



Saras

FY 2017 and Q4 2017 Results and Business Plan 2018-2021

Welcome

Francesca Pezzoli
Head of Investor 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 2017 Results, as well as for the presentation of the Business Plan for the period 2018-2021. I would like to draw your attention first to the analyst presentation that was already distributed, with usual channels, and it is also available on our website on the home page and also in the section dedicated to the Investor relations.

Our agenda today will cover the results and the business plan. So, 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 for each business segment, and subsequently Mr. Scaffardi will illustrate the outlook for 2018 and the business plan for the period 2018-21. And finally, we would 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

Highlights

Thank you, Francesca. Good afternoon, ladies and gentlemen. Thank you for being with us this afternoon. We are very proud to present our results for 2017, which show a comparable EBITDA of €522.5 million, which is a 3% increase compared to the previous year. This is the result of stability in the refining segment that with higher runs have offset lower unit margins and lower operating



FY 2017, Q4 2017 Results and Business Plan 2018-2021

performance. There has also been a significant improvement of the marketing segment, which has significantly increased its profitability compared to the previous year.

The group comparable net result is €217.4 million, which is 39% up versus full-year 2016. This is due also to lower depreciation rates. As a matter of fact, we have revised the amortisation rate of the IGCC plant in light of its extended economic life up until 2031 while previously the deadline was in 2021 in conjunction with the expiration of the CIP6/92 contract. This has an impact of approximately €48 million.

On December 31, I would like to stress that group financial position is firmly positive at €87 million even after having fully reimbursed in 2017 all past debits which have been entirely extinguished with the crude suppliers, and having paid €94 million of dividends in May and investing more than €200 million in our business to further improve and enhance reliability of our plants. So, our company is well-capitalised and cash-generative.

If we look at the fourth quarter of 2017, the refining segment operated in much less favourable conditions, particularly in November and December when rising Brent and declining crack margins created a seasonal weakness for refining margins. We were able to support this segment by the optimisation of the crude oil base which is peculiar to our business model and by lower fixed and variable costs as the various efficiency programs that have been launched in 2017 started to bear fruit.

Finally, the Board of Directors today has approved the payment of €0.12 per share dividend, which is equal to a pay-out of about 52% of the comparable net income and corresponds roughly to a 7% dividend yield on current pricing, confirming the strong attention that we have to remunerating our shareholders.

If we look at the market, you can see that we had a very positive overall 2017 which started to decline only at the end of the year, particularly in November and December, and you can see that from the ratios of the product cracks and the absolute values of the cracks in that same period, particularly negative results of impact on sour crudes. The premiums for sour crude were unreasonably high in this period, but this situation is now reversing, but we'll go into a little bit more detail on that later on in the call.

Just to make some comments on the full year 2017: for 2017 we see Libya come back onstream in a meaningful and sustainable manner, and this has been an extremely positive development for us although we rely much less heavily on Libyan crude than we did in the past. Still, it's been a positive development in the Mediterranean market and has contributed to put some pressure on the differentials for the sweet crudes, as you can see in the green line of the crude premiums that we report.

At the same time, we were negatively affected by the strong prices for the sour crudes that have been removed in part from the market due to the various OPEC cuts.

If we look at our EMC benchmark, which represents the profitability of the mid-complexity coastal refinery located in the Mediterranean market, we can see that the average margin for 2017 was 3.5 \$/bl and this was strengthened for about 0.3 \$/bl by the effects that we've explained in previous calls



regarding fuel oil, which has been unseasonably high in terms of value in 2017 and so adversely penalised us a sophisticated refinery such as Saras, which destroys fuel oil.

So, net of this distorting effect, we would have had a reference margin of about 3.2\$/bl in 2017 and Saras' premium on this would have been about 2.8\$/bl.

One of the main reasons why we had lower premium margin in 2017 compared to 2016 is also the unavailability of many sour crudes that were commonplace in the market in 2016 and have disappeared due to various political factors.

Segment Reviews

1. Refining

In the refining segment the throughput in the fourth quarter of 2017 has been 25.8 million barrels, about 8% up compared to the same period of last year, mainly due to lighter maintenance, although marketing conditions were a lot more challenging with a negative impact from weaker gasoline crack spreads, and the strengthening of the Euro compared to the Dollar.

