



Saras

Second Quarter and First Half 2016 Results

Welcome

Massimo Vacca
Head of Investor Relations and Financial Comms, Saras

Thank you. Good morning, ladies and gentlemen. Thank you everyone for joining us today for this conference call on Saras first half and second quarter 2016 results. Our analyst presentation has been distributed a few hours ago so hopefully you all received it but in case you need to find a copy, you can retrieve it on our website, either directly on the homepage or in the section dedicated to investor relations. Our agenda today will be the usual one. Mr Dario Scaffardi, Executive Vice President 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 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 the updated guidance on 2016 and the group strategy. Finally, we will be delighted to take your questions. At this time, I would like to hand over to 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 this afternoon for Saras' results. We are proud to show a robust performance during this quarter with a comparable EBITDA of €134m of which about 80 comes from the refining segment. Also, we have some very strong results in the reported results which due to the fact that the old inventories have benefitted from the recovery in the floatations during the past quarter. This quarter, Q2, has been very good from an operational standpoint. We have had a solid performance. Our supply chain management activity has been able to add significant value, particularly in a moment of great uncertainty in the oil market, of which we will talk about later on. During the second quarter, during the beginning we had some maintenance that was part of the maintenance schedule basically of 2015 that was shifted in 2016



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and was performed mainly in Q1 which took part particularly in the first part of April, in the second quarter.

So we had only 23.4 million barrels of cooler runs but we did manage to run almost 4 million barrels of additional feedstock to counterbalance this fact. I think that particularly interesting is to underline the fact that our group's net financial position is at €147m, even after the payment of €150m of dividends, €20m of CAPEX and an increase in working capital deployed in the oil inventories to manage the situation in the quarter, and after having started repayments of our debt with NIOC which is the National Oil Company of Iran.

If we look at the market in this period, it's been a peculiar month. We hit a maximum in relative crude oil quotations during the last 12 months in June, with a brent price that reached almost \$51 per barrel on the 8th June, but subsequently, the price has come sharply back down.

This, of course, has impacted negatively in the refining margins. Likewise, the crack spread has been under some pressure. Gasoline, after having spiked towards the end of 2015 and the beginning of 2016 has come down significantly due to overproduction on a global scale. So we have seen a gasoline crack of about \$8.5 in the last period, coming from an average of 15 in April to 10 in June. Diesel cracks have improved a bit. They are now at around \$10 per barrel. As we mentioned many times, crack spreads cannot be looked at in isolation. Crack spreads are a function of the absolute price of crude, of course, so they need to be looked into in conjunction with the absolute price. This is the reason why we publish also charts which show the ratio of the product crack spread to the brent quotation which shows that these are still reasonably healthy, although certainly they have come under pressure recently and the outlook at the time being on this is definitely subdued until the overhang in product inventories will not be diluted in the forthcoming months. We are reasonably optimistic thinking about the maintenance schedule in September/October which many refineries will be offline, which we think will be able to give a little bit of a boost to the sector.

In terms of our performance, we have the EMC benchmark has progressively diminished during this year. We had a 3.6 EMC benchmark in the first quarter which lost a dollar in the second quarter, going to 2.6. In terms of SARAS' margin, thanks to all the activities that we have put on the table, we have been able to add in Q2 a premium of \$4.6 per barrel which is one of the highest that we have shown in recent times. And overall, if we look at the first half of the year, our premium is 4.3 which is higher than the guidance that we have given to the market in the past. But of course, this is dependent on absolute runs and market conditions.



Segment Reviews

1. Refining

If we look at the various segments, refining as we said, had 14% less compared to the same quarter of last year but we had 110% extra of comparable crude runs compared to the same period. So we were partially able to offset the decline in crude runs due mainly to schedule maintenance in the second quarter. At the same time, weaker diesel and gasoline spreads reduced the profitability and we were only compensated partially by more favourable crude conditions. There are still ample availabilities of non-conventional grades and market for the differential on these crude and this has been interesting. We are happy that we have been able to resume business with NIOC, the National Oil Company of Iran and actually, we were able to lift the first cargo of crude only in the month of June but it did not arrive in time to be taken account into our numbers because of the difficulties of establishing financial and banking lines to operate effectively with Iran. But now this is back in place, so we are very pleased that Iran has always been one of our key suppliers again has an important role and I think there are going to be some very interesting opportunities from this area in the future.

