Saras

Q4 2016 and FY 2016 Results

and Business Plan 2017-2020

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, which will concern financial year 2016 and fourth quarter results, but also the business plan for the period 2017-2020. Our analyst presentation has been already distributed through the usual channels, but in case you don't have it, you can please find it available on our website, either directly on the home page or in the section dedicated to investor relations. Our agenda today is different from usual. We will cover not only the results, but also the business plan, and Mr Dario Scaffardi, Executive Vice President and General Manager of the Saras Group, will start with the highlights of the period. He will then go into a detailed review of the results for each business segment. He will then touch upon the outlook for 2017 and the business plan as described before. Finally, we'll 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 morning, ladies and gentlemen, and thank you very much for joining us. I'm very proud today to present some strong quarterly and yearly results for the Saras Group. In particular, our full-year EBITDA has been almost 15% above the results of last year, which was already a very good year, while the comparable results have been about €500 million, which is lower than the value of last year, mainly due to inventory effects.

We had very strong cash generation, with a net financial position of almost €100 million, and this after paying €160 million of dividends in May, €150 million of CAPEX, and having paid back three-quarters of the debt that we have with NIOC regarding crude.

I would like to also remind you that 2016 has been a strong year in terms of maintenance. Industrially we've had quite a large turnover in the refinery and as a matter of fact, we did obtain these results running slightly below 13 million tons of crude, which is about 1.5 million tons less than last year. But, all the maintenance and the new investments which have been performed in the refinery have been performed flawlessly, and particularly they have been performed very safely, which is the most important thing. Also, 2016 has been the first full year of operation of our fully-owned subsidiary, which is Saras Trading, which has posted a much higher result than what was budgeted, and particularly has enabled us to capture many market opportunities. So, that is running quite well.

If we look at the quarter, we have been -- the only thing I would like to point out is that in the last call, we mentioned that we had a storage buildup that showed a slightly below average performance, which we said that would have been recovered entirely in Q4, and as a matter of fact it has, and we will see it a little bit more in detail later on during the presentation.

If we look at the next slide, I don't want to waste too much time giving descriptions of the market. The only thing is that during this, the last quarter, diesel and mogas, haven't shown any very significant change. There has been an increase in the price of crude as everybody knows, but most importantly from our point of view I think that the most relevant factor is the fact that the price of fuel oil has strengthened significantly compared to other fuels. And you can see that most importantly in the second graph where you see the relative strength of fuel oil, which is the black line in the lower part. It went almost to zero, which historically is a very, very high level. Since last quarter, it has somewhat modified a bit, but this has altered significantly the patterns of crude oils in the Mediterranean. So, it is actually privileged that we'll see that in our slate, the use of lighter crude oils compared to heavier crude oils, which is something which is a bit contrary to what we have always explained but the market does whatever it wants, and we try to adapt to it.

If we look at our overall results, we see that in Q4 the premium over the EMC benchmark has been 4$/bl, or a very strong premium, and we recovered what was the apparent underperformance in Q3. Again, I think that it's better to look at these results on a yearly basis, so if we look at 2016 the average has been 3.7/bl compared to 4$/bl of 2015. I am also reminded that in the last quarter of last year, we had an unplanned maintenance on one of our conversion units that of course adversely affected the economic results during the quarter.

Segment Reviews

1. Refining

If we look at the various segments, refining first of all, if we look at quarterly results we see that we had about 5% less runs than the same quarter of last year. But, what is important to look here, I think, as we look at the full year, is that about 11% less runs. So, 94 million barrels processed, in 2016 compared to 106 in 2015, and we've had an increase in complementary feedstocks. In 2016 it's been 1.6 million compared to slightly over 1 million in the same period of last year.

Complementary feedstocks do not offset entirely crude oil runs, of course. They are opportunity runs that we exploit to the fullest whenever the economic conditions warrant this.

In Q4, production execution has been up by €20 million, due to the heavier maintenance cycle, and as mentioned before there has been a very good commercial performance concentrated mainly in the last part of the year since a whole series of contracts tend to complete their economic cycle towards the end of the year. So, the results of Saras Trading, which are incorporated in the refining results of about €10 million, were obtained mainly during the last few months.