If we look at the full year, we've had higher runs in 2017 compared to 2016. 2017 saw about 40 million tons of crude, or 102 million barrels, compared to about 95 million barrels in 2016. This was compensated by complementary feedstock. We had 1.6 million tons of complementary feedstocks in 2016 and 1.3 million tons in 2017. So, the lower margins were compensated by higher runs.

In particular, for 2017 we've had the results benefit also from lower fixed costs of approximately €15 million, due to lower planned maintenance and the reduction of general expenses due to the cost efficiency improvement plans which have been launched, and variable costs were about €20 million lower than in Q4 thanks to the renegotiation of the whole series of accessory contracts and a higher sale of energy certificates.

If we look at the next slide, you can see the various market conditions reflected a bit in the type of crudes that we've been running. So, although we are geared towards heavy crudes, still the market was more favourable for the lighter crudes, and so we ran a higher percentage of lighter crudes. You can see this in the average API, which moved from 33.3 in 2016 to 33.7, which means that there's a higher quote of light, extra sweet crudes. This is also an effect of the full implementation of the renewed Libyan production, of course, and where we have an incentive to use certain types of extremely light crude which are favourable to our plants.

As a matter of fact, and if you look at the product slate, by and large this also reflects a higher quota of diesel, a little bit less gasoline in which there was less demand in the market, and we've been experimenting on producing streams of medium- to low-sulphur fuel oil for the forthcoming new regulations on the bunker market in 2020 for which we are creating the conditions to be ready.

If we look at the slide on the fixed and variable costs, you can see a significant reduction in the fixed costs from €286 million to €259 million, and this is mainly due to the cost-cutting initiatives and to slightly lighter maintenance schedule, while the variable costs are slightly higher, and this is mainly



due to higher energy costs. The variable costs are electricity, additives, hydrogen, and various other elements which are all directly or indirectly-linked to the cost of energy, so tend to rise with the cost of Brent.

2. Power Generation

If we look at the Power Generation segment, this has been challenging in 2017. We've had several outages, unfortunately, and this has been negatively reflected in the electricity production, which was 4.1 million terawatts, compared to about 4.6 terawatts in 2016. So, there's been a reduction of about 11%. This has been partially offset by an increase in the power tariff which was 7% higher in 2017 compared to last year. So, overall the effect has been a little bit less dramatic than what could have been.

If we look at the cost structure, the situation here is a bit opposite. Fixed costs on the power segment have been higher, due to higher maintenance and to operational issues within the plants, and likewise variable costs have also been higher due to the higher energy costs.

3. Marketing

Marketing is a very positive spot in 2017. The results are, there's been a significant increase on the full year in terms of comparable EBITDA which is over €15 million compared to €3.6 million in 2016, and likewise of the comparable EBIT. This notwithstanding that there has been a contraction in the Italian market overall. Demand in Italy has gone down by about 1% while in Spain it has increased. Our overall sales have decreased, but the revenues have increased because we've been much more attentive to the various sales channels. We've only kept the most profitable ones, so we try to streamline our sales and be much more careful with our customer base, and this has increased significantly our returns in the market that also improved overall. So, overall results have been very encouraging for the segment.

4. Wind Power

Wind, the last quarter has been a particularly good quarter thanks to very favourable wind conditions. The power tariff in 2017 has been about 25% higher than 2016, and the incentive is about 7% higher, although the overall production in 2017 is about 14% below that of the previous year due to meteorological conditions, basically.

Outlook

If we look at the outlook for 2018, we expect the first part of the year to be still challenging in terms of margins. This is one of the reasons why we have anticipated certain maintenance that was planned



more for the Spring-Summer. We have anticipated to the first part of the year, and I think we made the right decision because the outlook is looking better now for the Spring and the Summer than for the Winter months.

Global demand is extremely bullish. There is an expected increase between 1.3 million and 1.5 million barrels per day in 2018. There is a strong anticipation of improvement of the diesel crack spreads, mainly due to the effects of the IMO regulation, which we will explain in detail in our industrial plan.

