Saras

Q2 and 1H 2018 Results

Welcome

Francesca Pezzoli
Head of Investor and Media Relations, Saras

Good afternoon, ladies and gentlemen, and thank you for joining us today for this conference call on Saras' First Half and Second Quarter 2018 results. You should have received our press release a few hours ago, and our analyst presentation is available on our website directly on the home page and also in the section dedicated to investor relations. We are also going to publish our consolidated financial report very soon.

Our agenda today will be the usual one. Mr Dario Scaffardi, Chief Executive Officer and General Manager of the Saras Group will start with the highlights of the period, followed by a detailed review of the results of each business unit. Afterward, Mr Franco Balsamo, Chief Financial Officer, will discuss the key financial figures of the Group, and then back to Mr Scaffardi for the outlook. Finally, we would be delighted to take your questions.

At this time, I would like to hand over to Dario.

Dario Scaffardi
CEO & General Manager, Saras

Highlights

Francesca, thank you. Good afternoon, ladies and gentlemen. Thank you very much for being with us.

In the second quarter of 2018, the Saras Group has posted a reported EBITDA of € 199 million, which is well above the same of the previous year, basically due to the positive effect of the markets with the strong rise in the oil prices in the period compared to that of last year. Comparable EBITDA, instead, was € 78.8 million versus € 128.5 million of Q2 of last year, due to the fact that the refinery operated in less-favourable macro conditions, due to the high oil prices, to the strength in the Euro versus the Dollar, and to lower runs due to a variety of reasons. I will be able to give a little bit more flavour on the market in the following slides, but at this stage I would like to highlight that Brent has continued its rise started in the last part of 2017, basically due to the reduction in supply from OPEC and non-OPEC countries. And with the various geopolitical issues regarding countries such as Venezuela, Libya and Iran, coupled with a very robust demand growth for oil products.

Gasoline and fuel oil cracks were slightly weaker, and this affected our EMC benchmark which averaged $1.90 per barrel in the first half of 2018 versus $3.50 in the same period of 2017. There was anyway a net improvement in the second quarter compared to the first quarter. Second quarter was 2.20 $/bl compared to 1.70 $/bl in the first quarter, and it's strengthened for the last couple of weeks. As a matter of fact, since July, the number is about 2.7 $/bl.

From our operations, we have carried out our main maintenance activity in the first quarter with some carryover in the first month of the second quarter, and for the remainder of the year the refinery will operate at full capacity and be able to capture the market conditions.

I would just like to finish on this first slide with our cash position, which is positive by € 42 million compared to basically a zero position at the end of March. Even after the payment of € 112 million of dividends in May, thanks to the very strong generation of cash and decrease in inventory levels.

The graphs on the market: Brent is a well-known story, I think, to everybody. We've seen it rise consistently in the first half of the year and correcting only at the very end of June and maybe in July due to the well-known increase in production by all the countries. At the same time, this is countermanded by the uncertainties in Libya, the great uncertainties regarding Iran and to a lesser extent of course, Nigeria and Venezuela, although production particularly in non-OPEC areas of the world has consistently increased. But I would say that the cap of about $80 has been sort of reached, and since then the market has been retracting.

If we look at the crack spreads, gasoline cracks were rather weak in the first part of the year due to an excess product available in inventories, due also to very high crude runs to meet the high demand in diesel, which on the other hand is seeing some very healthy cracks. Since the first part of the year, demand in gasoline has come back and the cracks are at more healthy levels right now.

Abnormally high are the values of the fuel oil cracks, and this is reflected also in the high levels of prices of the sour crudes which interrupted their downward slope that started basically at the beginning of the year, and we touched the lowest levels around May and since then, in June-July the premiums for these crudes have gone by now, also as an effect of the political uncertainty which is what we were talking about before.

If we look at the trends in refining margin, first of all the usual EMC which represents the profitability of a mid-complex costal refinery in the Med, this was 1.7 $/bl in the first quarter, 2.2 $/bl in the second quarter, which is significantly lower than the levels of last year which were respectively 3.3 and 3.8 $/bl. This is mainly due to the strong rise in crude oil prices and the effects that we said before on the cracks. In the first quarter of the year, it was 2.1 our premium, and then it reached almost 2.8 $/bl in the second quarter.