2. Crude Oil Slate and Production

If we look at the crude oil slate and the products that we have produced, there's been a significant change from 2015 to 2016 in the type of crude runs. This has been due to the fact that first of all, we had during the year, a heavy maintenance which reduced the availability of units, but also to take advantage or to react to the crudes actually available in the market. 2016 has been a strong year for gasoline, so we've tried to maximise gasoline production and you can see that in the lower part of the table, which notwithstanding the fact that we have run almost 1.5 million tons less of crude, we've actually produced 100,000 tons more of gasoline, of course to the expense of other products which were -- our model viewed as being less profitable. But, I think that if you look at all these data combined, you can see an example of the way we are able to react to actual market conditions.

3. Fixed & Variable Costs

Fixed costs have been significantly higher during the year. This is due to a variety of effects. First of all, as we mentioned before, there has been heavy maintenance so clearly, more expenses. And the other thing is that we have started part of the investment plan that we announced in our capital markets day of last year. That means constructions, and that also means soil and water remediation costs, which have been particularly significant. We take our environmental commitments very, very seriously. So, whenever we move soil or waters, we need to clean them, and this has become a significant cost. I would say that maintenance in these costs and all the technical costs associated are the main reason why we've had this increase in fixed costs.

4. Power generation

Power generation, again a source of pride. We've reached our record electricity production and we're just slightly, just an inch below 4.6 TWh of power produced. That was actually 4.59 TWh, and this has been our all-time record. This, again, in a year that has seen important maintenance, so no small feat from our colleagues operating in the refinery.

In terms of accounts, I would say that it makes more sense to look at the full year results rather than the quarterly results. Comparable EBITDA has been down compared to last year, mainly due to the fact that there has been a 50% reduction in the CIP6 tariff, which regulates our sales of electricity, which has only been partially offset by the lower cost of the feedstock for the gasification units. So, it shows less profitability than before, of course.

5. Fixed & Variable Costs

In terms of fixed and variable costs, I would say that there is not much to say. If we look at our marketing sector, finally after a good Q3 we've had also a reasonable Q4. The market is improving, both in Italy and in Spain, for different reasons. In Spain there's been -- I've mentioned before that both in Italy and in Spain, there are some obscure market practices that alter the landscape in which we operate. Some of the reasons for which in Spain the market was altered have now finished in jail, so I would say that this is the main reason why there's been an increase in the margin structure in Spain, although the overall consumption both in Italy and in Spain is down. I think in the quarter, both Italy and Spain showed a 1% reduction in overall sales.

Having said this, our affiliate in Spain actually posted a 30% increase year-on-year, while in Italy we've seen a 10% decrease again, mainly due to the market practices which make it extremely challenging to operate in Italy in a transparent manner.

And also, I would like to mention that our affiliate in Spain and our operation and our division in Italy have done a great job in reducing costs, both variable and fixed. So, all these effects combined have significantly improved the sector.

6. Wind Power

In terms of wind, we've had -- I think it makes more sense here as well to look at the full-year results. We had a strong year, with 26% more production of power compared to last year, mainly due to the atmospheric conditions. But, I will also like to highlight the fact that our units have been in operation now for eleven years in a seamless manner. So, of course to operate a wind farm the first thing that you need is wind, but you also need excellent maintenance and operation to keep the generators in operation continuously.

7. Other

Skipping the other sector of all this, covers an area where we have our industrial consultancy activity, which is important, although in terms of economic results it is not really material.

Outlook and Business Plan 2017 - 2020

As Massimo mentioned before, we would like to give a little bit of highlight on our plans for the next four years. First of all, if we were publishing now the outlook for 2017, in terms of runs and maintenance, as you can see 2017 is going to be less intense maintenance compared to last year, and it's mainly concentrated in the first three-four months of the year. We expect to run something between 14 million and 14.5 million tons of crude overall in the year, with something between 1 million and 2 million tons of feedstocks. These are wide ranges, that of course it depends on the actual market conditions. So, as usual, our economic objective is in order to maximise revenues, not necessarily runs.

Fixed costs are going to be lower. We are giving a guidance of about €260 million. So, a year that is supposed to be a relatively normal year, with a normal level of maintenance.