For Saras the maintenance will be broadly in line with 2017, concentrated in the first part of the year. We expect an EMC benchmark of approximately 2.50 \$ per barrel and Saras to be able to achieve a premium above the benchmark of about \$2.50 to \$3.00 post-maintenance.

If we look at our business plan, which for the first time will include a year that will not have a full benefit of the CIP6 because the CIP6 tariff, our privileged tariff from the sale of electricity will expire in 2021 in May, if I remember correctly. So, our plan for the next four years is basically to concentrate on what we've been doing in the past years, which is strategic investments in order to optimise and bring fully up-to-speed our technical assets, optimise production performance also through the initiatives in the digital, which are something which are very important for us, insist and perfect supply change management in order to be able to capture all of the opportunities that we see coming forward thanks to the IMO regulation, and continue our cost-efficiency plan and the optimisation of our cost structure, in order to face the next decade with a refinery that is fully-equipped to face the future cycles.

Now, if we look at the expectations on the refining sector, all the market reports are extremely constructive towards the refining sector. Basically, you are all aware that as January 1, 2020, marine engines, which account for about 3%-4% of world oil consumption, will have to go down from the current 3.5% sulphur content to 0.5%. This regulation is upon stress and is based on emissions. So, there is no rule that outlaws high-sulphur fuel oils. What will be outlawed will be emission of high-sulphur fuels. But, the net effect that we expect in the immediate is that there will be a strong demand for diesel or marine diesel, which is a very similar product basically to diesel and of marine fuel oils with a sulphur content of 0.5%.

Now, it is important to note, without wanting to get into technical details, that it is close to impossible to de-sulphurise fuel oil. Now, nothing is impossible, but de-sulphurising fuel oil is extremely difficult. So, basically it is not possible to build or to create units that transform current high-sulphur fuel oil into a low-sulphur fuel oil. It's necessary to change completely refinery configuration in order to destroy the high-sulphur fuel oil with other means. One way is to plant like our gasification unit, otherwise there are other units called cokers, or other units that basically have the effect of destroying high-sulphur fuel oil in our case, and transforming it into light products, diesel or gasoline.

These units are difficult to build, are expensive, there are some refineries around the world that of course have invested in these new technologies. But, the majority have chosen not to. So, we expect that there's going to be a significant demand for low-sulphur fuel oils, for which we'll have a series of effects on the market.

First of all, we expect the diesel gas oil cracks to increase, thus improving refinery margins. We expect high sulphur fuel oil cracks to decrease, and again, improving the what is called, upgrading margin in a



refinery. We expect these two combined effects to have a strong effect on crude oil differentials, crude oils that produce a high level of high-sulphur fuel should be penalised in terms of price. So, we expect that the discounts for these crudes will increase, and we're starting to see this in a more meaningful manner in these months in which the discounts for high-sulphur crudes, mainly those coming from the Middle East, have increased by between \$2.00 and \$3.00 per barrel in the space of just two or three months.

So, all these effects place Saras in an ideal position to exploit these effects, because we have the size, we have the complexity, we have a strong competitive position. We are fully-integrated with our IGCC unit that even when it will no longer have incentive from the CIP6 scheme, it will be a very, very crucial part of our refining process and we intend to exploit it fully.

And lastly, I would say that the flexibility of our business model, our geographical location, being in the centre of the Mediterranean where we are not directly linked to the mainland European market, and that shields us also from possible effects coming into Europe regarding the reduction of fossil fuels for the automotive industry and the shift towards electric cars would seem to be one of the things at the moment, which we are not directly affected by this but because of course our market is the whole world.

If we look at the next slide, which is a little bit, maybe, complex to follow, but in a nutshell what this slide wants to say is that the types of crude that are able to produce a fuel oil which is compliant to the IMO regulations is a tiny fraction of the crudes available worldwide. And basically, those are the green balls that you see in the lower part of the top graph, while the vast number of crudes available from a variety of sources instead are not suitable to make it directly. That means that they need to be run in plants that are able to destroy them and produce a compatible fuel. Saras is extremely well-positioned to be able to take advantage of all these crudes, which is what we are already doing today, and we intend to increase this if the market conditions develop in this manner.