Segment Reviews

1. Refining

Refinery crude runs in second quarter reached 3.32 million tons, which is about 5% less than the same period of 2017, while instead complementary feedstocks -- I mean other feedstocks which are complementary to crude oil -- stood at 0.32 million tons.

This reduction is mainly due to the maintenance program that was carried out between Q1 and Q2, and through some technical issues that we had in one of our units and in the refinery. Not a major issue, but still, something that involved one of our hydro crackers that had to shut down for about 10 days, and this of course reflects in the value of maintenance, and in the disruption to the production schedule and to the programming schedule that needs to readjust to these unplanned outages.

So, with a comparable EBITDA that was € 20.8 million compared to € 70 million, and this is due mainly to higher crude prices, to the gasoline crack and to the Forex effect which was worth about € 10 million.

From our operational point of view, I said that we had some minor outages, and the commercial performance therefore was also negative for about € 3 million, as € 3 million also a production planning was low for these reasons.

Also fixed costs in the second quarter of 2018 were higher, because of the postponement of some costs referring to the first quarter. If we look at the products, although as we said many times before it is not really meaningful to look at single quarters in order to assess the slate, we can say that crude slate, has become lighter than the same one in 2017. This is mainly due to the fact to the full resumption of Libyan supplies, which provide some extremely light crude, which Saras is keen to run. So, this is the main reason why we've had a strong increase in the light extra sweet part of the barrel. At the same time, the other crudes have remained more or less the same, but this is the main reason why we have a higher API average gravity compared to last year.

In terms of production, there is currently a higher percentage of gasoline and naphtha due to the fact that we're running more of these particularly light crudes, which have a distinct advantage for Saras, while middle distillates have remained more or less in line and fuel oil also has gone down.

2. Power Generation

If we look at power generation, the heaviest part of the annual cycle of maintenance was performed in this first part of the year so we will have full availability of the unit. One of the three gasifiers was overhauled, and one of the two H2S treatment units, the ones that clean the Syngas and split it into gas, which is burned in the gasifiers, and hydrogen, which is turned back into the refinery.

So, electricity production notwithstanding was 1.09 terawatts, up 7% compared to the second quarter of last year, thanks mainly to better operating performance.

Comparable EBITDA was € 51.4 million compared to € 49 million of last year. This is mainly due to the increase in the electricity tariff, which increased by almost 9%. This tariff is mainly linked to gas prices and then to some sort of fixed elements.

I would also like to note that the difference between comparable and reported EBITDA is mainly due to a reclassification in the fair value for the CO2 cost for hedging purposes.

3. Marketing

The marketing comparable, basically in Italy there's been a slight increase in overall consumption. So, this is a positive sign, and in Spain there's been a more marked increase. The overall market in Spain has increased by about 5% and Saras' sales in Spain have increased by about 4%, while in Italy the sales have slightly decreased, and the unit margin has slightly decreased. So, this is the reason why there is a lower EBITDA in this quarter compared to the same quarter of last year, although globally the outlook for the marketing sector in Italy and in Spain is very favourable.

4. Wind Power

Wind, in the second quarter of 2018 the comparable EBITDA for wind power segment was € 1.3 million. The incentives that were part of the wind sector have ceased in March of 2018, so this is the reason why there is a sharp decrease. From a production standpoint, things went fairly well. In Q2 the megawatts were 32,000 compared to 31,000 in the same period of last year, so there was actually an increase. But there was a sharp decrease in the incentive tariff, so this is the reason why there is a lower comparable EBITDA.

I would like to hand over to Franco on the financials.

Franco Balsamo
Chief Financial Officer, Saras

Financials

Thank you for your comments below on page 16, financial income/expenses were negative for € 72 million. It's the combination of different factors. Interest expenses at € 6.7 million in line with the previous period. The unrealised gains on derivative instrument were worth about € 3.5 million. Then finally there were losses, on the hedging activity on commodity and to edge the foreign exchange risk.

