



Saras

Third Quarter 2016 Results

Welcome

Massimo Vacca
Head of Investor Relations and Financial Comms, Saras

Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us today for the conference call, on Saras' first nine months and third quarter 2016 results. Our analyst presentation has been distributed with the usual channels, however, it is also available on our website, directly on the homepage or in the section dedicated to the investor relations. Our agenda today will be the usual one. We will start with Mr Dario Scaffardi, Executive Vice President and General Manager of the Saras Group, who will start with the highlights of the period followed by a detailed review of the results for each business segment. Subsequently, Mr Franco Balsamo, Chief Financial Officer, will discuss the key financial figures of the group. Afterwards, back again to Mr Scaffardi for the outlook, and finally we will be delighted to take your questions. Dario, please.

Dario Scaffardi
Executive Vice President & General Manager, Saras

1. Highlights

Thank you, Massimo. Good afternoon, ladies and gentlemen. Thank you very much for joining us for sharing our results. The third quarter of 2016 has been an excellent quarter from an operational point of view. The refinery has operated in an impeccable manner, and we have beaten compared to last year, our production targets. In terms of market, it has been a little bit less clear as a quarter, particularly the first two months -- July and August -- were extremely under pressure in terms of refining margin, and we have seen a recovery starting only in September.

So, when we look at the financial results, the Group comparable EBITDA stood at €100.5 million, which is a remarkable level, although it does not perfectly reflect the actual performance of our Company because we have made some specific commercial and planning choices during the quarter in order to fully-exploit the structure, the forward structure, of the market, which showed refining margins



Third Quarter 2016 Results

which were at a much healthier level in the last part of the year instead of the Summer months. So, we basically decided to accumulate during these three months mainly diesel, in order to offload it in October, November, and December, locking in the more-advantageous structure of the forward market. We will give a little bit more detail about this moving further on.

Extremely favourable are the conditions of the crude market, which continues to be well-supplied, and particularly in September, the various tensions in Nigeria evaporated so we resumed business with that country, and also there is encouraging signs coming from Libya, although the situation is still mixed.

Extremely important for us has been the decision of the International Maritime Organisation to ban the use of high-sulphur fuel oil from the bunker sector, for the shipping sector, which accounts for about 4% - 5% of global consumption. In our view, although it is still premature to make final conclusions, this will have some monumental effects on the refining sector and on the relative value between diesel and fuel oil. There are many analysts -- I mean, the forward curves right now show that fuel oil should add a \$20 discount to Brent. By comparison today, that number is about \$6. So, the markets are projecting a \$14 decline in the crack for fuel oil over a four-year period, while instead other analysts are assuming that fuel could come with a \$25 discount in the five years between 2020 and 2025.

As always, it is extremely complex to make predictions about how a complex market will move, with many parts which are inter-related. But, what we feel that is very comforting for our industrial view, we have always believed that our asset was well-placed to take advantage of the forward market, and this has been fully-confirmed. So, we are in no need of investments to face the decade post-2020, while many other less-complete refiners will certainly face difficult choices in the forthcoming years.

Just to come back to our performance, I would like to highlight the Group financial position, which is at €215 million, even after having paid €158 million of dividend in May, with almost €100 million of CAPEX and €160 million of debt repayment of our obligations to NIOC.

If we look at the market, the crack spreads, we see that the situation is exactly what I explained before, a rather dull July and August particularly for diesel, which started to pick up only in September but then more markedly in October. The crack in September was 9.3 \$/bl and the average crack in October was 12 \$/bl. Gasoline, a little bit different. It started picking up in -- it touched its low in July, and then started picking up in August and September. This trend has continued also in October with almost a 12 \$/bl crack as an average in October.

The most notable thing, though, if we look at the next slide, that has altered the dynamics of the market, is that there has been a strong rebound in the value of fuel oil which is counter-intuitive compared to what I just said before about the decisions of the IMO and the basic banning of fuel oil as a viable commercial fuel in the future. We've seen the crack of both low-sulphur and high-sulphur fuel oil move from the range of \$10-\$12 discount to Brent into an area of \$5-\$6 discount to Brent. The strong performance of fuel over the summer months has been mainly due to decreased exports of fuel oil from Russia. This is because Russia's chain has changed the taxation policy. So, it encourages local refiners to export lighter products rather than heavier products. So, there is less availability of fuel oil from Russia, which is the main source of fuel oil for Europe.



Third Quarter 2016 Results

We believe that this is a relatively temporary phenomenon, that the market will be able to rebound. Also, particularly interesting as mentioned on other occasions, the fact that there is an influence of the value of products on crude oil -- the effect of the ban of fuel oil will have a deep effect on the values of the heavier crude oils, particularly those crudes like produced in Saudi Arabia and Iraq, and Iran, which is likely that will decrease their value compared to the benchmark. This will offer opportunities for refiners who are able to make full use.

