Saras

Third Quarter 2017 Results

Welcome

Francesca Pezzoli
Head of Investor Relations, Saras

Yes, good afternoon everybody, and thank you for joining us today for this conference call on Saras' Nine Months and Third Quarter 2017 results. Our analyst presentation has been distributed few hours ago, but in case you have not received it, please allow me to remind you that it is also available on our website, directly in the home page and also in the section dedicated to the investor relations.

Our agenda today will be the usual one. Mr. Dario Scaffardi, Executive Vice President and General Manager of Saras Group will start with the highlights of the period, followed by a detailed review of the results of each business unit. Afterwards, Mr. Franco Balsamo, Chief Financial Officer, will discuss the key financial figures of the Group. Then, back to Mr. Scaffardi for the outlook, and finally we will be delighted to take your questions.

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

Dario Scaffardi
Executive Vice President & General Manager, Saras

1. Highlights

Thank you, Francesca. Good afternoon everybody, and thank you for being with us. We are very pleased with the results of this quarter. We posted a very strong comparable EBITDA of €160 million, up 36% compared to the same period of last year, and a comparable net result of 58% versus the same period of last year.

The growth over these periods have been mainly driven by the refining segment, that was in the position to exploit the excellent market conditions and also to a very light maintenance program since the majority of our maintenance has been performed at the beginning of the year. In particular, gasoline and diesel cracks reached very high levels in the third quarter, but we will comment on this a little bit later on in the presentation.

As a result, the refining EBITDA reach €97 million with a total refining margin of $7 per barrel, which is quite a satisfactory level. Also, power generation posted growth compared to Q3 2016, as the maintenance was completed and the CIP6/92 tariff increased, as well as the wind segment that benefits from a recovery of volumes in the quarter thanks to better weather conditions.

If we look at the full nine month period instead, the comparable EBITDA is €413 million, which is broadly in line with the previous year. As the recovery of the profitability of the marketing segment, which showed a significant increase that we will comment on in the following parts of the presentation, offset the small decline in the refining segment which operated under slightly less favourable conditions.

One thing I would like to underline, is that on September 30 the group net financial position turned positive as expected, and reached €110 million, versus a negative of €28 million at the end of June 2017, as cash flow from operations and a positive working capital management exceeded the CapEx and other items in Q3.

Moving to the market conditions, you can notice that if we look -- which is more appropriate in our opinion -- at the first nine months, gasoline cracks maintained the high levels of 2016 and went from $11.80 to $12.30, while there was a significant increase in the diesel cracks that moved from about $8.60 to about $11. This is due to a variety of factors, some structural and some local. Strong fuel demand, but also unplanned maintenance, weather conditions in the US Gulf Coast with the hurricanes, which significantly impacted the market over the summer. In Europe, instead, there was a strong demand for diesel and further compounded by unscheduled maintenance in various units in Europe.

As we mentioned many times in the past, crack spreads alone as an absolute value are not able to give us a significant representation of the market. For this reason, we would like to concentrate your attention on the graphs above which shows a ratio between crack spreads and the price of Brent, which is very important, of course. These are much more effective in showing the current profitable conditions than just looking at the crack spreads in isolation and absolute value. It is clear that a $10 spread with $20 rank and the same amount at $50 is a very different picture.

Levels for the diesel and the gasoline cracks in Q3 reached some very, very satisfactory levels. The anomaly here is the extremely high level, as we mentioned before, reached by fuel oil, both low-sulphur quality and the high-sulphur quality compared to Brent, which during the quarter almost reached a crack that was zero compared to Brent. This was due to less volumes of fuel coming out of Russia for a variety of reasons, mainly because of the upgrading of their refining system and also a change the tax system, and a strong demand from the shipping market due to increased economic activity.