In this quarter we also suffered € 4 million of negative interest expenses due to past litigation with the Port Authority.

Profit before tax, to the € 115 million, the tax rate is in line with the previous period, and this gave a net result reported of € 81 million, net of adjustment for the comparable net result, that was € 15 million.

If we skip page 16, there is the adjustment at EBITDA level. As Dario said before, the average Brent moved from $61.00 in the last quarter, of last year, to $74.00 in the second. In the second quarter we generated losses on inventories for about € 115 million. There are € 25 million of non-recurring items that are related to the CO2 cost, one as Dario said before is the change ibn fari value of CO2 hedging derivatives. The other amount is a provision for about € 14 million, that we have provisioned this quarter related to the past allocations on the CO2.

The hedging on derivatives was -€ 33 million at the end of the period. So, net of the tax rate, the comparable net result is about € 15 million.

About the liquidity on page 19, the period was very positive, and the company generated a good level of cash flow. The difference of the two net financial positions is negative € 45 million because in the month of May we had € 112 million of dividend payments. Coming back on the ordinary generation of cash, we have € 25 million negative in working capital that is a combination of the increase in the inventories, more or less net the difference with the trade receivables and trade payables. We are the positive effect on the export duty and VAT and with this generator more or less flat, a flat situation. CapEx were € 85 million, slightly below our forecast. Our forecast for the year is approx € 200 million. Interest expenses were € 7 million. At the end the net financial position was at + € 42 million.

Over to Dario for the outlook.

Dario Scaffardi
CEO & General Manager, Saras

Outlook

Thank you, Franco. We expect a positive scenario in the second part of the year. July has started in a very bullish mode. We also expect to start seeing the first effects of the IMO regulations, which will materially should start in the summer of 2019. Of course, the overall demand is robust. The uncertainty of course is on the geopolitical situation, which still has a lot of uncertainties, which we'll have to see how they will play out.

I must say that we were initially quite worried on the effects of the US position on Iran. I must say that the fact that certain Gulf countries have increased their production has partially offset this worry, so I must say that the market in terms of crude is well-supplied although as we were fearing, the premiums on heavy crudes have increased. So just to give an example, if I remember my numbers correctly, in May, Arab heavy was trading at minus 5.7, and I think in July this number is almost close to 4. So, had there been an effect on the sour crudes? Yes, there has, although the market remains well-balanced and well-supplied. So, it could be that these numbers start coming back down if this situation, is maintained.

The EMC benchmark is today around 2.7 $/bl and we expect it to remain, sort of for the remainder of the year, in the range of between 2 to 2.5 and with the usual premium that Saras is able to add, which is again in the range of 2.5 to 3 $/bl. We have no more major maintenance scheduled, so all-in-all we look forward to a positive second part of the year.

We'll be pleased to take any questions you might have. Thank you.

Questions and Answers

Alexander Jones - Bank of America Merrill Lynch

Hi, good afternoon. Thank you very much for taking my questions. Two for me, please. The first one is on the EMC benchmark premium guidance. In your presentation on the first quarter, you said you expect to deliver a premium of 2.5 to 3, and that language has now changed to target to deliver. So, I was wondering whether that suggests you're a little less confident in light of the Iranian situation, or whether it's just a word change? And the second question would be, on your business plan you talked about selling bunker fuels directly to shippers from kind of now onwards. I was wondering how those plans are coming along, and whether you're seeing a large pickup in demand ahead of the 2020 IMO regulation? Thank you.

Dario Scaffardi

Thanks for the question. On the EMC benchmark, let's say first of all, the language that's changed, it's just a slip-up. On the guidance, yes, I would say the fact that we're seeing higher prices for sour crudes has affected a little bit our view but we stick to the 2.5-3 $//bl guidance.

On the bunker fuels we will be ready in 2019, and at the moment there is basically no demand for the new fuel. So, there is demand for the old type of fuel, which we never tried specifically to produce because it was not of particular interest to us. We think that the market is going to start materially some time in the second part of next year. We will try to be ready in the first half of the year, more or less.