If we look at the ratios, these ratios have remained relatively healthy. During the summer, gasoline crack was around 20% ratio which is still much higher than the values that it had in the period 2010-2014 where it was in the range of about 10%, and situation on ULSD is similar. Today, it's close to about 30% while its level historically was about 20%. So, for these reasons, the situation for the margin has improved significantly during the quarter, and the outlook is extremely positive going forward.

If we look at Saras' recent trend, this EMC benchmark has reached a very high level in 2015, and has then declined and has rebounded in the last couple of months. If we look at our quarter, apparently our performance is below standard at \$2.5 premium on top of the EMC benchmark, but again, this is due to basically €30 million in less EBITDA available during the quarter, which will be made available in the fourth quarter, which would have added another \$1.50 premium to the benchmark, taking it back to the level of \$3.5 to \$4 which is the indication that we have always given.

Segment Reviews

1. Refining

If we go through the segments, we've had a record throughput in Q3 2016 where we reached 4 million tonnes of runs. This was 3.6 million tonnes of crude, slightly below the level of last year's quarter, same quarter. But, we greatly increased the complementary feed stocks that we've used, and were using in the quarter, 440,000 compared to 240,000 of last year. So, the overall figure for this quarter is slightly higher.

2. Crude Oil Slate and Production

If we look at the throughputs, again, it's not meaningful to look at the single quarters, but if we look at the nine-month period we see that in this year of 2016 we had quite a bit of maintenance in the initial part of the year, and also some maintenance during the month of October, overall runs were about 800,000 tonnes less than the record that we achieved in 2015, and that was totally expected. The crude slate has changed significantly to take into account in particular the fact that there was a very strong demand and high cracks with the gasoline segment, particularly in the first part of the year. So, in the first part of the year, we ran more, lighter crudes, and as you can see in the output we were able to increase the percentage of Naphtha and gasoline, of course, at the expense of something else, particularly middle distillates.



3. Fixed & Variable Costs

Again, looking at fixed and variable costs, the single-quarter was not very meaningful. We confirm the guidance for 2016 for fixed costs at about €270 million, €275 million. 2016 is a year that has higher maintenance costs compared to 2015, due to the programme carried out particularly in the initial part of the year.

4. Power generation

Power generation has been an excellent quarter, at full capacity, with an 8% increase to the same quarter of last year and 1.24 terawatt hours of power produced. Here, the linearization effects have produced no notable effects. There has been a change in the power tariff, which in Q3 2016 is about 8 Euro cents per kilowatt hour compared to 9.6 in the same period of last year.

5. Fixed & Variable Costs

Nothing much to say on power generation in terms of fixed and variable costs.

6. Marketing

Marketing results in Q3 were better than those of the previous quarter, and slightly below the levels of the same quarter of last year, but it is still a very, very challenging market. Oil products sales in Italy declined by about 2% almost during Q3 of this year, compared to the same period of last year, and the situation in Spain was a very marginal increase of this year compared to last year.

In Italy, it continues, and in Spain, it continues to be a very peculiar situation which has been widely-discussed on the specialised press with what we call alleged illegality, in the sense that there are many start-up companies which are selling oil products, we believe using VAT credits, which are a large amount of money. So, by importing oil products from outside the Italian or the Spanish market and selling them inland with VAT credits, it is possible to make strong competition on the market. This is a situation which has been -- it has been an evolution. There have been some activities from authorities to try to counter this effect. Not quite sure what the outcome is up to now.

Sales in Italy have been -- so, on our side we have reduced sales by 11%, so last year it was 680,000 tonnes and this year it's about 600,000, while it's said the sales were increased in Spain by almost 30%, going from 330,000 to 450,000 tonnes.



Third Quarter 2016 Results

6. Wind Power

Wind segment has been extremely positive in this quarter, first of all, in terms of production -- a very windy Summer, which is not really seasonal. Generally, Summer is a period without wind, but this quarter has had strong performance. In terms of power tariffs, there has been a decrease in the base power tariff, but a strong increase in the green certificates. So, all in all, a very positive quarter for the power segment compared to the same period of last year.

I would ask Franco to comment on the financial figures.

Franco Balsamo
Chief Financial Officer, Saras

Financials

Thank you. On the slide number 17, you see the Income Statement with the EBITDA. In nine months, the Group reported a net result for €151 million of which €22 million in the third quarter. Interest expense stood at €23 million in the nine months, decreasing versus the previous period for €4 million, and this also is related to the better net financial positions in this period.