At the same time, we have an incentive to try to run certain types of low-sulphur crudes, which we are already running, in order to be a player in the Mediterranean that is able to produce this new type of fuel which will be requested by many ship owners, and as a matter of fact, many of the world-leading ship owners stated that they will rely on a 0.5% sulphur marine fuel. And then, Saras is currently studying the possibility of being able to produce it. We already made several experiments and produced and sold on the market, fuels of this matter. Our aim would be to produce more, maybe arriving to about a million tons a year, so basically all our residual fuel oil production that does not go into the gasifier would be as fully-compliant bunker fuel. And also, start a business of selling bunker fuels in the area where we operate, because we also believe that there's going to be some very significant changes in the way the market operates, because many bunkering areas, areas where ships fuel today, tomorrow will have a challenge because today bunker fuel is made very often by the blending of various high-sulphur fuel oils coming from various parts of the world, basically blended down with cutter stocks, and this will no longer be a possibility because it's not possible to blend down to 0.5% in a meaningful manner.

So, we think that the patterns of this trade are going to change, and we are currently studying, and we're going to launch in the forthcoming months a program to sell and to market these fuels directly. It will be a new business area for Saras.



FY 2017, Q4 2017 Results and Business Plan 2018-2021

If we look at the next page, and the assumptions of our business plan, we have taken the numbers by a world-leading consultancy, which is not the most bullish figures available -- there are other consultancies that have published much more bullish numbers -- we have taken these base numbers, and we have actually cut out some of the most excessive assumptions that we believe they have made. So, all in all, we are presenting a conservative plan in terms of prices, with crude runs in the range of 14 million to 15 million tons per year and roughly about a million tons of complementary feedstocks, and with power that remains roughly in the range of 4.3 terawatts to 4.4 terawatts per year, and total fixed costs of the refining and power segments in the range of €350 million to €360 million.

Overall, of course you can see that consistent with these assumptions now and the IMO regulations, the diesel crack increases significantly from 2018 to 2020, moving from about 12 to 18. Actually, one thing that I would like to stress, is that all these regulations sort of assume that things will happen overnight on the first of January of 2020. In reality, the market will need to plan for this change, since the change will come into force on the 1st of January, much sooner than that. The lead time, the lag times, to clean lines, tanks, and so forth, to shift from a 3.5% sulphur fuel to a 0.5% are challenging in terms of technology, and will require time. So, we believe that the effects of a higher diesel crack and a lower fuel oil crack should come into effect most probably in the second part of 2019.

So, we shall have a much better 2019 than what is projected here.

In terms of an exchange rate and the price of pool is the standard price of electricity, we have taken some conservative assumptions based on the expectations of leading data providers for the Italian electricity market. But again, given the increase of demand for electricity and the diminishing production of electricity, if anything we expect these numbers to be on the conservative side.

Our CAPEX plan is increased compared to our previous remits. It was 650, and now it's in the range of 800. This € 800 million takes into account that we're spending roughly €40 million to €50 million more on our digital program. There is about €50 million of additional investments and asset reliability and power system configuration. This means that we are moving towards a system of electrification in the refinery, with all large machinery electrically-operated instead of steam-driven. This is both to use as much electricity internally as possible, but also to have modern motors which are capable of much higher energy efficiency than all the steam turbines. And lastly, we have about €45 million of a large turnaround of our plants that will be performed in the beginning of 2021.

The digitalisation investments, which as mentioned is about €50 million of CAPEX, which also has some very important tax benefits that derive from super-amortisation that has been a law passed by the Italian government, we expect to be able to contribute in terms of EBITDA more than €30 million cumulated in the period of the plan. And these initiatives are absolutely fundamental in order to maintain the competitiveness and successfulness of the refinery in the long term, and it's the single most important game-changing initiative for us, but I would say for the whole sector that we'll be able to reduce downtime, improve significantly availability and predictability of units. Most importantly, increase safety and security of all the workers involved in our unit.