Of the various factors, one of the factors which is most notable is that regarding the prices of heavy sour crudes. The price of heavy sour crude has gone steadily up during the nine-month period as you can see from the lower graph, which shows the price of the Bashra and Arabian Heavy. Bashra is a standard crude from Iraq and Arabian Heavy is the standard crude from Saudi Arabia. And, the OSP (the official selling prices) of this crude that moved steadily upwards during the period. This is due to the increased demand for crude worldwide, a decrease in production and the effectiveness of the OPEC cuts, which of course influenced the least valuable grades which are removed from the market. So, this is something which has gone contrary to our expectations in the previous years, and which we expect that probably is not going to change very much in the forthcoming months. But, will be affected very, very significantly during the end of next year, when the effects of the IMO regulation which will come into force in the beginning of 2020 will start to be felt. And we expect that the effects of this will start happening in the first six months of 2019, most likely.

If we look at the trends in refining margin, then we can see that the EMC benchmark, which represents a standard refinery in the Mediterranean, has reached its highest level in Q3 with a value of 4.6 $/bl. The average, instead, in the whole nine months has been 3.9 $/bl.

Moving to Saras' refining margin, it is known that the flexibility and the complexity of our system regularly allows us to achieve a higher margin than the EMC benchmark. However, the premium varies, as you can see from the graph, from quarter-to-quarter according to specific market conditions and depending on the performance of our industrial and commercial operations.

Particularly I would say that in this period, it is very important to notice that the extremely high crack of the fuel oil has negatively affected Saras' refining margin compared to the EMC benchmark, which somewhat distorts its effect. On the next slide, we have tried to explain exactly what has happened. First of all, if we look at the strengthening of fuel oil, the first graph on the left, this has been extraordinary. So, high sulphur fuel oil has moved from an area of between -13 to -15 $/bl, to an area of around -6, -5 $/bl, which is extraordinary. And this, of course, has impacted significantly the EMC margin. Why? Because the EMC margin represents a refinery that produces about 15% of fuel oil while Saras has only about a 6% production of fuel oil. Rightly so, because any sophisticated refinery will try to minimise the production of fuel oil. But, this distorted effect makes it that while the EMC margin benefits fully from the rise in the price of fuel oils, Saras was not able to capture the same amount of improvement. So, this effect is worth about $0.50 per barrel, looking at the first nine months of the year.

So, the Saras premium, if we take this into account, would have been about $3.00 per barrel compared to actually 2.40 $ per barrel.

Segment Reviews

1. Refining

If we look at the various segments, refinery runs in Q3 stood at 3.6 million tons, 26.3 million barrels, very much in line with the same period of the previous year. Instead, we had a decrease in complementary feedstock which had been 20% less in 2017 compared to 2016, mainly based on commercial choices. Our maintenance was similar in both periods. Comparable EBITDA has been €96.7 million, well above the €57 million reported in Q3 of 2016, mainly due to different market conditions and therefore the EMC benchmark that has been $4.60 per barrel in 2017 compared to $2.00 in 2016. The higher crude prices in other markets bought penalisation worth about €5 million compared to the same period of last year, while the higher diesel crack spreads increased value of production by about €90 million compared to the same quarter, while there was a negative effect of the ForEx dollar and the Euro exchange rate worth about €10 million.

From an operational point of view, we distinguish between production planning and production execution. Production planning posted a lower EBITDA of about €10 million. This has been mainly to the non-availability of crudes that we had assumed would be available to run, so the fact that the premiums for the high-sulphur crudes have gone up means also that certain types of crude have become scarcer. So, this is reflected in the production planning and also in the part regarding production execution, which is the penalisation due to maintenance and due to scheduled and unscheduled events, produce a lower EBITDA of about €20 million compared to the same period of last year, because of performance below the technical target.

Commercial performances had a decline. It was positive but declined by €5 million compared to the previous year.

2. Crude Oil Slate and Production

If we look at the crude mix and the product yields, we should look at the full 9 months instead of the quarter, which is not really representative, and we can see that the average density in 2017 has been 33.5 degrees API, so broadly in line with that of the previous year, although the mix that has produced this is a bit different. We have had an increase in the light sweet and the light extra sweet crudes, and this is due mainly to the fact that they are more readily available on the market, and we've had less runs of heavy grades, both high and low sulphur because availability has decreased, while the medium part has remained stable. So, the changes in the feedstock mixers are driven by contingent refinery configurations, maintenance and commercial opportunities.