In the third quarter, we had extraordinary item, approximately a charge of €4 million, related to the cost of the call option in order to buy back the bond issued in July 2014, that had a coupon of 5%. So, in the coming months, we are going to take advantage of these savings that could be calculated about €8 million around per year.

In terms of other financial items, we have Forex net losses for €1.5 million related to the hedging on the foreign exchange positions and realised losses for hedging on the commodity side, for €7 million. The fair value of the derivatives still open at the end of the period was also negative for €11 million.

In terms of adjustment, the main adjustment as usual is represented by the difference between the two methodologies of accounting inventories, that sums it up for negative €67 million after nine months. €8.8 million negative for the losses on derivative instruments, and the €4 million of non-recurring items, mainly for the liabilities in the power generation segment.

In terms of cash flow, we are on slide number 20. The cash flow generated in 9 months has been extremely positive, starting from the reported EBITDA for €431 million, €9 million is the delta on the outflows for derivatives, €45 million is the gap between Italian GAAP and IFRS on the power segment. The net working capital is negative only for €6 million, this is the combination of different effects: on one side, the delta on the suppliers, that have been good enough in order to support the delta in inventories. The improving in DSO from customers generated €100 million of cash flow, and we have in this period a positive effect on VAT. These cash flows generated by the operation activities are compensated from the outflows for the repayment to offset the Iranian debt.



Third Quarter 2016 Results

In terms of CAPEX, the CAPEX in nine months are roughly about €94 million, are in line with investment programs as planned for the period, and we proceed to close the year with the level approximately €130 million.

Dario? The outlook.

Dario Scaffardi

Outlook

Thank you, Franco. If we look at the last quarter of the year, we see a very strong market at the moment. Part of the strength of this market is due of course to the strong relative value of fuel oil, which has raised the EMC benchmark, which today is at almost \$5 which I think is one of the record levels. Of course, as any benchmark -- this benchmark is not perfect. So, it is influenced by a variety of factors.

The crude market is still oversupplied, and particularly there is an abundant availability of what we call non-conventional grades, which provides a variety of opportunities to us. Our operations on the trading side have been going extremely well, and the same way as industrial operations have been running extremely smoothly. So, we expect to be able near the average, to add approximately \$4 to the EMC benchmark, and we expect to have a firm, positive net financial position at the end of the year.

So, we'll be pleased to take any questions you might have in order to clarify better the results. Thank you very much for your attention.

Questions and Answers

Josh Stone - Barclays

Hi, good afternoon. Thanks for the opportunity to ask. Just focusing on the decision to delay selling into 4Q, could you just confirm that all of it will come in 4Q as opposed to any into 2017? And then, if you could give any indication on what EMC Benchmark you've sold at on the forward curve, or on the Contango trades? And then secondly, on the IMO decision, in your capital markets there you did talk about three different scenarios for the power generation strategy, one of them being the environmental push. Does this decision probably push that strategy more towards that latter category in terms of the scenarios? Thank you.

Dario Scaffardi

Thank you, Josh. Well, in terms of the effect, the effect overall is for about €30 million. This component, of course, comes from the fact that we locked in a higher margin in Q4 compared to Q3, and of course all the sales will take place in Q4. So, by the end of Q4, everything that was accumulated



Third Quarter 2016 Results

in Q3 will be the small stuff. And basically, we can estimate the improvement in terms of margin in a number that is something between €2 million to €4 million, due to locking in on a higher margin component, and the rest is the effect of the inventory component.

Going towards your other question regarding the fuel oil, the scenario in which we believed most was a scenario in which there was to be a very low demand for fuel oil. Our uncertainty at the time will remain the -- sorry, I'm at a loss of words. The Capital Market Day, yes, sorry. When we had the Capital Market Day, the industrial plan, certainly of course which was, the big uncertainty was the banning of fuel oil will happen in 2020 or 2025, which was a pretty big gap. Now that this is behind us and it's going to happen in 2020, we are absolutely committed to the idea of running flat out and producing the maximum amount of distillate and power, of course. Which by the way, is showing some encouraging sign, the price of power in the last month has increased. There is a perceived worry that there will not be enough gas available in Europe, particularly with declining production in continental EU from Italy, from Holland, from Norway, and so forth. So, we believe that we are ideally-placed to exploit this opportunity.

Josh Stone - Barclays

Okay, thank you.

Dario Scaffardi

Thank you.