Alessandro Pozzi - Mediobanca

Thank you, how about two questions. The first one is on Iran. As you mentioned, the US sanctions have not had a huge impact so far on their exports, but they might be in a wind-down period. But I was interested about your comment. I was wondering, do you think the heavy light differentials could improve in the second half of the year? And anything you can say on that would be helpful. And also, on the IMO 2020, I think your assumption is around $5.00 EMC. Just wondering whether your level of confidence has changed in any way, in light of what the -- your competitors or the ultimate customers are doing at the moment? Thank you.

Dario Scaffardi

On Iran, the market is anticipating the effect, but for the time being supplies have been normal like before the announcement of the sanctions. Now since the sanctions are very clear in the sense that there is a three-month grace period, and then a three-month wind-down period, the three-month wind-down period is starting now. So, we expect to see the effect sort of now, you know, not even in August. The physical effect in September. But of course, we anticipate all refiners starting to do their programs now for September, and even for October. So, certainly the effect is on the numbers for the time being, not on the physical supplies, which of course is comforting. But it has pushed up, and it has tightened the heavy sour differential, which we're actually expecting to increase, instead of decrease. So, it's going exactly in the opposite manner than we were anticipating.

Regarding the outcome, the talking to market analysts and to the major agencies that follow the markets -- particularly if we look at the American ones -- everybody has a very, very positive outlook on IMO 2020, and the number $5.00 is based on the assumptions for the leading forecasters such as IHS and with Mackenzie. So, to the best of my knowledge their outlook has not changed.

Henri Patricot - UBS

Thank you for the presentation. I have three questions for you. The first one, just following up a comment that you made on the CO2 cost, I was wondering if you could give us some idea of your exposure, so how much it cost you last year, how much you expect that to cost you this year, and what the impact of your hedging activities. And then secondly, if I remember correctly last year in the summer you had some operational problems because of the hot weather. I was wondering if that was the case again this year, or if you have been prepared to the sort of event. And finally, a bit overall following up on the questions on IMO 2020 and targeting the bunker fuel market. What's your kind of capacity to produce, some 0.5% sulphur fuel oil specifically for the bunker market? Maybe not now, but many years time? Thank you.

Dario Scaffardi

Thank you, Henri. Well, starting from the last question, let's say that our plan at the moment is to be able to produce about 500,000 tons of 0.5% once we are fully up to speed, and with a plan to increase this number to something that looks like a million tons. We might fall just you know, short of that target, but that's sort of the type of range, maybe 900,000 tons. Once we're fully up to speed, and once we've also gained confidence both in the production and on the sale, the actual sale is a new territory. I mean, there's going to be a very, very not only for a new territory for us, but it's a new territory for the market. It's going to, one of the impacts of IMO 2020 is the way the product is going to be sold. So, we expect that the usual suppliers of bunkers, which are blenders in areas which generally are not areas of production, will shift to producers. So, there will be, presumably, a big share change in the way that bunkers are sold, and we'll have to try to gain our footing and get some experience in the sector, which for us is why we're being prudent in terms of quantities without making wild assumptions. But from a technical point of view, about a million tons is sort of the maximum that we can imagine, realistically producing.

Going on to the operational problems: very hot weather can affect us negatively, but last year after we had a breakdown we made some investments on new air fins which are basically heat exchangers in order to cool down. So, we expect not to have the same problems that we had last year. And as a matter of fact, the weather has been pretty warm for the last two months, particularly in Sardinia. Very often we had almost 40 degrees, and things have been running smoothly. And also, we have a new compressor, the compressor that compresses air based on electricity instead of steam. So, this has changed the balance of our air use, so this has also had a positive impact.

And the top question is to Franco.

Franco Balsamo

Thank you. In terms of cost, the total cost for the year's forecast, let's say between € 13 million and € 15 million. As I said before, we are € 4 million is recurrent cost that is related to an issue with the Authority related to the allocation to the previous Versalis assets, and other potential costs. Clearly the provision is not a cash outflow. In terms of the difference on the hedging policy, as you know, we have to adjust the benefit driven by the derivatives classified in the reporting into the financial expenses, and so we have to report into the comparable positive and negative as it is. So, it's merely a reclassification of the cost. Globally-speaking, we are talking about between € 13 million and € 17 million per year.

