patricot – UBS

Okay, thank you.



Operator

The next question is from Alex Jones with Bank of America. Please go ahead.

Alex Jones – Bank of America

Thank you for the presentation. Two questions from me, please. The first is following up on that crude differentials question. So for 2020, just to clarify, you're assuming Brent Euros or other crude differentials broadly in line with 2017 at 18, rather than even wider, as some might expect, due to the IMO regulation?

And then the second question is on cash allocation. If we look at the kind of cash flow bridge waterfall chart you've provided, it looks like a lot of available liquidity over the next four years that clearly won't all be paid out of dividends, and you're already in a net cash position, so if you can kind of outline how you think about allocating that cash flow, that would be brilliant. Thank you.

Dario Scaffardi

The crude differential, yes, we are taking a more prudent attitude and a less aggressive attitude compared to others. Through experience I would say that very, very strong discounts on heavy crudes are unlikely and unsustainable in the long term, because then it creates a huge incentive to build deep conversion units. So it is true that in the past we've seen the -9, -10 \$/bl on certain heavy crudes; we are not projecting that because we don't think that that is sustainable in the long term. It might happen in the short term, but in the long term it's not really sustainable. Again, I don't believe that a number like -2, -3 on heavy crudes is likely sustainable in the absence of political factors such as we have today. So something in between would seem much more reasonable.

In terms of cash allocation, I think also this is a very good question. First of all, having cash is a great problem to have. Again, we are taking a little bit of a look-and-see attitude, because I think that the change that we are facing in the market is so huge at the moment that nobody can really predict the full outcome. We go from an incredible positive, constructive picture for refiners like us, to others who instead have a slightly more negative view, thinking that the effects of IMO will be less pronounced and the market will rapidly reassess. So we have decided, since we have a portfolio of things that we might be in a position to enact if we feel that the market conditions are such that we feel that we can propose to our investors making new investments in hardware, or if this will not be the case, we will find different ways.

Alex Jones – Bank of America

Alright, thank you.



Dario Scaffardi

You're welcome.

Operator

The next question is from Thomas Adolff with Credit Suisse. Please go ahead.

Thomas Adolff – Credit Suisse

Good afternoon. Three questions for me as well. Firstly, this is a very simple one. Could you comment on the EBITDA contribution in 2018 from your service stations in Spain, which you're selling? And then secondly, just on the 2019 refining margin guidance, there is a decent uplift year-on-year. I understand margins yet today have been weak but are recovering fast thanks to maintenance. I wondered if you can split the picture between 1H and 2H, just to understand what you expect in terms of the margin evolution as 2019 progresses. And then finally, just a question on U.S. shale oil. As exports of that crude continues to pick up, I wondered whether you have tested your shale oil and your blend yet, and if so, whether you like this time. Thank you.

Dario Scaffardi

Well, let's start with the last question. We have been one of the first companies to run North American crude in Europe, many years ago with Canadian crudes, so we are well aware of all the various qualities. Up to now, we enjoy the situation in which we have many alternative crudes available on our doorstep, meaning all the former Soviet Union, Libya, North Africa, so generally, American crudes are uncompetitive in terms of price with these grades. I expect this situation to probably change over time, in the sense that we see American producers becoming increasingly aggressive in their pricing strategies, but at least for the time being it's not been convenient for us, but this, as we explained many times, we run our refinery as a marketing venture, so we're merchant refiners. We take whatever is most convenient or that we deem most convenient in the specific moment in time. And up to now, U.S. crudes have not been the case for us, but just on the basis of wide availabilities of alternative grades.

Again, if we talk about margins between first half of the year, second half of the year, I think that 2019 is really going to be the threshold between two very different scenarios, so one is what is pre-IMO and one is a post-IMO. Exactly when this divide is going to happen, I don't know, but I think more or less toward mid part of the year, so I expect the first half to be less buoyant in terms of margins, although we are seeing a surprising pickup in this period that nobody had anticipated, and I expect a pretty strong second part of the year, when all the various operators will scramble to fulfil their IMO needs, and also in which we will have maybe a little bit of a clearer understanding on how the market is going to move.

Have I left anything out on your questions?



Dario Scaffardi

Ah, yes.

Franco Balsamo

There was the issue of our retail business in Spain, so the EBITDA overall driven by these activities is about three million.

Thomas Adolff – Credit Suisse

Three million, you said?

Franco Balsamo

Yes, three.

Thomas Adolff – Credit Suisse

Thank you. Thank you very much.

Operator

The next question is from Josh Stone with Barclays. Please go ahead.

Josh Stone – Barclays

Thank you. Good afternoon. I've got two questions, please. First, just following up on the crude differentials, you mentioned there are very narrow spreads in the First Quarter of the year. Could you talk about what your views on the main drivers of that are, and to what extent some of those might be structural and what the catalyst was for the widening? Is it IMO, or is there something else?