So basically, if we look at the six months, the sharp, comparing to the same period, same six months of last year, the sharp decline in crude has improved in the market but was offset by a weaker refining margin and also by relatively stronger Euro-Dollar rate that affected us negatively because in this quarter, it had been 1.13 compared to 1.10 in the same period of last year. From an operational point of view, things have gone well in terms of refinery performance. In terms of commercial performance, there have been some difficulties which we'll talk about in the marketing sector.

2. Crude Oil Slate and Production

You can see some of the things that we have talked about if we look at the crude oil slate and production. Crude runs in this first six months have been almost 1.5 million tonnes less than the same period of last year but it's been partially offset by the fact that we have doubled the complementary feed stock so there has been a loss in Iran from about 900,000 tonnes. Crude oil slate, the comparison between 2015 and 2016 is not that meaningful because 2016, the first two quarters have had heavy maintenance so particularly the production of diesel has been affected since we underwent maintenance in one of our key diesel production units. So diesel diminished while there was not so commercially the same amount of maintenance on the gasoline units. So gasoline production by and large has been similar in absolute terms and of course, in relative terms and percentage terms it has gone up.

3. Fixed & Variable Costs

Fixed and variables costs I would say are broadly in line with the guidance and as we mentioned before, we need to look at them on a broad basis. We can appreciate in the first half of 2016 a decline



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versus the same period of last year, as the variable costs due to lower energy costs which are an important component of the variable costs. Also, we had higher costs due to maintenance, of course.

4. Power generation

Power generation Q2 has been a record quarter, like Q1, we had 1.24 terawatt hours of power which is a record level. EBITDA has been negatively affected by the power tariff, the CIP6 tariff which is about 15% lower Q on Q, but also half year on half year. So last year, the power tariff was roughly 9.6 euro cents per kilowatt and in this first half of the year it's been about 8.2. Of course, the sales of hydrogen and steam have been lower and also revenues only partially compensated at the same time by the decline in the costs of the feedstock that our power unit purchases from the refinery division.

5. Fixed & Variable Costs

Not much to say on the fixed and variable costs for the power generation division.

6. Marketing

For marketing, there is a mixed situation in Italy. Our sales in Italy have gone down this first half of the year compared to last year by almost 8%. This is mainly due to the strong pressure in the Italian market due to a variety of newcomers in the market which are applying techniques which are sort of peculiar and have been talked about very often on the press in Italy. We believe that the situation is sort of temporary and will resolve itself over time, but still we are feeling the pressure from it, but of course we are not willing to follow in the downward spiral of sales price so we have diminished our sales in Italy because there are some operators with which, we cannot and do not want to compete with. In Spain, the situation has improved. We have increased sales compared to last year by almost 19% with margins which are sort of broadly in line.

6. Wind Power

On wind, traditionally the second quarter is a quarter of good weather so wind conditions tend to be relatively low, although they were better than those of last year so I would say that there is a 45% increase in electricity production quarter on quarter with a power tariff that has been about 19% lower and an incentive tariff which has been about 20% lower. On the others, there is not really much to say.

I will hand over to Franco to give a little bit more colour on the financials.



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Franco Balsamo
Chief Financial Officer, Saras

Financials

Thank you very much. Good afternoon to everybody. A quick overview on the result at the end of June. As Dario said, we have reported €335m EBITDA and €38m comparable. The level of depreciation and amortization is in line with the previous period of the year 2015. At the interest expense level, we had an improvement due to the new financial transactions set in place during the year and we reported a €7m all over interest rate at €15m. In terms of others, we accounted roughly €20m negative and are related to positions on the derivatives on losses gained in the period with the open position and derivatives roughly €3m positive. In terms of tax, we have accounted 31% of tax rate and the net result reported is €130m and the adjustment net result is very close to €90m.

The differential is mainly due to the gap between reported and comparable EBITDA due to the valorization of inventories at the end of June and we had the inventories evaluated at FIFO €62m higher than the same quantity evaluated with the LIFO methodology. We have a €2.5m non-recurring items that are related to a provision sum of liabilities on green certificates related to the power generation as mentioned, at €17.5m. as we described before, this is a negative result on derivatives and FOREX and net of the tax rate is the gap on the net result.