So, this slide here summarises our views. We expect that EMC benchmark to go from 2.50 \$/bl in 2018 to 4.80 \$/bl in 2020, based on the references scenario. We expect Saras' premium to move from the range of 2.50 \$/bl to 3.00 \$/bl in 2018 to about 5.00 \$/bl in 2020 based on these scenarios, and with



FY 2017, Q4 2017 Results and Business Plan 2018-2021

contribution coming also from CAPEX and cost reduction plans, while in 2021 when the CIP6 tariff will expire, we will incorporate the power generation results within the refinery results and present just one segment as is already reflected today in the more technical configuration. So, we expect an EMC in 2021 of about 3.50 \$/bl with a Saras integrated premium of about 7.00 \$/bl.

In the period 2018-2020, power generation will continue to provide an EBITDA of approximately €190 million per year. Marketing, we have projected it at €10 million to €12 million per year, assuming the current improvements will remain sustainable. Actually, the market even gives signs of further possibility of improvement. Wind we have taken into account the fact that a large part of the incentives will expire in 2018.

Regarding our gasification unit and our power generation unit, where maybe we have not been in the past clear on how fundamental and central this is to our refinery configuration, irrespective of the incentivised tariff that it enjoys. So, without wanting to be pedantic or get into too many technical details, our IGCC unit which means Integrated Gasification Combined Cycle, is a deep conversion unit which transforms the heaviest part of the barrel, what is called generally, "TAR," and it transforms it into hydrogen and steam which are essential for the operation of the refinery, and then produces power. It actually produces a gas which is burned into traditional gas turbines and produces of course, power. Today, this power is all sold into the grid through a tariff which incentivise maximum sale of electricity.

Once this tariff will no longer be in place, in May of 2021, we will first of all perform the ten-year maintenance on the unit. Every ten years, this unit has some important maintenance, and this will be performed as soon as the incentive will expire.

But also, we will have depleted by that period, all the investments relating to the electrification of our large rotating equipment, our large rotating equipment are compressors, mainly, and blowers, so air compressors and gas compressors. That used to be run by steam turbines and some already are now being run by state-of-the-art electric motors, which are very, very big, and will consume about roughly 30% of the power produced by the IGCC unit, and the rest will be sold on the national market.

Lastly, I would like to give an overview of the sources and the use of cash made from this plan. Made from the plan, there is cash from operations which is in the range of €2 billion. We have from this, we need to pay € 800 million in our CAPEX plan. We have about € 460 million of working capital, interest, taxes, and so forth, and so we will have available liquidity of anything between €680 million to €780 million, which will mainly be used to remunerate the shareholders according to our standard policy of 40% to 60% pay-out based on the comparable net income and possibly finance other initiatives.

So, thank you, we've been a little bit longer today because we had this update on our industrial plan, and I would take any questions that Franco and myself can answer.



Questions and Answers

Alessandro Pozzi - Mediobanca

Thank you for taking my questions. I believe this time, you have a much more bullish outlook towards 2020-2021 compared to a year ago, and I was wondering, as we look at 2021 is that a normalisation year, or do you still expect the IMO regulations to have an impact on cracks in 2021, in your assumption, obviously? And also, I believe you have a premium to the EMC going to \$5 per barrel. I was wondering how much of that is self-help and how much of that is disruption caused by the IMO?

Dario Scaffardi

Thank you for the question. Well, when we presented our previous plan, the IMO calculation had just come into effect, and the various consultancy agency had not really re-run their numbers completely to take into this effect. It's a matter of fact that we have been saying for many years now about this IMO effect, much sooner than anybody else had mentioned it. But, the consensus more than a year ago, was slightly less optimistic. Right now, the overall opinion, and I was in Houston last week, is extremely bullish on the outcome, at least up to 2020-2021. Then, making any sort of prediction beyond four years becomes a moot exercise. But, the consensus is a very positive outlook.

We have taken a slightly more conservative attitude, because a lot of things can go potentially wrong but also a lot of things can go right. So, we think all in all that ours is a balanced approach, and the \$5 on the premium basically stems from the increase in the diesel cracks and the decrease in the fuel oil cracks. So, the combination of these two effects are extremely significant on our refining margins. So, as long as this is supported also by the fact that high-sulphur crudes should decrease in price.