And then secondly, on the use of free cash flow, you've dedicated more investment to the wind business. Could you talk about your decision to doing that, and whether we should see that as a signal that maybe you might be allocating more capital to the renewable sector over time? Thank you.

Dario Scaffardi

On crude differentials, I would say that the main driver has been Venezuela and Iran. It's very, very simple. We saw a weakening of the sour differentials towards May/June of last year, surprisingly, because everybody thought that with the enactment of the renewal of the American sanctions on Iran, something terrible would happen, and in the immediate, nothing happened. And the market sort of understood the impact towards the end of the summer and we saw the differentials strengthen. Compounded to that is, of course, the Venezuelan factor. So if we just look at it as average API, we see a lot of low API having



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been removed from the market, and I would say that these two factors, with the OPEC cuts, which, again, influenced the low APIs, all in all are the main drivers and contributors toward the crude differentials, not IMO, which at this moment in time I would say is almost irrelevant. Nobody is changing in this moment their crude slate because of IMO. They will in the forthcoming months, but as of now, that is not the case.

And in terms of free cash flow, or wind, wind is an extremely interesting sector, but we are investing on our brown field project, so we have a windfarm and it is convenient to add some wind towers, because all the infrastructure are already in place. To build Greenfield windfarms in this country at the moment, since there are no incentives, is a business with relatively small returns, which is more in line for other operators rather than ourselves. I don't rule out the fact that we do have a pipeline of other authorisations, and something might happen, but I would not say transformational.

Josh Stone – Barclays

Okay, great. Thank you.

Operator

The next question is from Massimo Bonisoli with Equita. Please go ahead.

Massimo Bonisoli – Equita

Good afternoon. Thank you for taking my two simple questions; one on the portfolio strategy. You just announced the sale of a few service stations in Spain; any other strategic decision that could be taken on the rest of the portfolio, maybe on the wind power? And the second: if you have any update on the situation of supply from Iran and Libya, please.

Dario Scaffardi

Okay, well, on our portfolio, no. I would say that we had an activity in Spain to which we never really committed strongly, so it was worthwhile to sell our retail stations, which were relatively small in number and not integrated into a bigger system. So in the absence of wanting to invest in that sector in Spain, I think a wise decision has been to sell it at interesting conditions to a very strong operator that I think will be able to provide the guidance and the marketing skills that we were not able to apply, also due to our size, to this venture. We don't have any plan of selling our wind assets, which have contributed beautifully over the decades, and our state-of-the-art operation that is running seamlessly. Again, if a fantastic opportunity comes by, never say "never," but it's certainly not on the radar screen at the moment.

On your question relative to the supply of Libya and Iran, Libya is, let me say, relatively normal within its "not normality", so supply has been almost all through 2018 relatively stable and increasing, and



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we've been able to find a satisfactory arrangement with the national oil company. Iran is a different picture, although Italy has been granted exemption from the sanctions imposed by the U.S., so theoretically, Italy was able to purchase Iranian crude from November up until this coming May. In reality, nobody has purchased anything because of the difficulty posed by the financial sector. So although it's allowed, almost no banks are willing to deal with Iran. Insurance companies are not willing to insure cargo, and so forth. So unfortunately, because this has contributed to a further tightening of the market, at least for Italy—I cannot talk for all of Italy, of course, but to the best of my knowledge—up to today, no Italian company has purchased Iranian crude, and the same thing has been true for the other European country which was granted exemption, which is Greece. Instead, the Chinese, the Turks, and the others have taken full advantage and have been purchasing.

But overall sales of Iran have gone down significantly. I think they are in the million barrel a day mark, considering that they were exporting between 2.2 and 2.4. So the impact for them is definitely significant, and on the market, of course.

Massimo Bonisoli – Equita

Great, thank you.

Operator

The next question is from Igor Kuzmin with Morgan Stanley. Please go ahead.

Igor Kuzmin – Morgan Stanley

Good afternoon; I have a couple of questions, please. One question is in regards to the upcoming or maybe already ongoing maintenance in the First Quarter. I quite like the way that you presented the sort of impact on the EBITDA from the maintenance in 2018, First Quarter and Second Quarter. Is there a way to quantify the impact from maintenance in, I'm assuming, the refining segment, in the First Quarter 2019? In a similar way, maybe Euro millions?

The second question is in relation to the reported CAPEX, as well as the forthcoming CAPEX in 2019-2020. First of all in 2018, the realised number was in excess of €240 million. That's subsequently about €20 million above the guidance, if I recall correctly, of the previous conference call. I was just wondering if you can reconcile these two numbers, and secondly, the increase in CAPEX versus the previous guidance for 2019 and 2020. I understand that it's quite a bit been explained by the new windfarm projects; is there anything else on top of it? For example, if I'm talking about this bunkering project, maybe it's partly related to that, or your hubs or something else. So some clarification would be much appreciated, thank you.