A quick view on the net financial position, at page 20, we had a very strong generation of cash in the first half of the year with €144m of positive generation of cash. Starting from the reported EBITDA we have €50m negative due to the utilisation of cash for our derivative activities. €34m is the gap between the IT GAAP and the international accounting methodology on power segment. We have a €36m negative cash flow in the working capital and, as Dario has described before, is the combination of different factors that involve the payment of an instalment to Iran, for roughly €50m. We have €120m of negative working capital at level of inventories due to also a higher quantity in the inventory at the end of the period. We have a positive effect of the delta between receivables and payables for roughly €100m. We have a €50m benefit due to VAT and other negatives that is in any case a small amount of the total cash flow of the company.

In terms of CAPEX, €56m and €37m of others that mainly are taxes for €17m because the company is always in a position to take benefit from its tax asset that is, at the end of June, in line with €160m. The other components are related to costs for CO2 certificates and efficiency certificates. So at the end of the first half, we have generated €144m cash and that is more or less in line with the outflows that we had for the payment of the dividend for €159m. I will hand back to Dario for the outlook.



Dario Scaffardi

Outlook

Okay, thank you, Franco. Today we would like also to give a little bit of more information regarding the actual results compared to those of the business plan and to give a little bit more insight into how those numbers add up to each other. First of all, let me for a moment go back to the assumption that we had made in the business plan which was released on October 15th, and was based on a scenario that was worked on in July basically of last year. As usual, the numbers that we use in forecasting or in making of scenarios is based on numbers published by reputable third parties. This is part of our policy and our Board of Directors and our Auditors know that all assumptions are made on this basis. So we made our plan in October, based on a Brent of \$65 with a \$10 crack on the gasoline, and \$15 crack on diesel. If we look at what happened actually in the first half of 2016, of course, price of Brent Dated has been below 40. The gasoline crack spread has been significantly higher at \$13 instead of 10. Diesel is significantly lower at 8.5 instead of 15. The other numbers have been more or less in line, significantly lower than natural gas DTF which is an important index to gage the electricity price and also the exchange rate has been significantly different.

So if we look at the first half of 2016 actual versus the one on the business plan, there is a difference of roughly €100m and how is this sum reached? Well, first of all, there has been maintenance that was initially scheduled in 2015 which was pushed forward into 2016. So there is a €35m negative impact of maintenance that had already taken place in 2015 and that was performed in the first part of this year. Then there is a negative effect of the market scenario, altogether about €87m which derives from a positive effect of €137m based on the absolute lower crude values, but at the same time a negative effect which offset this amount by about 185 to the lower value of oil products. Then there is a €17m impact from exchange rate and the balances, the gas prices and various other determinants. On the other hand, we have had a first half of the year which had a very strong operational performance. Our programme for supply chain management excellence had yielded almost €27m extra of EBITDA. We have had about €11m coming from the trading activities that our fully owned subsidiary Saras Trading based in Geneva has added, whilst the operational performance of Sarlux, our refinery and power plant has been broadly in line with variable costs and ops has in terms of maintenance and so forth have more or less added up to a zero balance, while we've had a negative impact of almost €7m from the marketing division with part of the impact from wind.



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Then we have an €11m of other effects which are mainly due to derivatives and various other accounting principles that equalise the power segment. So if we look forward to the second half of 2016, of course the market looks subdued in terms of refinery margins. We expect a negative impact of something between 70 and €100m compared to the business plan since we expect a lower EMC. On the other hand, part which compensates this is that we maintain our vision that the crude oil market is definitely oversupplied. There is ample availability of non-conventional crude grades which continue to be pressed upon the market and we will continue to take advantage of these opportunities through our programme of supply chain management and through our trading office in Geneva. So we believe that we are going to be able to deliver a meaningful improvement to the main business plan in line with what we have done in the first half of the year.

On the net financial position, we expect it to be about zero towards the end of the year. We have as I mentioned before, started to repay our debts with Iran. Our relationship with them is running extremely smoothly and we have commenced lifting crude and we have been doing so since June. We are in the process of renegotiating with them an appropriate repayment schedule and will, as usual, NIOC has shown total cooperation with us so we don't expect any negative surprises from this side.

So I really don't have much more to add so I would be pleased to take any questions which you might have. Thank you very much.

Questions and Answers

Joshua Stone - Barclays

Hi, good afternoon. Thanks for the presentation. I've got two questions, please. Firstly, on refining on the additional margin. Are you able to say what was assume in the original guidance and how much better now that Iran is in the mix, how much better you think we could get to versus that plan over the second half of the year? And then secondly, on Iran, are you able to say how much was paid to Iran during the quarter, any guidance on the timing of payments from here? Thank you.