If we look at the production slate, we can see that middle distillates yields increased compared to the first nine months of 2016 as the refiners tried to exploit in full the good commercial opportunities existing for these products, while we have decreased LPG and light distillates in a slight manner.

Finally, we had a low TAR yield, which is due to the effect that there was a planned maintenance on Visbreaking, and therefore on the whole IGCC train, while the fuel oil yield was higher because we tried to take advantage as others in the strong demand of this product.

3. Fixed & Variable Costs

If we look at the fixed and variable costs, again looking at the full nine-month period, the variable costs are increasing compared to the previous year due to higher energy costs, which derive from the scenario, and also influence the higher costs for hydrogen and steam. These are already taken into account in our refining margin. If we look at the fixed costs, these are lower than last year due to lighter maintenance carried out in the same period.

4. Power generation

If we look at the power segment, the whole maintenance activity scheduled on our IGCC unit were carried out in the beginning of the year, and so in Q3 the power generation segment operated at full capacity. As you can see, the production is 1.20 TWh compared to the record that we did in the same quarter of last year, which was almost 1.24. Comparable EBITDA was €55.4 million, 5% up compared to the €52.6 million achieved in Q3 '16. The difference is due to the higher CIP6 tariff, about 7% more, and to the higher cost of the sales of hydrogen and steam.

Finally, it is worth noting that the difference between comparable and reported EBITDA is mainly due to reclassification.

Variable costs in the first nine months was €41 million, higher than last year mainly due to the higher cost of electricity and non-tar feedstock. The products that we use during the restarting of the units, so propane, naphtha, light cycle oil and nitrogen. The fixed costs were €83 million versus €66 million in the first nine months of last year due to the important maintenance carried out in the first part of the year.

5. Marketing

Marketing has shown a significant improvement compared to the same period of last year, particularly if we look at the full nine months. This notwithstanding the fact that official statistics in Italy show that the market declined by 2.7% during Q3 of this year, compared to the same period of last year, while instead in the Spanish market, there's an increase of about 2.2%. I suspect that the marketing conditions in Italy are slightly sloppy, and it is possible that the statistics at the moment are not really entirely accurate because they're not taking into account certain phenomena that happened in the market where a variety of importers have appeared, which apparently take advantage of certain loopholes in the VAT and tax rules and are not fully-accounted by the official statistics, in my opinion. But, this is something that will be clarified in the forth coming months.

Our marketing people have done a superb job of being able to clean up their cost structure and improve the marginality by following only certain clients at the expense of volumes. The result of the comparable EBITDA in the marketing segment has been €3.6 million in Q3, lower than the same period of last year, but if we look at the whole nine-month period, there is a significant improvement.

6. Wind Power

The quarter has been better compared to the same quarter of last year, mainly due to higher tariffs and more favourable wind conditions, while if you look at the whole nine months in reality, wind conditions have been slightly less favourable. As a matter of fact, in the nine-month period, we have €14.4 million of EBITDA compared to €16.6 million of last year.

I would at this point hand over to Franco to go a little bit more in depth into the financial part.

Franco Balsamo
Chief Financial Officer, Saras

<u>Financials</u>

Thanks a lot. To comment below the EBIT line for the first nine months, we have accounted €20.7 million of financial income, that is combination of various affected first of all the saving on interest expenses, 65% down, compared to the same period of last year due to the renegotiation of our credit lines and, the repayment of a bond in September of last year. In addition, to these €8.3 million, there are other €44 million of income, driven by our hedging activity on derivatives, with the combination of hedging on commodities and hedging on foreign exchange exposure. Finally, there are €11 million related to provisions to some interest request by our counterpart, they're still under negotiations.

If we skip to page 19, there's the gap analysis between EBITDA reported and EBITDA adjusted. In the first nine months, have we seen before EBITDA is €303 million. We have positive contribution of €44.7 million, driven by the average oil prices. There are €20.2 million positive on non-recurring items, that are mainly related to the provision on energy efficiency certificate, and the €5 million for the reclassification of the CO2 certificates. Finally, as you've seen before, there are the contribution of €44.6 million on hedging derivatives.

So, I remind the adjustment, the net result increased from €109 million as a reported result, to €161 million, mainly by the application of the net taxes.