We are updating our capital market day business plan, and in this slide here you basically see the main assumptions. We have just updated using the forecast of a major player in this field. We don't have a company view on oil prices and differentials. We just take as a fact those published by the leading agencies. And so, we have updated the overall scenario, but looking forward it's a little bit less bullish than what it was in October of 2015, of course. Mainly, I would say that the main difference here is that we were projecting an increase in the discounts of the heavy sour crudes, which is not really materialising for a variety of reasons, mainly I would say at the moment it's due to the compliance on the OPEC cuts. At the same time, there is an increase in production of sweet crudes.

So, what is really happening is that the price of the sweet crude is coming down, and the price of the heavy crude is going up, in relative terms, of course. This presents challenges but also opportunities, because we are able to run both crudes and as a matter of fact, as you saw from those tables shown before, we have maximised the production of gasoline using lighter crudes.

I would say that one of the most important facts looking forward is the Marpol regulation on bunker fuel. Bunker fuels are the fuels which are used in ships, and ships up until now mainly use high-sulphur fuel oil. High-sulphur fuel oil means today fuel oil which has a sulphur content of 3.5%. As of 2020, ships will be by law required to burn fuel that will have a maximum sulphur content of 0.5%.

Now, since it's impossible technically, or almost impossible, to desulphurise fuel oil, the thing is you can either use blends of low-sulphur fuel oils which are produced by crudes that are very low in sulphur to start with, or you use some sort of diesel or a combination of the two. The slide that we're showing right now is a slide which has been presented by Wood Mackenzie last week in London during IP Week. Wood Mackenzie is one of the world's leading consultancy firms in the refining and in the oil sector. Their outlook is a very positive outlook for certain refineries, which is -- refineries exactly like Saras. So, the outlook for coastal refineries that have deep conversion units like ours will see a boost in margins, in their opinion, of course, as a result of the regulation.

And, we're also very proud, we didn't know who our colleagues who have attended the conference were surprised to see that in this slide, which ranks refineries in Western and also maybe part of Eastern Europe, Saras has come out number one in terms of net cash margin production on the basis of their analysis and their projections, of course.

So, to summarise our plan, we basically remain focused on what we have already announced. So, an overall CAPEX improvement initiative of about €650 million over the next four years. This CAPEX program is upgrades in logistics, in our new petrochemicals unions, in a variety of upgrades of existing units, and energy efficiency and operational improvements. We are also embarking on an important cost optimisation program since the other variable, which is under our control, is costs, and we have launched a plan to overhaul all the main cost elements of our operation to see where we can improve. And there is definitely room for improvement, and we expect to be able to move from €15 million to €65 million per year of EBITDA thanks to these initiatives by 2020.

Of course, we continue to concentrate also on our program of crude optimisations, which has given us great results, and in our trading activities which not only have added revenue of course, but also have opened up windows of opportunity both in the crude oil side and in the product side.

At the very last, I would just like to show you a slide where we give a little overview on the cash generated in a cumulative manner from 2017 to 2020. So, we expect we have a range from €1.5 billion to €1.75 billion of cash from operations over the four-year period, less €650 million about, of committed CAPEX. We have estimated a need for €400 million of interest expenses and taxes, so that leaves a liquidity of €500 million to €700 million for new initiatives, or to pay back shareholders. And at the moment, this is not included in the business plan. New initiatives, yes, sorry.

Okay. At this point, I would say that we can take any questions which you might have. Thank you for being here with us today.

Questions and Answers

Domenico Ghilotti - Equita Sim

Good afternoon. A few questions. The first is, if you can elaborate a bit more on the fixed cost trend that you expect, particularly presuming the refining business compared to 2016 level? And then, clarification on the premium that you are mention in your outlook, premium on the benchmark? I presume that you are referring on the premium before any maintenance impact? And the last question, still on your maintenance activity for 2017, you mentioned a particularly heavy first quarter. Is this something that you have already done, or are you expected to do it say in the month of March?

Dario Scaffardi

Okay, thank you, Domenico. Starting from your last question, which is the easiest, the maintenance in 2017 is underway now and is going to be completed by, I don't remember right now offhand. It's probably in March or mid-April, but it is underway at the moment. Some of the units that were supposed to be under maintenance have already completed. Others are about to start. But, it's mainly concentrated all in the first quarter with some slippage, maybe, in the first couple of weeks of April.