Dario Scaffardi

On the CAPEX, I would say that there is the increase in CAPEX, which is due to various reasons. One certainly is the €30 million in the windfarm; and then there's an increase in investment in our digital projects. We are investing heavily in this area. There is some more HSE activity which is taking place. We take always a very, very responsible attitude towards HSE, which for us is a top priority. And I would say that that more or less sums it up in terms of increase in CAPEX.

You were asking about the maintenance, and I think that maybe we're noting the fact that we are presenting our results in a different manner compared to the past. This is due to the fact that we have decided to present an overall EMC premium on the benchmark on a yearly basis, because although we have maintenance which is concentrated in quarters, still the effects are spread evenly during the year. So we think we're giving maybe an excess of detail in certain respects, that may not correctly represent what was actually happening since there are so many moving parts. So we do have an increase in maintenance certain quarters, but the impact on EBITDA is difficult to assess since the EBITDA is dependent on the market. So there are two overlaying effects, so starting with this year we decided on this on an experimental basis to see how it goes with this, and we'll always be able to change and give a more detailed representation of the future so this will satisfy the necessities of the market.

Igor Kuzmin – Morgan Stanley

Understood. Thank you so much.

Operator

The next question is from Giacomo Romeo with Macquarie. Please go ahead.

Giacomo Romeo – Macquarie

Good afternoon. Thank you for taking my question. The first question is on the VLSFO markets, given that this is an area of increased focus for you. Just wondering how you see demand evolving as we get into 2020, particularly regarding the recent concerns by the shipping industry relating to the quality issues with the fuels and the compatibility issues.

The second question I have regards if you can give us an update on what percentage of your crude consumption is subject to long-term contracts and what percentage is actually less, for you to take advantage of potential volatility in crude differentials as we get into 2020.

And third and last question, if possible, thank you. It wasn't fully answered before; if you can help us breach the comparable EBITDA 46 to the comparable net profit of 74 that would be great. Thank you.



Dario Scaffardi

I will gladly leave this last question to Franco. On the first part, on the VLSFO, I think it's an interesting question. This is one of the reasons why we maintain our attitude of flexibility; the total outcome of the market is going to be uncertain. Certainly the ship owners are worried about this issue of compatibility. Just to explain what it means, it means that different fuels produced in different areas might not be mixable together, and the fact that they are not mixable could create very serious problems to the ship in the sense that you basically have deposits of strong, hard material which clogs the pipes and the engines and so forth, so it's potentially a very complex situation. How are we acting in this respect? Well, first of all, we are targeting to produce something in the range of about 500,000 tonnes of VLSFO, and to ramp it up if the market is positive and the economic conditions warrant it, up to maybe a number close to a billion.

We are going to start in a very careful manner with certain ship owners. There are ship owners in Italy that operate both locally in Sardinia and in areas around Sardinia, which would be able to take almost all of our production. So if they become exclusive buyers of our products, or close to exclusive buyers, this overcomes one of the issues of the compatibility.

At the same time, we are working closely, sending our samples to some of the engine producers in the world. There is basically one engine producer for the marine engines. Sorry, I don't want to maybe take too long in answering, but it's the low-speed two-stroke diesels which are the main actors in this, and there's one producer in the world, which basically licenses all the engines. And we are actively researching our fuel with them by sending samples of our product to see if it's compatible with the systems that they have in place. There's also a lot of talk about setting up specific certifications, but all this is not in place yet, so we're still in a wait-and-see mode.

You were asking the second question about percentage of crude subject to long-term contracts. The short answer is none, in the sense that it's customary in the oil sector, at least for us, to have contracts which are yearly contracts. So although the majority of these yearly contracts have been ongoing for decades, still they are generally yearly contracts. So there is very small long-term commitment and we are capable of taking advantage of opportunities in the market quite quickly, in general.

Franco Balsamo

Okay, going to your question related to the split between the comparable EBITDA and net adjusted income, the EBITDA from the comparable that is €92 million, we have €49 million depreciation and amortisation that generated an EBIT of €46 million. We have €4 million negative interest expenses and other 4 as interest expenses related to non-recurring items. We have €59 million of derivative profitand



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the sum makes profits before taxes at €96 million. The taxes for the quarter is €22 million, and this generated a net profit of €74 million.

Giacomo Romeo – Macquarie

Very clear, thank you.

Franco Balsamo

Okay, thanks.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. Once again, if you wish to ask a question, please press star and one on your telephone.

Gentlemen, there are no more questions registered at this time.

Francesca Pezzoli

Okay, thank you very much. If there are no more questions, thanks for following us today on this conference call; as usual the investor relations department is available for any other questions you might have. Thank you, everyone.

Dario Scaffardi

Thank you.