Dario Scaffardi

Well, thank you, Josh. On Iran, we do not divulge information which regards the contracts which we have with our clients and with our customers. What I can say is that we have a first installment in Q2 and we have made a second instalment in Q3 and we expect a smooth repayment of our debt over time. The details, we don't wish to discuss. In terms of additional required margin, our guidance was roughly for a number of around four and the first half was something 4.3, if I remember correctly. I think we can maintain the higher part of the range for the coming semester.



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Joshua Stone - Barclays

Okay, thank you.

Dario Scaffardi

But on higher runs, of course, since Q3 and Q4 are going to be months without any planned maintenance.

Joshua Stone – Barclays

Yes, understood. Thanks.

Thomas Adolff – Credit Suisse

Afternoon. A couple of questions, please. The first one, just a bit more macro and less specific to Saras. I just wondered if you're seeing any runs cuts in the Med at the moment and perhaps if you have an insight, your expectations for maintenance in the Med during the shoulder months, in the normal, light or heavy? Second question, more specific to your outlook for the second half of the year, slightly 25. When you say 'today's environment', just to clarify, where are we on EMC? Is it 1.5? And when you say you expect a wider premium compared to the first half of 2016, is this merely a function of having less maintenance in the second half of the year or is there anything else that drives it? The only other thing I can think of is they have self help which is looking a little bit better than the business plan. Thank you.

Dario Scaffardi

Thank you, Thomas. Well, starting from the latter part of your question on the premium, let's say that from Saras' point of view, Q3 and Q4 were to be quarters that should have runs, planned runs of 27, 28 million barrels per quarter so definitely, I mean there is a better environment from a production point of view. In terms of the EMC premium, we have shown that the activities that we have and are under our control, supply chain management have given a very positive impact and we expect to be able to maintain this. So we do hope to be able to exceed the \$4 guidance that we have given in past and this is something that is in line with Q2.

In the terms of the macro environment in the Med, there is maintenance scheduled in various other refineries traditionally but I would say that the effect on the market is not that large. Today, the effect is mainly based on the amount of oil product inventory that you have in the tanks and that you have in floating storage. There is still scope to store further taking advantage for the contango market so on the diesel side, the storage, the contango does pay for its storage so this is whenever you have a strong effect, this means that the prompt market tends to be a bit weak. I would say that the effect is coming from the supply from other geographical areas and what happens in the Mediterranean is really not that



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important. It's more what comes out of the former Soviet Union, of the Middle east, the new refineries that are ramping up in that area and that have a stronger influence on the market.

Thomas Adolff – Credit Suisse

Thank you. Where are we on the EMC? I just want to try and get the base right for Slide 25 where you say...?

Dario Scaffardi

The EMC today?

Thomas Adolff – Credit Suisse

Yes.

Dario Scaffardi

Today, EMC is about \$1.5 if I remember correctly.

Thomas Adolff – Credit Suisse

Okay, thank you.

Niccolò Storer - Mediobanca

Yes, good afternoon. Two questions on my side. The first one is related to your expected negative impact on your business plan guidance for the second half of 2016. Basically, the 70-100m negative impact. Is the impact just related to the lower EMC, and does that take into account an improvement in the Saras premium? Is it correct? The second question is on fixed costs of the refining. Basically year to date, I think we are running slightly ahead of guidance so should we expect in the second part of the year a decline in fixed costs or probably guidance of 270m, if I'm not wrong, is too conservative? Thank you.

Dario Scaffardi

Thank you, Niccolò. Well, on the fixed costs, we confirm our guidance for the full year of 270, 275. Of course, the front loaded maintenance programme so we have a lot of the expenses in the first part of the year and not in the second part, so on a yearly basis, we maintain our guidance. In terms of the negative impact, it's a mark to market, so it's 70-100m based on mark to market conditions today.

Niccolò Storer - Mediobanca.

Okay, thank you. Maybe, if I may, your expectation of prolonged strength in the Saras premium over the EMC is also driven by your expectation of a declining oil price over the next few months, considering also the swelling of inventories of refined oil products?



Dario Scaffardi

No. We don't really make any assumptions on the market. We believe that the situation will maintain more or less the same. It's just our ability to exploit opportunities which is the key operational effect that we can add. We don't really expect any significant rise in crude oil prices. Our view is that prices will trade more or less in this range. There is a pressure on oil products that is undeniable. Oil inventories are high so I think it will be interesting to see what's going to happen in the next couple of weeks to understand what direction the market can take.