So, in terms of the premium instead, we are projecting $3.50 per barrel in 2017 up to about $4.00 in 2020. And that, of course, is before any extraordinary maintenance. But, in the next two or three years, we don't have years of very heavy maintenance.

And, in terms of fixed costs, as I said before, this year fixed costs is something like €287 million and we are giving a guidance as I said, for 2017, at €260, which is broadly in line to that of the previous years.

Domenico Ghilotti - Equita Sim

Okay. Just a clarification, when you are saying extraordinary maintenance, excluding for the premium, you mean also the $40 million? So, extraordinary -- this is quite ordinary maintenance, but it is something that we should also deduct from the premium that you have--

Dario Scaffardi

Yeah. Yeah, yeah, that's right.

Domenico Ghilotti - Equita Sim

Okay. Thank you.

Henri Patricot - UBS

Yes, hello, everyone. Thank you for the presentation. A couple of questions for me. The first one, just to follow up on the premium of the benchmark, you mentioned at the beginning of the presentation that fuel oil margins have been very strong. So, I was wondering if your $3.50 premium holds with the current level of fuel margin? Because I see that in your business plan, you have minus $13.00 per barrel. It's actually a much narrower discount to Brent at the moment. And the second question is, on the investments that you could make to kind of adapt even better to the change with the IMO regulation, wondering if you can give us any idea of the timing of an investment decision, timing of CAPEX, and the expected payout on the investments? Thank you.

Dario Scaffardi

Thank you, Henri. In terms of the premium on the benchmark, first of all you know, the benchmark is a benchmark. So, it is influenced by a variety of factors. The benchmark in Q4 has been particularly strong, mainly due to the fact that fuel oil was strong. This benchmark has inherent -- something like a 25% yield of fuel, which I think if I remember correctly, about half is low-sulphur and half is high-sulphur. And low-sulphur in particular, but also high sulphur, has been extremely strong. So, the benchmark has been strong due to the fact that fuel oil has been unexpectedly strong. This notwithstanding, we've been able to add almost $4 in Q4. If we had had a more normal market structure, let me say that if the benchmark of the low-sulphur had been something like minus $10 instead of being minus $4 or whatever it was, we probably would have shown even stronger improvement to the benchmark.

So, it's difficult to give an absolute guidance over a long period of time because we have our actual performance, but we also have the way the benchmark performs, which is not a perfect mirror of our operations. So, it's like the benchmarks for financial services. It more or less reflects something, but not exactly. So, it's always difficult to reconcile these numbers among themselves.

Regarding the IMO regulation, thank you, this is an interesting question. We don't need to make any investments. So, Saras as a company and as an industrial complex, is ready to face 2020 without any investments. Having said this, there might be the opportunity to make further investments in order to extract more value. We have mentioned in our capital markets day various scenarios. At this point in time, with the implementation of this Marpol regulation, I would say that the three scenarios today have become one scenario. We plan to exploit the market to the fullest, both on the low-sulphur grades and on the high-sulphur grades.

We are ready to produce 0.5 fuel from our streams that use the low-sulphur crudes, and we are able to destroy the high-sulphur crudes that we believe will be very competitively priced post-2020. We have mentioned that we have the possibility of further upgrading some of our units in order to extract more value. One of the things that was mentioned was the possibility of revamping what we call our visbreaking unit which is a unit which basically is a sort of a pre-treater to the tar that is fed to the gasification and by revamping this unit, might be able to extract a higher quota of middle distillates. But, this is an opportunity investment, not a necessity to face the future.

So, if during the course of this year, and the beginning of next year we see that there is a strong case to invest, we would probably go ahead. Otherwise, we keep on waiting and see if the market conditions warrant this or not.

Henry Patricot - UBS

Okay, thank you.

Josh Stone - Barclays Capital

Yeah, hi, good afternoon. I've got three questions, please. First, I noticed that in the quarter there is quite large working capital build. I guess high prices is a large factor in that, but I wondered if you could talk about that? And also, where we are with regards to the Iranian payments? And then secondly, on the CAPEX outlook it's committed CAPEX, but I wonder for 2017 should we see that as being -- is that number likely to change? Is there any non-committed CAPEX that could come into 2017, or is it all largely -- you know, that's a number we should really expect now? And then lastly, you mentioned growing costs associated with environmental regulations. I just wondered if you could talk briefly about which of those, which environmental regulations we're talking about, and the potential cost associated with them? And when they're coming in over the next three to four years? Thank you.