Henri Patricot - UBS

Okay, thank you. And so just following up on the first question, the 500 kT of 0.5%, is that what you expect to be producing in 2020 or do you think in the ramp-up to a million tons as early as 2020?

Dario Scaffardi

Well, let's say, we would hope to be able to do that quantity in 2020. 2020 is also going to be a year with some maintenance, so I think you know, the objective for 2020 is in the range of about half a million.

Thomas Adolff - Credit Suisse

I've got a few questions as well, please. Just going back to the comment you made just now, where you said 2020 is going to be a year of maintenance, just to get it -- just to clarify this comment, do you expect heavy maintenance in 2020? If that's the case, why don't you bring that forward so that you have a smooth year come IMO? Second question I had was, just on the recent strength in the fuel oil crack. Now, it might be Saudi simply burning more high-sulphur fuel oil in their power plants. Can you remind us the relationship between the strength in the fuel oil crack, and the premium you get over and above the EMC? That typically is negatively-impacted if fuel oil cracks are strong, isn't it? And my final question on your comment you made earlier on, on you have increased the portion of light extra sweet in your refinery, and you've mentioned it is Libya-linked. And presumably you kind of shift the slate towards light if pricing is also attractive. And my guess is, pricing is attractive and it has been for the past few years, thanks to ever-increasing US exports. So I guess, with that in mind, I wondered whether Saras has actually tested US shale in your system, and if so, perhaps you can comment whether you will continue to be a user of this type of crude? And if not, why not? I'll be very interested in thoughts on that, thank you.

Dario Scaffardi

Thank you, Thomas. Why don't we change the maintenance? Well, in 2020 we are going to have our six-year maintenance of the FCC. It has a cycle between five-and-a-half to six years. The objective that we give to the engineers is to make these cycles as long as possible, so there might be some merit in anticipating or delaying a little bit. But in the big scheme of things, it really doesn't change, also because there's a huge preparatory effort. I mean, these shutdowns are prepared two years beforehand with the purchase of materials and all the planning. So we would have to see some exceptional market conditions in order to do something like that, and also I wonder if we would be ready, of course. Because when anticipating a shutdown of this magnitude, by six months is not an easy task. That means they would have to be ready six months before, which really we are not. So, there is a little bit of leeway of some months here and there, but this leeway is not that big, also because these units tend to decay very quickly once they reach their end-of-life cycle. So they're designed to last five-and-a-half years, something like that, and materials, five-and-a-half years, they start breaking down. Every month more is a month which is sort of gained for free, but you cannot really count on it from a planning point of view. So, that's not so much.

On the fuel oil, yes, the fuel oil has been extremely strong. One of the reasons is burning in Saudi Arabia. The other, I think, is Iran, of course, and this is negatively affecting the price, as I said before, of sour crudes. And it also negatively affects our conversion margin, although our margin has been, all-in-all, healthy. Because the economics of our gasification unit is an upgrade, basically, from a discounted fuel to premium diesel. The smaller the differential is, and the less margin we have. So, it does have a negative impact. That has been offset by other crudes and a variety of other factors as usual. Our margin is the sum of a very large number of different factors, which sometimes are conflicting along with each other.

And regard to the US, we have never run it. We were the first company in Europe to run Canadian crudes when they became available more than five or six years ago, but it was on an experimental basis. Up to now, we have not run American crudes, only because the crudes that are available in the Mediterranean basin are more competitive for the time being. If this changes, we have nothing against American crudes.

Joshua Stone - Barclays

Thanks, hi. I've got three questions, please. Firstly on the power generation business, I notice you're running ahead of guidance of € 190 million. Just wondering the conservatism, is that just gas prices assume the second half of the year, or is there anything else going on there? Secondly, in refining, can you quantify the contribution from the trading division in Geneva over the first half of this year? And lastly, just commenting on the market, we did see oil prices hit $80 at one point. Did you see any impact on product demands associated with high prices, or was it just simply your pass-through, no problem? Thanks.