Finally, at page 21, you have a representation of our cash flow analysis. The cashflow has been extremely positive in the third quarter, for roughly €138 million. At the ninth month we have €11 million of cash after dividends, thanks to the cash flow generated by the operations activity. So, the reported EBITDA has been €303 million, €45 million is the contribution of cash generated by hedging activity. €78 million is all non-GAAP items, and finally, there is a negative contribution of working capital for €18 million. In order to have a better understanding of this item, it is the combination of three different effects. One is the benefit driven by the working capital activity from the operations. €165 million positive thanks to better receivables for €140 million. We have in this quarter the net contribution from VAT, for €75 million. We have the increasing inventory for €125 million negative, and we have the benefit of higher volume and higher prices, on the supply for €75 million. On the other side, there were also €150 million related to Iran, which is an extraordinary item related to previous years. CapEx at €140 million, interest expense is €8 million, dividends €94 million. Cash flow of +€11 million is the contribution to the net financial position at the end of September, that is positive for €110 million compared to the negative position of €28 million at the end of June and €99m positive at the end of 2016.

Dario please

Dario Scaffardi

Outlook

Thank you, Franco. We have a positive outlook for the remaining part of the year. It is a positive scenario for medium distillates. There is a very robust demand for oil products, both for gasoline and diesel and we feel this significant. The fact that the Brent market has moved from Contango to backwardation is a further sign of the fact that there is a strong, prompt demand. Generally when the market moves from contango to backwardization that is viewed negatively by the trading community because of course, it limits certain type of operations but it's generating a healthy sign for the refining industry because it means that there's prompt demand.

As the contrary of course, there's the shrinking of the light/heavy differential due to the crude mix available on the market, but the OPEC cut is slightly worrying of course, although there is abundant availability of crude this is geared toward the light sweet grade and less to the heavy grades. And, it's quite possible that this might continue in the forthcoming months until the effect of that IMO regulation will actually kick in.

We have no significant maintenance planned for the fourth quarter, so we are confident in being able to deliver a good performance in last quarter and we expect our net financial position to remain positive.

Thank you. We are available of course for your questions, thank you.

Questions and Answers

Josh Stone - Barclays

Hi, good afternoon, thanks for the presentation. I've got two questions, please. Firstly, on the refinery utilisation, can you offer a bit more detail on what the cause of the unplanned outages have been over 2Q and 3Q? And then, have you got any planned maintenance for 2018? And then secondly, if you can offer some perspective onto the very strong demand for diesel we've seen year-to-date, has this continued over the last few months from your perspective? And, how sustainable do you think it is going to next year? Thank you.

Dario Scaffardi

Thank you, Josh. Well, the majority of the problems that we had -- and I'd like to stress that the problems have been relatively modest -- but the economical effect has been relatively strong due to the fact of the very high margins, have been due in large part to the very warm weather that we've had during July and August. Refineries are negatively affected, particularly refineries such as ours, which is not designed to operate in tropical climates, and it has operated as a matter of fact in tropical conditions during the summer. So, this limits production and also causes problems in the circulation and the toppings. So, this is one of the reasons we had various shutdowns, none of which originally were particularly significant, but overall they've created a negative impact.

We are preparing, right now, the budget for 2018 so the maintenance plan for next year will be available, I think probably by the end of the year. We're fixing, but it's going to be a year which is probably going to be similar to 2017. We don't have any large maintenance expected. The demand for diesel is luckily strong, something which we are very pleased, of course. We are not surprised by this. Europe is still the largest importer of diesel in the world, and there is less pressure from diesel coming from other parts of the world, less diesel coming from the US for a variety of reasons. Among the others, a stronger consumption in the US and a stronger demand in South America. So, to the point that we have been exporting diesel to South America, so there's much less diesel coming from the US, and also less diesel also coming from the Middle East and the East because as we've mentioned many, many times in the past, the refineries that have been built in that part of the world have not been built to export to Europe, but to satisfy a local demand. And of course, if there is imbalances between production and demand, this will find it outlets where it's more convenient. So, the Mediterranean is an area of strong demand, and the demand since we are on the physical market every day, we sense it. I mean, we feel it in terms of demand, in terms of premiums paid for the cargos that we are selling, and for the fact that how much in advance are we sold out in terms of production. All this has been quite positive up to now, and continues to be extremely positive.