Dario Scaffardi

Well, on the working capital, I would ask some assistance to Franco. But just to go through your previous questions, which I think I can answer quickly -- on the environmental, there is no new regulations. It's just that whenever, basically, you perform ground work within an existing industrial site and you just simplify, you start digging up soil, this soil needs to be treated as contaminated soil and it needs to be cleaned. This is absolutely excessive, but it's the law. So, let me say that if you dig the foundations of a new plant, the soil that you dig up needs to be treated as a contaminated soil, and that's expensive. So, since this year, we started quite a number of investments. We've produced a lot of soil, and that needs to be treated, and that's millions.

We are in the process of renewing the environmental authorisation which lasts I think seven years, so I think it's going to expire in 2018-2019, and we are well under way with the authorities and we don't really expect any dramatic changes. Although, of course here and there, there are more stringent regulations every day on emissions and so forth. But, the colleagues in the refining have been very inventive in finding ways of reducing emissions without really making significant investments through excellence in operations and the way things are operated. So, in a cheap manner.

In terms of Iran, as I said, we have paid about three-fourths of our debt in 2016, and we are in the coming months going to finish paying the rest of our outstanding debt. So, certainly by the beginning of the summer, our commitments with Iran are going to be -- our historical commitments are going to be over. I would ask Franco maybe to assist in,

Franco Balsamo

We have already, answered to the questions related to Iran because if you look at slide number 27, there is some information about the generation of cash flow, and they're related to the delta of working capital. You can see that the delta stays negative for €272 million. This is the combination of two different activities. One is the extraordinary related to the repayment of the oil supplies towards Iran, and that as Dario said before, that is paid for €250 million. This number is included in this calculation.

So, the remaining €22 million is the delta-working capital for the operation of the entire activity over the year -- it's a combination of improvement in terms of receivables, and there is also in this amount included €60 million delta due to higher value of inventories. So, the two activity, one the extraordinary as explained, and the ordinary activity we have operated at zero working capital.

Massimo Vacca

Next question, perhaps?

Peter Low - Redburn

Hi. Thanks for taking my question. The first was just on the defining variable costs. They were a bit higher this quarter than they have been. Can you give us a bit of colour on what caused that, and where you expect them to trend this year? And then secondly, was just on the marketing business. The plan you outlined today is about 10 million per annum going forward. That's a bit of an improvement on 2015-16 levels. Can you give me an idea of what's driving that improvement? Thank you.

Dario Scaffardi

On the variable cost, in the quarter they've been slightly higher than the last year. Sorry, we're looking at the wrong one, yes. They've been broadly in line with those of last year. Were you looking at -- sorry, were you looking at the quarter, or the year?

Peter Low - Redburn

I was looking at the quarterly unit costs at 2.5 --

Dario Scaffardi

Okay, if you look on a quarterly basis, it's offset by one-off things. So, we had a higher electricity bill in Q4. It's not really meaningful to look at these costs on a quarterly basis. It's much better to look at the yearly basis, because you have effects in the quarters which are then offset in the next quarter. But sorry, you also made another question which I didn't catch?

Peter Low - Redburn

Sure, it was just on the marketing plan. So, I think you guided to 10 million per annum of EBITDA going forward. That's a bit of a recovery on what you've been doing in 2015 and '16, so can you just give any colour on what the improvement is there?

Dario Scaffardi

Well, you see, what -- first of all I mean, our marketing guys have been pretty good at reducing cost and increasing margins. We also expect the overall environment in Italy and in Spain, and Spain it has already happened -- Italy is always slow in doing everything -- to improve the environment. And in Italy what is happening, is that there is a situation by which -- and this has been broadly reported on the press -- there is a lot of import of fuels from other countries, which basically avoid VAT in a way. Allegedly avoid VAT. This creates a situation in which institutional operators like ourselves and the other major oil companies sell at a certain price, and you have operators that are able to sell in a price which is significantly below market values. Of course, there is something unreal in this, and this is mainly due to -- in our opinion, to the stack. This has been reported broadly on the press. There have been various police investigations in this. I wouldn't say that up to now too much has been obtained, but we think that the situation is going to change because it's really unsustainable. So, we believe that our division will be able to go back to an economic situation similar to the ones of the past years.

