



# **Saras**

## **First Quarter 2017 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 this conference call on Saras' First Quarter 2017 results. Our analyst presentation has been distributed a few hours ago, but in case you have not received it, as usual please allow me to remind you that it is available on our website, either in the home page 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 Group will start with the highlights of the period, followed by a detailed review of the results for each business segment. 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'll be delighted to take your questions.

I also take the opportunity to greet and thank the financial community, because shortly I'll be switching over to a new role, and I'll be passing on to my colleague, Francesca Pezzoli.

At this time, I'd like to hand over to Dario.

**Dario Scaffardi**  
**Executive Vice President & General Manager, Saras**

### **1. Highlights**

Thank you, Massimo, and thank you very much for the great job that you did in the last years, and in bocca al lupo for your new assignment. And welcome to Francesca Pezzoli, who joined Saras about four months ago, and is now fully up to speed.



## First Quarter 2017 Results

Coming to our results, in the first quarter 2017 we have posted a reported EBITDA of €160 million, and a comparable of €126 million, which is in line with the same results of last year while the reported figure is definitely improved, compared to the same period of last year. The first quarter has had good market fundamentals, and we've had solid operating performance. We'll give a little bit more detail on the market on the next slides, but at this stage, I would like to highlight the fact that crude oil markets continue to be over-supplied, and Brent has remained in a relatively tight range.

The first quarter for us has been a quarter of intense maintenance, which have involved mainly some part of the refinery units as well as the IGCC power plant, and they were completed in a successful and timely manner. This year, our maintenance has been basically front-loaded, meaning that for the remaining part of the year there will be a relatively small or modest maintenance activity that needs to be carried out.

I would like to highlight that on March 31, the Group was still cash positive for €21 million, versus €99 million at the end of 2016, even after the full repayment of the final instalment of our debt with NIOC related to crude purchases of 2012.

So, having completed now all our repayments, our balance sheet continues to be extremely strong and allows us to comfortably face the upcoming financial commitments which mainly are on May 24, the payment of €0.10 of dividend per share.

If we look at the market a little bit, the first quarter has been quite different from the same period of last year. Although we've had robust refining margins, these refining margins are very, very different from this quarter to the quarter of last year. Last year had a very, very strong gasoline crack, and you can see it in the bottom graph particularly, right at the beginning of January-February that had a percentage of almost 25% of ratio of gasoline to Brent. Diesel crack has remained, particularly the ratio, more or less in line with that of last year, but the very, very different, significant factor, is the fact that fuel oil has been extremely strong in the first quarter of 2017 compared to the same period of 2016. This is due to the fact that albeit that there is a continued decrease in demand, there is a stronger decrease in production, particularly Russia, which has changed its taxation system and this discourages exports of fuel oil, Russia being one of the main fuel oil producers -- of the European market.

Therefore, if we look at the low-sulphur crack, the crack went from -11 \$/bl in the first quarter 2016, to -4.7 \$/bl. And the high-sulphur crack, a little bit less dramatic, the change, but still quite significant, from -12.6 \$/bl to -7.8 \$/bl. This means that the EMC margin, which is based on a 20% fuel oil production, showed a relatively high value, so the benchmark was relatively high. But, the premium on the benchmark of Saras being a high-conversion refinery, was less pronounced because the premium that we are able to add is a function of the market. So, particularly, if the market moves in an unfavourable manner such as a relatively strong, abnormally strong fuel oil, this means that there is a less conversion margin, and we'll see this also in the production figures.



## First Quarter 2017 Results

So, in the first quarter of 2017, the premiums stood at \$2.6 per barrel, also affected by the maintenance that was performed in this quarter which weighed for about a little over \$1.00 per barrel. So, basically looking at the outlook of 2017 which is front-loaded in terms of maintenance, we confirm our target to achieve about \$3.5 per barrel as an average over the year.