Alessandro Pozzi - Mediobanca

Okay thanks, and just a follow-up. In terms of integrating margins, I believe you have \$7 per barrel from 2021. Anyway, any chance you can take between the premium versus the EMC and the margins on the IGCC? Is it still positive still on the margins, from the IGCC?

Francesca Pezzoli

Alessandro, can you kindly repeat the questions? It was not so clear.

Alessandro Pozzi - Mediobanca

Yeah, so, in terms of integrated margin for 2021, I believe you have \$7 per barrel as a combined entity. Any chance you can split that integrated margin?



Dario Scaffardi

Well, thank you, it's a good question. No, we don't want to split it, in the sense that when the tariff will expire, finally we will have what we've always tried to explain: a site, an industrial site, that is a refinery, that produces oil products and also electricity, and the things need to be looked at in conjunction, not separately, because one cannot exist without the others. So, for us it will be a simplification, albeit a slightly unusual way of presenting things because there are not many refineries that present such significant electricity productions. There are some refineries that have a little electricity production, but nothing of the size and scale that we do.

Also, one of the things that I think also that you need to look at, is if you look at our historical margins you always see that there is a refining margin, a power margin, and sometimes across periods, they've interacted. We've had periods of very high refining margins, very low refining margins, and with power margins that are relatively stable. Now, one of the things that we try to stress is that the power margin is a -- let me say, a little bit of an artificial construction, because it takes power EBITDA and it divides it by refinery runs. So, the margin is higher if the runs are lower, which is clearly a contradiction. But, it's a way of representing, and it has the advantage of having been consistent over time.

In 2021, we will be able to make something that from at least the technical point of view and the financial administrative point of view, finally meets together and presents the correct result, the EBITDA divided by runs, which reflects a true overall margin.

Alessandro Pozzi - Mediobanca

Okay, thank you very much.

Henry Patricot - UBS

Yes, hello everyone, thank you for the detailed presentation. I have two questions; the first one is, you previously mentioned a possible revamp of your Visbreaker and I haven't heard you mention it today. Is that still being considered? And secondly, I just wanted to check, it seemed like on your fuel oil production, you're developing a 0.5% blend for 2020 so you will have no high-sulphur fuel oil by 2020, I just want to check that point. Thank you.

Dario Scaffardi

Henry, thank you. I'm not sure I caught perfectly your second question. The line is a little bit disturbed, that's why.



Henry Patricot - UBS

Yes, on the second question, I wanted to check on one of your comments earlier. Are you developing a 0.5% sulphur product specifically for the marine market, so that by 2020 you will have no high-sulphur fuel oil to sell at that point?

Dario Scaffardi

Oh, yes. Yes. Our plan is definitely to produce only 0.5% IMO-compliant fuel. We actually planned to be able to -- this is a side effect, to buy high-sulphur fuel oil from other refiners who are not able to be compliant, hopefully at very low prices and transform it in our units. So, this is not something that we have specifically mentioned, so we plan actually on doing the opposite of buying it, and transforming it. So yes, all our fuel oil will be 0.5%.

In terms of Visbreaker, yes, we have in our plans, we said that we have the opportunity of performing this investment. We have not decided yet whether we should go ahead or not, and this is something that we will decide basically in the course of 2018. Having done further research on the subject, we have two or three different possibilities in going the whole way and doing a complete revamp, doing a partial revamp. There are other various possible technical solutions that have different price tags, of course, that go from the one, the main price tag which we've mentioned of about € 200 million downwards. During the course of this year, we will decide if we propose this investment to our Board of Directors.

Henry Patricot - UBS

Okay, thank you.

Lydia Rainforth - Barclays

Thank you, and good afternoon. Two questions, if I could? One, just on Iran, could you tell us how much Iranian crude you actually processed last year, and just the contingency funds in case the relations and the sanctions in May when we get to that decision? And then secondly, on the digitisation side, could I just get -- I don't know if I missed it, apologies, but just in terms of quantifying the benefits of that digitisation program, I think it says in the slide that you get the most benefit post-2021. Can I just ask why you don't expect to see something more immediate within that? Thank you.