Peter Low - Redburn

Thank you, that's useful colour.

Giacomo Romeo - Macquarie

Good afternoon, and thanks for taking my question. Two questions for me. The first one is, on the improvement initiatives, you talked about €65 million incremental EBITDA potential for -- by 2020. Just wondering how this compares to the previous plan, where you had improvement initiatives of €90 million in 2019, and what's changed in terms of the underlying assumptions there. And perhaps, related to that, can you have a -- can you discuss a little bit where the 130 million supply chain integration improvements in the EBITDA are included, and to what extent they are included in the current business plan? And finally, when I look at your expected cash flow generation, and you talk about €500 million to €700 million available liquidity during the period, just wondering what is your priorities in terms of adding potential further CAPEX or potential reducing these -- returning this to shareholders? And also, your appetite, potentially, to increase -- to add a bit of that, if you have further investments?

Dario Scaffardi

Well, thank you, first of all. In terms of your last question, as I said, at the moment we don't have any strong investment plans. We believe that our refinery is well-suited to face the future. We don't think that we need really anything above what has been illustrated in the CAPEX plan. As I said, there might be some opportunity investments to be made to further extract value, but we don't -- we do not need anything transformational.

Other opportunities, maybe. Never say never, but they're not really a complete possibility for the time being. If something comes up, of course we'll have a look. As always, our criteria for investment are very stringent, so it really has to make sense and complement our industrial operations. We look also at downstream opportunities, we always have a look at things that might develop on the market. But it's difficult to reconcile the values talked in the market with the actual opportunity that they would be for us.

Maybe Franco can give a little bit more colour on -- both on this and also on the improvement initiatives?

Franco Balsamo

Of course. In this amount of liquidity, between €500 and €700 is included our dividend policies that would be unchanged over the coming years. So, yeah, there is room for dividends in line with the policies, and the additional initiatives as Dario described before.

Dario Scaffardi

He had a question also, Franco, on the improvement initiatives.

Franco Balsamo

The €65 million improvement initiatives need to be compared with the €90 million of the previous analysis explained for the capital market day. So, the investment plan is in line with the -- with the execution, is in line with the plan, the value in terms of the EBITDA is lower due to the switch in terms of time and the lower margin that could be obtained from that kind of investment. So, it's merely an update of the previous plan.

Giacomo Romeo - Macquarie

Thank you, and then just as follow-up, in terms of, you can provide a bit more colour on the supply chain integration numbers you had in the previous presentation? Where do they stand within the current business plan?

Dario Scaffardi

They are already included in the margin, basically.

Giacomo Romeo - Macquarie

All right, okay, perfect. Thank you.

Alessandro Pozzi - Mediobanca

Thank you. I just have one question left, and I was wondering if you can give us perhaps a little more colour on the assumptions of the cracks for the rest of the year for gasoline and diesel? I see now you're using $10 for gasoline, $11 for diesel. I was wondering, where you see upside or downside into the IHS forecast? And also, whether a potential rolling back of the OPEC cuts could affect the cracks in the second half of the year? Thank you.

Dario Scaffardi

Well, thank you. I think it's an interesting question. Our assumptions are not assumptions which are made by Saras or by the management. In this case, I think we have used the forecast published by IHS. IHS is a very large consultancy which has absorbed the famous CERA, Cambridge Energy Research, which is the one run by Daniel Yergin, the author of the Prize. So, it's one of the leading providers of these numbers, so we take them at face value and we don't really make any elaboration on these numbers. So, then where do we see our personally? Well, let's say that from our point of view, we are -

- we pride ourselves on being able to take advantage of the market conditions as they develop, based on the fact that it's very difficult to make predictions on where they're actually going to go. So, we are not making here an assumption of gasoline very strong or very weak, or diesel very strong or very weak, and therefore making an investment to produce either gasoline or diesel or something else. We have a very flexible unit, which is able to sort of switch from one area to the other according to the conditions, and we adapt to those conditions. So, I believe that these assumptions on the diesel cracks are sort of conservative, but $15 with a $65 Brent in 2020 considering what's supposed to happen with Marpol, seems to be fairly conservative. But, the market has a way always of surprising, you know? Nobody predicted that fuel oil would be almost at zero, and here we're seeing minus $13 and minus $15, and I've seen it be slightly positive on some days of Q4.