Josh Stone - Barclays

That's great, thank you.

Giacomo Romeo - Macquarie

Yes, thank you for taking my questions. Two questions for me. The first one is on your CapEx plan for the next couple of years. Are you able to provide an update regarding your plans to go through this breaking revamping, and where do you stand on that or when do you expect to provide an update? Second question is on the premium over the EMC benchmark, you discussed that if you removed the fuel oil fact, the premium would jump to $3.00 per barrel. However, I remember that guidance at the beginning of the year was for a premium of $3.50. I was just wondering if you can bridge the difference between the $3.00 and the $3.50, and whether this is just related to the heavy/light differentials move?

Dario Scaffardi

Thank you, Giacomo, for your questions. On the CapEx plan, there has been no significant update. We have increased our investments in digitalisation, but in terms of actual CapEx this is not that material. We have not yet taken a decision on the revamping of the Visbreaking, although it would look as a likely sort of investment given what we expect is going to happen. But, we would like to be certain that the market conditions that we are anticipating are actually going to materialize. Just to be very realistic, we were expecting strong discounts on the sour crudes and it went exactly in the opposite direction. So, we are very confident that the IMO regulation will produce a very significant benefit, but we would prefer to wait to see that this benefit materializes before committing to the revamping.

In terms of the premium of the EMC, well yes, there is one piece is linked to the heavy/sour differential and to the fact that the strength of the fuel oil; but also, very very important, since this premium takes into account a variety of factors. It takes into account refinery performance, which by and large has been over the nine-month period, positive. It takes into account the availability of certain types of crude, and as we can see from the graphs that we've shown you, certain heavy crudes that -- which we were counting, particularly those that are not reported on the graphs, failed to materialize or have disappeared from the market. So, that I would say is the main reason behind a lower performance than the guidance.

Giacomo Romeo - Macquarie

Thank you, and if I may, just a quick follow-up on the first question. You mentioned you want to see whether the expected benefit materializes. When do you see and expect it turning in the market? Do you think that this could, we'd probably have to wait until some point in 2019, or do you think we will start seeing a change in the market condition already next year?

Dario Scaffardi

Honestly, I don't think we're going to see very much in 2018. Nobody is going to move sooner. In 2019, yes, because one thing that I think everybody is underestimating in a very significant way is the amount of effort, time and cost it will take to clean the logistics system. I think everybody is thinking that it will be the same thing as when there were the various changes on gasoline and diesel specifications. Now, changing from 500ppm diesel to 50ppm diesel is a piece of cake compared to changing from 3.5 sulphur to 0.5 sulphur. It will require actual cleaning of the tanks, when in the previous system all you had to do was rinse a couple of times with 50ppm diesel to clean it out. Now, your material, you need to put the tanks out of operation and go inside and clean the bottoms, and so forth. So, it's going to be a much more challenging and expensive exercise, so I would imagine that at least the serious operators will start buying and cleaning up their system sometime during 2019, whether it's going to happen in the first part of 2019 or the second part. I think it's a bit soon, but certainly by the summer of 2019 there are a lot of people who will have to give some serious thought on buying product that will be needed to clean up the system without being able to actually benefit in any way from the sale of theirs. So, it's going to drive up the costs of certain things, one way or the other.

So, it's going to open up the opportunity. I think we will start to be able to see something. Of course, any moment that is -- the moment in which a change of specification occurs is always a bit of a particular moment that should not be taken as representative of the stay-state of a long-term period. So, we'll have to see how it rules out, and what the previews are going to be.

Giacomo Romeo - Macquarie

Very clear, thank you.

Alessandro Pozzi - Mediobanca

Thank you. My first question is whether you could perhaps quantify the impact of unplanned outages in Q3, and also on Q4 whether there's been any in the quarter to date? I think I've seen maybe your Hydro Treating being offline. Also, I want to look at the WTI Brent spread. Clearly, that keeps widening. Just wondering whether a european refinery can benefit from that spread as well?