Dario Scaffardi

On Iran, we don't, as policy, give any breakdown on exactly how much crude we take from various countries. What I can say is that Iran today is an important supplier of Saras, and we've always had a longstanding relationship with them. Should there be problems in May, again, I am not worried on the possibility of filling the refinery. We would be able easily to find alternative sources in the same way that we've been able to find alternative sources for Libya and for Iran when they were out of business for five years. So, we operated the refinery from 2011 to 2016 without these countries, and we never had the problem of having crude.

Another matter is having the crude at the right price, that is a totally different matter. Of course, if Iran for some reason was again subject to sanctions, it would have a huge impact on sour crudes and the price of sour crudes would go up, and that would create a problem for refineries such as ours that are based on the transforming of heavy crudes into valuable products. So, it would have an overall effect on the market, which is the most worrying thing.

The same thing as when Libya was out of the market, it had effect on the price of sweet crudes, and when Libya came back the effect was to lower the prices of, the relative prices of, sweet crudes. So, this is a development which would be negative for the market overall, of course, and I do hope that we don't go to that route anymore. We've had enough of sanctions.

Franco Balsamo

Then for the benefit driven by the tax legislation related to the investment in digitalisations, is a combination of different effects, in terms of efficiency directing to the EBITDA we are include in the business plan roughly €30 million of benefit and we expect in the coming months to be more precise, we do expect that the benefit will be increased over the time.

In terms of tax benefit, exceeding also the period of the business plan, we can evaluate an amount close to €50 million not only related to the investment in the digital, but also to the global part of all our investments overall.

Lydia Rainforth - Barclays

Right, thank you very much.

Dario Scaffardi

Thank you.



Massimo Bonisoli - Equita Sim

Good afternoon, and thank you for the presentations. Two questions, the first on the forward differentials, would you ever consider an edging strategy given the wide differentials on the market for 2020 maturities? I mean, the forward price differential between high-sulphur fuel oil and gas oil in 2020 maturities are already wide. The same applies to the sweet/sour crudes forward differential in 2020. And second question on maintenance, if you remember as when the multi-year maintenance will take place. I don't see it in your crude runs, thank you.

Dario Scaffardi

Oh, Massimo, great minds think alike. We have actually a couple of months ago started looking a little bit more actively in the possibility of a more robust forward hedging policy. Traditionally we have never hedged margins long-term for the very simple reason that it was always a very small margin to hedge. So, hedging a loss, or something similar to that, was never looked like a very attractive opportunity and we've been proved right because we know of important companies that in 2014, 2015, as soon as the market picked up, locked in very low refining margins and paid out huge, huge sums.

The situation today is different, and with Franco we are looking on the possibility of maybe doing a more sophisticated strategy forward on absolute prices, and of course on crude differentials. Hedging crude differentials isn't truly complicated, because it's not a liquid market. So, I don't know how much of a real possibility that is, but it's an over-the-counter market. It's not regulated in any way, and the only market for which there is a little bit of liquidity is the Euros differential which can be a proxy, but then you incorporate a lot of basis risk.

So, but we're definitely looking at it, definitely.

Francesca Pezzoli

And can you kindly repeat the question on the maintenance, Massimo, please?

Massimo Bonisoli - Equita Sim

Yes, sorry for the voice. Second question, it was on maintenance. If you remember as when the multi-year maintenance will take place going forward?



Dario Scaffardi

Let's say on maintenance, '18, '19 are more or less normal years. Instead, in 2020 we will have an important maintenance because we will have the six-year turnaround of our deep conversion units, or basically of the FCC and accessory units. So, that is an important investment in the range of €40 million, and a significant downtime. So, 2020 is going to be the year impacted by this maintenance, while in 2021 we will have the maintenance pertaining to the IGCC plan that has a large maintenance every ten years. The last one was in 2010-11, so on the expiration of CIP6 we'll be exactly 20 years and it will have this large important maintenance which will take place in the summer of 2021.

Massimo Bonisoli - Equita Sim

Thank you.

Dario Scaffardi

Thank you very much then, and we wish you the rest of a good afternoon.

Francesca Pezzoli

Thank you.