### Segment Reviews

#### **1. Refining**

When we look at the various segments, we'll talk a little bit more in detail now about refining. The crude throughput in the quarter has been almost 25 million -- more than 25 million barrels, which is higher than the amount of barrels run in the same period of last year. But, for the reasons I was trying to explain before, on the EMC margin, the overall economic result was similar to that of last year.

So, we've had basically higher crude prices, weaker gasoline cracks, which was partially offset by a stronger diesel crack, but marginally so, and particularly the strong effect of the low-sulphur and the high-sulphur fuel oil.

We have had in the quarter, a better operating performance compared to the same period of Q1 '16, which was partially offset by €15 million loss in the production planning parts. Commercial performance has been strong, and commercial activities carried out by our trading office in Geneva are performing admirably.

#### **2. Crude Oil Slate and Production**

You will see this in the refinery runs, although we like to point out that looking to these figures on a quarterly basis does not provide meaningful information, because they are strongly affected by temporary factors. Nonetheless, in the first quarter of 2017, we have always stressed that we adapt to the market. Having a relatively strong fuel oil means that we ran a higher quota of light sweet crudes, thus producing low-sulphur fuel oil, and a slightly smaller proportion of heavy sour and heavy sour/sweet crudes. This meant that we have produced more fuel oil than usual, just on the basis that it was economic to do so. So, you can see that we had a fuel oil production of 10.8%, compared to 6.7% in the same period of last year.

Production of tar was slightly less, because as I said, we had a strong maintenance on the gasification units and which we'll see also in the production of power.

#### **3. Fixed & Variable Costs**

Fixed and variable costs, again, we generally try not to comment figures for individual quarters, as they can be distorted by one-off effects, but we confirm the guidance of €260 million of fixed costs. And,



## First Quarter 2017 Results

there is an increase in variable costs, mainly due to the increase in energy costs, which are directly-linked to the price of crude oil, which is higher. So, that's compared to the quarter of last year.

### **4. Power generation**

If we look at power generation, we've had a heavier maintenance cycle in Q1, partially offset by the higher value of the CIP6 tariff which was about 8% higher, and higher value of the sales of steam and hydrogen for the refinery division.

More meaningful is the Italian GAAP figures, which show the lower EBITDA in Italian GAAP figures, mainly for the fact that power production has been about 50% lower in this quarter compared to the same quarter of last year, at about 735 megawatts/h compared to 863 megawatts/h.

### **5. Fixed & Variable Costs**

Not much to say on the fixed and variable costs, which are in line with our guidance, although the fixed costs are higher due to the maintenance that we told about before.

### **6. Marketing**

The marketing division has shown a strong improvement. This is mainly due to the rationalisation of the sales channels, both in Italy and in Spain. Actual sales have diminished following the general decline of, at least of the Italian market, but they have been rationalised and there has been a better environment altogether. So, the strong improvements which we expect for the trend to continue for the year.

### **7. Wind Power**

On wind, there is not much to say. This first quarter has been less windy than the same period of last year, and that's the reason why the comparable EBITDA has been significantly lower than that of last year.

I would hand over to Franco to a little bit more flavour on the financials.



**Franco Balsamo**  
**Chief Financial Officer, Saras**

### Financials

Okay. Few key information from the financial accounts. If you look at page 16, below the EBITDA line, we have accounted €23 million of income/expenses, that are related for negative €4 million, to the cost of interests on our indebtedness. This is 40% lower, compared to the first period of the previous year. It is due to the renegotiation of the margins on credit lines, and also due to the repayment of the bond carried out in September of last year.

In terms of impact on our hedging activities, we have €30 million of positive of gains, and this amount is later classified from the comparable components and we have another €14 million of positive fair value on the derivative positions. These items are reclassified in the net income, upon the adjusted net result.

In terms of EBITDA adjustment, at page 17, we noted €44 million of negative difference between the valuation of our inventories and we have other €4 million of non-recurring items, and it is an amount related to negative mark-to-market of the CO2 certificates. And again, then we have as described before, the impact on the derivative, so the net result reported is €92 million net of tax. The adjusted net result is €46 million.