So, we take everything with a pinch of salt here, and without needing to embrace these value as a religion. They are the basis on which we form calculations. We need to present results to the market, but then we're able to switch around according to what actually happens. We are a transformation industry, so all these numbers affect also the prices of crude oil and affect the price of crude oils in different manners. So, our -- let's say our art is in choosing the optimal blend of crude oils and the optimal production slate in order to adapt to the way that the price of crude, base price, the differentials of the various crudes which is not included in these tables because nobody produces them. But, they are the single most important factor for us.

I hope to be able to explain a little bit, at least?

Alessandro Pozzi - Mediobanca

On the OPEC cuts, I guess, if they hold back basically should lead to a wider spread between light and heavy, which should help you, help your cracks?

Dario Scaffardi

Well no, what's happening at the moment is actually the opposite, in the sense that personally I was extremely sceptical that OPEC would hold. Instead, it does seem that OPEC is holding so there is less -- so when OPEC cuts basically, it's Saudi Arabia cutting and Kuwait, and they of course cut the cheaper crudes which are the heavier crudes. So, that generally has the effect of increasing the price of the heavy crudes, the relative price. So, notwithstanding the fact that Iran has come back on the market, the value of heavy crudes has actually increased.

Instead, all the new productions, particularly the US which has been extremely resilient, has increased immediately production. With the increase in price, is actually for the opposite crudes. So, for light crudes. So, the value of light crudes, the relative value of light crudes, has gone down. So, the spread between light and heavy has actually tightened a bit which is not really helpful for us. But then again, it depends.

I hope I haven't confused you.

Yaroslav Rumyantsev - Credit Suisse

Hi, thanks for taking my question. It's just a clarification question. So, you said your refining premium benchmark, your premium above the benchmark of $3.50 per barrel in 2017 does not include any extraordinary maintenance, but does it include your scheduled maintenance? So, in other words, if I try to calculate implied EBITDA guidance from the numbers you gave us, taking in the benchmark of $2.00 - $2.50 per barrel and premium of $3.50 per barrel, and then I take your runs of around 105 million barrels, and also a fixed cost of €260 million. Do I have to reduce this number by 40 million to 50 million barrels of scheduled maintenance impact, or it's already in the premium guidance? Thank you.

Dario Scaffardi

Well, the short answer is, yes. You take the benchmark, the premium, multiply it by the runs, and then you subtract the EBITDA reduction of our guidance. But I think that if you speak with our investor relation teams later on, they will be able to give you a bit more detail on how to go through this process. But, the short answer is yes.

Yaroslav Rumyantsev - Credit Suisse

Thank you.

Domenico Ghilotti - Equita Sim

I have a follow-up on your previous comments related to M&A opportunities, basically, or opportunity to invest your excess cash. You are saying that you are not seeing at the moment opportunities in the market at reasonable prices, at value credit prices. Are you referring also in particular to some opportunities related to the retail business? Or it was just a general comment?

Dario Scaffardi

Well, we of course, we -- as a policy we tend to look and analyse any opportunities that might complement our business. So, we have looked in the past to various opportunities in the retail business, but we've never found, at least in Italy, things that were interesting, at least for us.

Domenico Ghilotti - Equita Sim

Okay, clear enough. Thank you.

Giuseppe Rebuzzini - Fidentiis

Good afternoon, thanks for taking my question. I've got one question about the power generation business, and in particular a question regarding the long-term after the end of the CIP6 incentive scheme. What are your thoughts about -- have you developed any new thoughts about the way the power plant can run after the CIP6? And, in particular, are you investigating any opportunities for kind of new incentivise scheme with government, kind of master-run the regime for that band, like those that we see for example in other power assets in Sicily or in Sardinia as well? And then last question, I've read on the press that have been in touch with the region of Sardinia about investment, or possible investment, or involvement in the LNG business in Sardinia. Can you please give us some comments about that? Thank you.