Dario Scaffardi

Thank you, interesting questions. Well, on the unplanned outages, we reported about €20 million. While on the WTI, I didn't catch the second part of your question, I'm sorry? You asked something more after the unplanned outages?

Alessandro Pozzi - Mediobanca

Yes, whether there is any unplanned outages in Q4 as well, any potential impact on the EBITDA in Q4?

Dario Scaffardi

Up to now, October has gone very smoothly, November up to now has been going well. But, you know, these things are difficult to plan actually. Instead, going to your question of WTI Brent, there's been a very significant move. First of all, the spread has widened and also if you notice, the Brent is in backwardation while WTI is in slight contango. So, two very different market structures. I would say that this is having relatively small impact on the market in our part of the world, because all the crudes that are exported from the US don't really follow the WTI route and they tend to follow the Brent route, because all the operators know that Brent is more expensive. So, they have limited impact on that. It does have an impact on the pure US refiners that find the benefit in this, because when they export products from the Gulf Coast they retain the full benefit for themselves. On the crudes exported from the Gulf of Mexico, there is no significant impact. It wasn't making them cheaper.

Alessandro Pozzi - Mediobanca

And the €20 million impact I think is year-over-year, do you have a quarter-on-quarter number as well?

Dario Scaffardi

No, it's a quarter-on-quarter number.

Alessandro Pozzi - Mediobanca

Okay, okay.

Henry Patricot - UBS

Hello everyone, thank you for the presentation. Two questions for me. The first one just went to give us some more details on the derivatives losses this quarter. And then more generally, whether you've been doing more of magic, I'm sure, through refining margins? And secondly, I'd like you to next then give up an update on the EBITDA improvements from the initiatives you have in the business plan? I believe you're targeting €50 million in 2017. Is this on track, and what do you target for next year? Thank you.

Francesca Pezzoli

Sorry Henry, can you please repeat your question, because we didn't hear very well?

Henry Patricot - UBS

Yes, the first question was on the derivative losses this quarter.

Dario Scaffardi

On derivative losses, okay.

Franco Balsamo

On the derivatives losses, it's -- well, in the presentation, on the comparable, there are €44 million that are gains on the derivatives related to commodities and that part of the change activity. Of course, in the reported account are below the EBITDA. In the comparable we accounted within the operating activity. If you want to go through the different lines, there are roughly speaking, because are covering different strategies, but there are €15 million - €16 million of gains related to our foreign exchange hedging activities, and the same amount is related on the activity on commodities. And, there are €10 million on derivatives that are still at mark-to-market level. This is the -- the total amount is the combination of those three effects.

In order to the improvement of the EBITDA related to the cost efficiency, as we have said, disclosed at the beginning of the year, is an activity, a successful activity on the time being. In fact looking at our fixed costs are lower compared to the same period of last year, and also if you look at the variable cost, the increasing in these items are strictly related to the scenario effect, because it is the increased cost predicted to utilities that is a part of the activity where our capability to manage are extremely limited. So, on the variable side, we have optimised the consumption of utility, but that price was so. The efficiency is already in place, and is in line with our budget expectations.

Henry Paticot - UBS

And for next year, what's the targeted savings?

Franco Balsamo

For the next year, we are in the in the process to elaborate a new budget, and of course, our scope is to optimise our cost, within the same level of perimeter of activity. Next year, there are some extraordinary items that will be outside the level of efficiency, but the answer is yes. We've tried to, and we are in the process to reduce the fixed costs.

Henry Paticot - UBS

Okay, thank you.

Georgia Harris - BofA Merrill Lynch

Hi, thanks for taking my questions. Just wondering if you could comment on any impacts on the refining margins at the moment from the increase in crude prices over the last couple of months, and any potential impact from Brent going into backwardation? And also, could you discuss any specific crudes that you view as good opportunities currently? I know previously you've mentioned Libyan crudes quite a bit.