Page 19, there are some information related to the cash flow over the quarter. Here are the negative working capital for €126 million, and as Dario said before, we have completed our recovery of debt towards Iran, so that last instalment has been paid in the first quarter for approximately €115 million. We have the other components of the operating working capital, we have accounted €220 million of positive cash flow generated by the reduction in terms of receivables. We had €250 million negative impact related to the increase of inventories. The other €90 million is the release of the VAT paid in the fourth quarter of the previous year.

CAPEX is about €50 million, that is in line with our budget, and another €32 million are mainly tax paid in the period. So, in the quarter we had roughly €80 million of cash absorption.

Dario?

**Dario Scaffardi**

### Outlook

Thank you, Franco. So, basically there is not much change compared to the outlook that we gave in the last quarter. One thing that I would like to point out, which is the trend which is continuing, is what I mentioned before -- the abnormal strength of the fuel oil market, both in low-sulphur and high-sulphur,



## First Quarter 2017 Results

which is distorting relative prices and is distorting also the prices of crude oil. So, in our long-term plans, we have anticipated an increase in heavy sour crude discounts, and an increase in the use of these crudes which of course for the time being is not really materialising, also due to the fact that the OPEC cuts mainly affect those qualities. So, Saudi Arabia, Kuwait and the other countries who are more active in trying to balance the market are removing from the market exactly those type of qualities.

So, the effect is that the relative value of the heavy grades available, mainly coming from Iran, Iraq, various other producers, has increased in price. Nonetheless, the scenario for refining continues to be extremely positive, and we've seen that the EMC benchmark has posted \$4.00, one of the highest levels ever, in part due to this effect of the fuel oil.

We as mentioned before, we expect to run this year between 105 million and 110 million barrels, plus about 1 million to 1.5 million tons of complementary feedstock, which equates roughly to about 11 million barrels. And, our average premium on this is \$3.5 per barrel.

In the power generation segment, we expect to be able to achieve between 3.9 and 4.1 terawatt hours, with a comparable EBITDA of approximately €200 million, and we expect some much better results compared to those of last year from our marketing division. I would say that the worst for the time being in the market is behind us, and there's signs of improvement in the rationalization of the market, not so much in terms of demand which in Italy and Spain remains lacklustre.

On the maintenance schedule, there are just some minor updates compared to what we presented in our last call, so I wouldn't make any particular comment, and we would be pleased to accept your questions.

### Questions and Answers

#### **Peter Low - Redburn**

Hi, thanks for taking my question. You're guiding for a premium of \$3.5 a barrel for the full year. Can you just confirm whether that's pre- or post-maintenance? I'm just trying to understand, that given it was just \$2.6 a barrel in 1Q, should we be expecting a number above \$3.5 for the remainder of 2017? Thanks.

#### **Dario Scaffardi**

No. The number of the guidance, of let's say \$3.5, is post-maintenance.

#### **Peter Low - Redburn**

Okay, that's great. Thank you.



## First Quarter 2017 Results

**Dario Scaffardi**

You're welcome.

**Domenico Ghilotti - Equita Sim**

Good afternoon. I have a question on the power generation profitability based on Italian GAAP. So, I was just trying to check if there is any change in the contract between the power generation and the refinery, because I saw a decline also in the IFRS number. And I saw that you are confirming the €200 million on IFRS EBITDA, you are running a bit low. And if you can provide also an indication of your expectation in terms of Italian GAAP contribution?

**Franco Balsamo**

Following the International Accounting Principles, the effect on the power, in this quarter, is about €40 million, and this is a total amount that we can consider for the next quarters as well. So this year, in our expectation, we should be in the position to reach an EBITDA, on Italian GAAP, of about €100 - €120 million, in relation to the evolution of CIP6 prices and our ability to improve production over the next quarters.

**Domenico Ghilotti - Equita Sim**

So, no changes in the contracts serving the refinery, okay.