Peter Low - Redburn

Hi, thanks for taking my question. Just one on the cash flow, to begin with. So, on slide 20 I think you're showing a working capital build of €6 million year-to-date. Can you just clarify, does that include the repayments of the Iranian payable, and if so, does that mean that you've seen working capital release elsewhere to offset that during the year? And then, my second question was just on the impact of the Colonial Pipeline outage in the US. Have you seen that providing support to European gasoline markets over the last week? Thanks.

Dario Scaffardi

Well, on the Colonial Pipeline, this is really a short-term effect. So, it has effect of course in terms of the prices, the prices of the moment, but it doesn't really affect our planning which is done way in advance. So, our plans cannot take into consideration the offset that might happen, which by the way we believe are going to be relatively short-lived. So, maybe Franco has some comment on the cash.



Third Quarter 2016 Results

Franco Balsamo

Okay. On the working capital, the repayment on Iran is roughly about €160 million. This is included there in the delta of working capital.

Peter Low

Okay, thank you.

Monika Rajoria - Société Generale

Hello. Thank you for taking my question. I have a question on the variable cost in the refining segment. I believe they're a little higher than what I'd already expected. Could you shed some light as in what goes in there?

Franco Balsamo

In terms of that, the delta cost compared to the previous period is mainly due to a combination of effects. We have lower costs on the variable items, mainly due to the utilities and the better performance. In terms of fixed cost, we noted a little increase on the cost of maintenance, that may be due to a different perimeter of activities. So, we can confirm that the line of principle by the year end, we can confirm our target price, our target level of cost, yes.

Monika Rajoria

All right, okay. Thank you.

Domenico Ghilotti - Equita SIM

Good afternoon. Just a couple of questions. The first is a clarification on the indication of the \$4 premium that you are expecting for the full year. Are you including in this premium the impact of the maintenance that you had and will have, also, in Q4? So, is it a clean premium, or it is calculated after the impact of the maintenance? And the second question is, on the Iranian payment, if I got it properly, you had something like 150 million. First of all, I would like to check the number, one-five-zero in Q3, and I'd like to understand if this run rate will continue going forward in Q4 and early next year.

Dario Scaffardi

Hi, Domenico. On the premium, it is \$4 taken on the average of the entire 2016, of course.

Domenico Ghilotti

Mm-hmm, but is it say, consistent with the 3.6 that I saw the first nine months? So, it is including the impact of the maintenance, or not? Is it some kind of clean



Third Quarter 2016 Results

Dario Scaffardi

Yes, it's including the impact of the maintenance, yes.

Domenico Ghilotti

Okay. Okay, this was the clarification I was asking for, thanks.

Franco Balsamo

In terms of repayment to Iran, is one-six-zero, so €160 million in the nine months, and we proceed to pay an additional €100 million by this year-end, and the remaining part will be all the year 2017.

Domenico Ghilotti

Okay, thank you.

Alessandro Pozzi - Mediobanca

Hi, thank you for taking my question. Just one for me. I know that Q3 has been a weak quarter for refining margins, but as you said, October has been a good month. And I was wondering where are we in terms of guidance, EBITDA guidance for the second half of 2016, whether there is upside to the most recent guidance you gave in August?

Dario Scaffardi

No, as a policy we don't really give guidance, but you can easily calculate it on the basis of the information available up to now. So, with the fourth quarter that we expect having crude runs of 26 million, 27 million barrels, so high runs, basically, in what looks to be a very positive quarter, the first part in October has been extremely positive. And we're within \$4 on the EMC, and November has started with a bang, with \$5, albeit with the caveat of a benchmark which is somewhat influenced by the relatively-high prices of fuel oil. Still, a very positive moment. Also, good prices of electricity. So all in all, I would have a pretty positive outlook towards the latter part of the year.

Alessandro Pozzi

And on the fuel oil, you mentioned, it may be a temporary effect. I was wondering, is it talking about months, or do you think that is going to change sooner?

Dario Scaffardi

I would love to have a definite answer to this question, because surprisingly enough, but fuel oil, although it is the residual product of our refinery, still it has a pretty wide impact on the economics because it influences both production and crude slate in a very important manner. Let me say that at the moment, there does seem to be a trend of less exports available from Russia. Apparently, this is not really going to change, but at the same time there is a definite less consumption of fuel in the far East, which has always been the natural market. Because fuel oil produced in Europe has always been



Third Quarter 2016 Results

shipped to large vessels to the far East. So, it's a complex supply/demand balance, of which I don't have all the answers, and I think that in the next weeks we'll have a little bit more of a definite, a little bit clearer situation.

Alessandro Pozzi

Okay, perfect. Thank you very much.

Closing Comments

Massimo Vacca

Okay. Well then, in this case, I would like to thank again everybody for attending the call today, and we look forward to speaking with you again at the next call. Thank you, and have a good evening.