Dario Scaffardi

Thanks for the question. Well, on the backwardation, I mentioned something before. Generally, backwardation is sort of positive for refiners, because it tends to mean that there is a strong, prompt physical demand, and less demand looking forward. So, generally speaking, it should be, but of course then the market does its own thing. But, it's generally sort of a positive because as far as prompt demand for crude, that means there's prompt demand for oil products because of course, demand for crude arises from the fact that people want products. Crude, per se, is easy to sell. The two markets follow the same dynamics, this is broadly true.

In terms of what currently we see as opportunities, this is not information that we generally divulge. We try to look at any opportunity that might come around, of course, opportunities on the heavy sours has been much less in the last year than they were in the same period of last year, this year compared to the same period of last year. Everybody has read on the papers, the things coming from the -- the news coming from the northern part of Iraq, which has removed from the Mediterranean Sea and at least 200,000-300,000 barrels a day of heavy sour material. In the short term, I think it's going to come back hopefully, but it just depends on geopolitical considerations that are totally outside of our control.

On the other hand, I do see strong interest from other players in Iraq and Iran, and first of all to increase their presence and also other players of the Middle East who traditionally have not looked very much in at least the last years, to the European market, are taking a much more interest look at this. So, this sort of signals that it's less easy that imagined to sell crude in the Far East.

So, these are sort of positive signals. Of course, I will also imagine that the price going up, the compliance on the OPEC cuts which has been surprisingly robust, was probably lessened.

Massimo Bonisoli - Equita Sim

Thank you, and good afternoon. Two questions. The first, on fuel oil. In the conference call of Vopak this morning, it was reported the occupancy and the demand of fuel oil tankers were already quite weak. Do you already see any issue in shaping or in the logistics of fuel-like products due to the future introduction of IMO 2020? And the second question, could you provide your best estimate for the absorption of working capital on cash flow at a $60 oil price in Q4?

Dario Scaffardi

Well, on the fuel oil, and I will leave Franco the pleasure of answering on the working capital -- on the fuel oil, we haven't seen any particular effect up to now. The information that I have is that the majority of the ship owners are not investing in scrubbers or any other thing to clean fuel oil. So, their idea by and large is to buy low-sulphur products compliant with the law. There is, in my opinion, the possibility which cannot be discounted, that there might be a delay in the regulations so there might be a grace period or a further 3, 4, 5 months in order to enable the system to adjust. This is possible, and I also think it will be varied according to geographical location. So, it's probably going to be sort of a different scenario in Europe and other parts of the world. But up to now, today, I don't see anybody moving in advance on doing anything in particular.

Franco Balsamo

Related to your question on the working capital, first of all, just to underline that our strategy is to have a balanced policy between receivables, suppliers, and inventory, so, in principal suppliers would be due to the outstanding of payment date, in the positions to participate the financing of the inventory. On the other side we have other policies in order to optimise the supplier's strategy to the client activity. So, given that policy, of course at this level of crude oil prices, we do not foresee any negative cash impact from here to the year end because the volume and the prices are fully in line with the current market conditions. So, the liquidity, we had the end of September for €110 million, and in our point of view will not be affected by a change in working capital.

In order to have some more information on the net financial positions, we are elaborating the new investment program for the coming years, and in order to catch the tax advantage for the super amortisation, probably we'll be in a position to make a down payment up to the 20%, also for investment that will occur in the coming years. But, having said that, we do believe that our liquidity at the end of September will be kept also at the end of December.

Massimo Bonisoli - Equita Sim

Very helpful, thank you.

Peter Low - Redburn

Hi, thanks for taking my question. Just one if I may. It was just on the lower volumes of complementary feedstocks in the period, you talked about that being a commercial choice. Can you just perhaps outline what's changed in the market to make those less economic to run?

Dario Scaffardi

Well, it really depends on the absolute prices. What we call complementary feedstocks are mainly products which are called low sulphur straight run, or, vacuum gasoil (VGO), and the value of these products is they're directly linked to the price of fuel oil. So, if a fuel oil price is higher these complementary feedstocks are higher and therefore maybe less attractive. And so, it's a purely commercial decision.

Peter Low - Redburn

That's very clear, thank you.

Francesca Pezzoli

Okay, thank you. If there are no more questions, thank you very much for your attention. As usual, the Investor Relations team is at your disposal for any follow-up questions. Thank you very much, have a nice evening.