Dario Scaffardi

Thank you, Giuseppe, for your question. Starting from the second question, which may be shorter, the only -- our only involvement with LNG is the fact that there are various operators in the market, but particularly they are stimulated by the regional government of Sardinia, to build one, two, three, regasification plants in Sardinia. And we are available, since we have an industrial side. We have an industrial port, we have the facilities to use our facilities for this. So, we are available to cooperate. We have no direct involvement or investment in the LNG business. So, we are just available, should a qualified operator have a project, let's say, that in principle we have nothing against using our industrial facilities, if this is technically feasible. Of course, a technical feasibility study has never been performed, so it's just an announcement of a principle because the local government would be very keen of having a gasifier or a -- no, not a gasifier, a regasification plant or a depot built. In Sardinia of course, it would be easier to build it in an existing industrial site.

But, again, I would like to stress that we have no involvement in LNG whatsoever, and frankly we have no intention of getting involved, because we have -- we would have nothing to contribute to this, apart from the land maybe.

In terms of CIP6 which is a very interesting question, of course it's well known that our incentivise scheme will end in the first quarter of 2021, and -- we don't expect to be able to negotiate any other incentivise scheme, unfortunately. It would be nice, but I think this would be rather unlikely. Of course, we need to put our hands around the idea of being able to supply in a stable manner, the local market. As a matter of fact, our plant is absolutely essential to the local grid because we are the only large producer of power that is able to stabilise the grid. There are technical issues here by which it's difficult to finally have a stable grid with renewables and other sources. So, I think we are strongly positioned in this respect.

But, our main plan is to capitalise on our flexibility. We said before that once we will be in a post-CIP6 environment, we have a power unit which is very well-subdivided on three trains. We expect to need one full train plus something to run the refinery, and as a matter of fact, in our CAPEX of €650 million there are a lot of electricity CAPEXs why we're moving all our units from power, from steam-based power plants to electricity ones which are also more modern and more easy to regulate. So, at the same time, we will use electricity instead of using steam, which uses fuel. We will use the electricity produced internally and we will not pay all the costs associated with the dispatching of electricity.

The other thing is that we expect on the basis of what we said before, about Marpol and so forth, that there is going to be a very, very interesting market in the period 2020-2025 for heavy crudes because I don't -- I mean, heavy crudes which produce high-sulphur fuel oil will produce something which will have no market at all. So, basically, there will be -- the only way to dispose of high-sulphur residues, either through tar, but the market is already saturated for that. The existing conversion units and build new conversion units. I don't see in this part of the world, any significant conversion units planned. Maybe one or two things which are under construction in northern Europe, but that's about it. So, we expect some of the older refineries to close in this part of the world. Just it will not materially affect the supply-demand balance, but it will affect a little bit the differentials, in my opinion. These are all small units that will not alter the overall refining sector that much, because for every 50,000 or 60,000-a-day refinery that you close in Europe you have maybe a 500,000 barrel refinery that is opened in China.

The wild card here, or the black swan, is going to be what's going to happen in the Far East, if there's going to be a big buildup of conversion units or not. The first signs that are coming from the Far East are relatively bullish, I would say, because we've had a very negative impact on the diesel market towards the end of 2015 and the first part of 2016, mainly from China, which have sort of disappeared because the various government controls in place seem to not privilege any more the so-called teapot refineries that were flooding the market with diesel. But of course, these are all variables which are sort of outside our control.

What I would like to stress, that we don't really need to do very much. We will sort of adapt, as necessary. So, if we will be in a situation in which the differentials on crude oil will not develop according to our plan, we will probably run the refinery for a period of time on two power trains, keeping the third power train on a standby basis, and as soon as the market warrants putting it back online we'll do so, and we'd be able to do so in a matter of weeks. And alternatively, we might be using sweeter crudes, privileging runs of three crudes to produce IMO-compliant fuel. So, this is something to be seen, but again, our strength is being able to take a wait-and-see approach according to what the market is actually going to do, which is always difficult to predict.

Giuseppe Rebuzzini - Fidentiis

Thank you very much.

Closing Comments

Massimo Vacca

Okay, then, at this stage we'd like to thank everybody for listening today, and we look forward to the next conference call. Thank you, and a nice evening to everybody.