Niccolò Storer - Mediobanca

Great. Thank you.

Monika Rajoria, Societe Generale

Thank you for taking my question. May I just have a CAPEX run rate. I feel it's quite low in the first half of the year. Is it expected to pick up in the second half? Thank you.

Massimo Vacca

Monica, sorry. Can you speak a little bit louder? We struggled to hear you on this side.

Monika Rajoria, Societe Generale

Alright. Okay, I'll repeat my question. My question was on the CAPEX run rate. The first half, the CAPEX run rate seems to be a bit lower than guidance. Is it expected to pick up in the second half of the year? Thank you.

Franco Balsamo

In terms of CAPEX, we are a little below the budget but now all of our investments are authorised and the activities are in place so we do believe that the level of CAPEX will be at the end of the year, fully delivered by the operations. So it's just a matter of their time but the operations are fully in force in the refinery in order to complete the investment plan.

Henri Patricot - UBS

Thanks everyone for the presentation. I just have one quick question left on the improvement that you mentioned, €27m. You said that there was 11m coming from the trading unit itself and where was the rest coming from exactly?

Dario Scaffardi

Yes. So we mentioned that we had €27m of improvement and this comes basically from point seven, it's the same number just by chance, as the activities that regard supply chain management. So the programme that we put in place which was called SCORE brought €27m of improvement. Then we had €11m that came from the trading activities from our affiliate in Geneva. At the same time, we had



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about 7m lower due to operational issues on the production side and about 7m less from our marketing activities in Spain and Italy, and about 3m more from the wind sector. So the whole sum of this is 27, compared to budget of course.

Massimo Vacca

To the business plan.

Dario Scaffardi

To the business plan.

Henri Patricot – UBS

Okay, thank you.

Peter Low – Redburn

Hi, thanks for taking my question. Just one on your net financial position guidance. You are guiding for that to be approximately zero at year end. Does that include all repayments against the Iranian payable or does that include a portion of them, or does it exclude them? And how comfortable are you going into next year that you will be able to cover any dividend that you declare just from operating cash flow? Thank you very much.

Franco Balsamo

In terms of expectations on the net financial positions, we have tried to close on a level very close to zero because we are going to repay part of the Iranian debt. As Dario said before, we are not in a condition to disclose the full amount but most of the, part of it will be in this case paid within the end of the year. So the combination of the positive cash flow generated by operations and the repayment of Iran including the dividend that we will pay at the end of May are on the basis of our evaluations. So at this time being, the net financial position will be zero slightly positive.

Peter Low – Redburn

Thank you.

Thomas Adolff – Credit Suisse

Sorry guys. Just a question to clarify an answer you've provided earlier on on the marking to market versus your business plan where you said 70-100m Euros lower. When you say marking to market, is it after the self help benefits which have come in better than expected, or is it before? So the 70-100m might be overstated or it is actually 70-100m after a better delivery on self help, and wider premiums, etc?



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Dario Scaffardi

Thank you Thomas. No, 70-100m is without our improvement activities, which come after, of course.

Thomas Adolff – Credit Suisse

Okay, very clear. Thank you.

Domenico Ghilotti – Equita Sim

Good afternoon. Just a follow-up on the previous question. So in terms of additional benefits or company specific benefits, you are saying that you can at least replicate the performance of the first half. So basically, the business plan looking at your second half implied EBITDA was around 235. You have a negative benchmark at 70-100 and then at least 30m of EBITDA coming from self help?

Dario Scaffardi

Yes, Domenico that's exactly the case. We expect since the second half of the year, it's without maintenance and so more flexibility on the things that we can do, we expect to be able to do something like 30-35.

Domenico Ghilotti – Equita Sim

Okay, thank you. Very clear.

Niccolò Storer - Mediobanca

Sorry. Just a clarification on your guidance on net financial position expected at the year end. So basically the zero position does not include any change in inventories related to a possible increase or decrease in oil prices. Is this correct or not?

Franco Balsamo

Yes, this is correct. The inventory is in line with our projection of the time being.

Niccolò Storer – Mediobanca

Okay, thank you.

Closing Comments

Massimo Vacca

Okay, in this case I would like to thank everyone for the attention today and we will speak again during the next call. Thank you and a good afternoon.