**Franco Balsamo**

No

**Domenico Ghilotti - Equita Sim**

I was wondering if you can elaborate, also, on your M&A opportunities, in the sense that you are now well, cash-positive also after the annual repayment of the old payables, and you are running with a very good cash generation. And so, I'm trying to understand what can be the use of the cash flow going forward?

**Dario Scaffardi**

Well, thank you, Domenico. M&A opportunities, you know, depends if one sees opportunities. For the time being, we don't really see any opportunities that can increase our value. So, I would say that marketing for us in this respect, is for the time being quiet. Things change. We always follow the developments of the market, and things can change, can happen.

**Domenico Ghilotti - Equita Sim**

And when you are referring to the rationalisation in the marketing network, that was you're saying, well, the market, the demand is still flattish, or ticking up, but you see an improvement in the profitability to the rationalisation. Do you think that M&A in this sector could faster the rationalisation process?



## First Quarter 2017 Results

### **Dario Scaffardi**

Excuse me, I didn't understand. Are you talking about the Italian downstream?

### **Domenico Ghilotti - Equita Sim**

Yes.

### **Dario Scaffardi**

Well you know, the Italian downstream, we are marginally present as we are the largest wholesale operator in Italy. But, our presence in terms of hardware in Italy is very modest. I think it is extremely unlikely that we will increase our presence in Italy, because there are other incumbents that are able to create synergies with their systems. So, it's extremely unlikely that we would be able to be competitive in such an environment.

### **Domenico Ghilotti - Equita Sim**

But do you still see the rationalisation following this consolidation, in theory, supportive also for the market as a whole? So, also for your wholesale position?

### **Dario Scaffardi**

Well, you know, our wholesale position is not really affected that much by this. Whether the market in Italy is going to rationalise or not, I honestly don't know. Everybody's been talking about rationalisation for the last 20 years, but it hasn't really happened. So, maybe this time, it will.

### **Domenico Ghilotti - Equita Sim**

Okay. Thank you.

### **Dario Scaffardi**

Okay.

### **Lydia Rainforth - Barclays**

Thank you, and I did want to say congratulations to Massimo on the new job, and thank you for all the help over the years.

On terms of the questions, I had two, if I could. The first one was on the fuel oil cracks, and the idea that OPEC are rolling over the production quota for another 9 months. That probably does tighten the fuel oil cracks, for that period of time as well. But then we're getting towards that period of the IMO stacks change, and how do you really think about positioning the Company over what is a very volatile period within that?

And then the second one was just to clarify, on Iran, is that fully repaid now, that working capital move? Thank you.





## First Quarter 2017 Results

### **Dario Scaffardi**

Thank you, Lydia. Well, on Iran, yes, you can see it all in the working capital and maybe Franco can make some further comment on it. But, it's all there.

On the IMO, I think that's a very interesting question, but it's also a question which is extremely difficult to answer. Let's say that current thought is that in around 2020, when the new regulation, which is basically going to ban fuel oil, is going to come in effect, everything is going to change. We honestly don't know. We take a slightly more prudent approach, in the sense that I think this is going to be extremely helpful to the market. I think that there is going to be an increase in demand in diesel, but I think that the actual effect on fuel oil will need to be tested on the market.

We have gone through these periods in the past that before, everybody's very optimistic about the changes that will happen, and then they don't materialise, or they materialise for a relatively short period of time. This is the reason why we maintain a very lean attitude, why we are able to switch production from one product to another very quickly, the reason why we are withholding investments in conversion at the moment. Because, at the moment, we are not sure the direction which the market is going to take. It might be extremely supportive of the basically, the diesel fuel oil crack, or not.

I think we still need to wait a little bit, and see how things are going to develop. That is why we're taking a wait-and-see approach.

### **Lydia Rainforth - Barclays**

Understood, thank you very much.

## **Closing Comments**

### **Massimo Vacca**

Well, in this case I would like to thank once again everybody for listening today, for our results call, and wish everybody a very good afternoon. Thank you, and goodbye.