Dario Scaffardi

Thank you for the questions. On power gen, Franco can be a little bit more detailed. On what you ask on the physical demand, no. Physical demand has been extremely healthy. There is demand worldwide for products, so I would not say that for the time being the high oil prices have at all impacted demand, at least for now. Even on the consumer level in Europe, although the price sometimes has gone almost close to € 2, demand has not really been impacted in any significant way this time the same way that it was impacted five or six years ago when the economic crisis hit together with the high prices. Saying before, Spain increased and also Italy shows some marginal improvement.

Franco Balsamo

On the power generation, building our forecast for the second half of the year, we foresee EBITDA year-end including the first half at the level of € 200 million. So, the combination of different effects, they cause in consideration the effect of the linearization so the result on the power segment is very stable. This quarter, we have a positive effect on the tariff due to the decrease in the gas prices, so in the next quarter we are forecasted level in line with the average of this period.

Joshua Stone - Barclays

On Saras Trading contribution?

Dario Scaffardi

On Saras trade contribution, the contribution basically from the trading activities is about € 10 million.

Joshua Stone - Barclays

So the first half of the year, or the second quarter?

Dario Scaffardi

For the first half of the year.

Peter Low - Redburn

Hi. Thanks for taking my questions, two, please. The first question is, sorry, just to go back to that power gen guidance. Does that mean that actually you're now expecting the full-year outturn to be above the € 190 million that you previously guided on? And then the second was, I'd be interested to get your view on the balance between demand growth and new refining capacity additions over the next couple of years, in particular what impact, if any, do you think SOCCAR's new Izmir refinery or Aramco's Jazan plan could have on Mediterranean margins? Thanks.

Franco Balsamo

Well, on the power, yes. We are forecasting € 15 million more due to the evolution of the Gas Prices.

Dario Scaffardi

The impact of the new refineries news, has been a constant question over the last 10 years. From our analyses, which are based on the numbers that we have from leading consultants, actually the new additions are below what will actually be requested by the market looking forward. There was a lot of fear in the past years about the various Reliance and other refineries in Saudi Arabia, and notwithstanding Reliance and other refineries in Saudi Arabia in 2015 we had one of the best years ever. So, that's the demonstration that there was not this excess refining capacity.

Now, could we have some short-term effects? Yes, you know, if they bring a big refinery like Jazan comes on screen, will this impact in the short period? It might. It might, if the local market would not absorb all the barrels that they're going to produce, and they will try to push something into the Mediterranean, yes. But the Mediterranean and Europe in general are two of the world's largest diesel import market, and we're having some very good margins. So you know, we're not really, in the long run, worried about these plans that are not made to supply Europe, but they're made to supply India and the far east which is growing at very high numbers. So, different is maybe you know, the refinery needs to be the star refinery from Azerbaijan. But, let me say that it is a relatively small unit which will be focused on petrochemicals, and has a strong focus on the Turkish market which again, is a market which is constantly increasing. So, I don't think it's going to have a major effect, particularly if we think that some other refineries in the area might decide to scale downwards and shut down with IMO 2020, as I don't see how certain plants will be able to operate in a 2020 environment.

Massimo Bonisoli - Equita Sim

Good afternoon, two questions. Back to the question of Thomas on the maintenance activity in 2020, do you still see valid, the guidance of 40-50 million tons of crude runs for that year that was presented in the business plan? And the second, could you give us an update on the efficiency program ongoing, which targets € 50 million EBITDA in 2018?

Dario Scaffardi

Well, on the guidance that we gave already had into its account the maintenance and this maintenance of the volumes that were provided, took this into account. On our efficiency program, I must say that we have some very, very interesting results. This is part of the plan that we have with the digital, which is showing some very, very promising activities. In the maintenance area, in predicting failures, and in optimal operation of the unit. So, this is an ongoing effort. It's something that we are putting even more resources in terms of knowledge and of people working on it, because we are seeing some very, very promising developments. So, yes, we think that the future is exactly in this area for us.

Igor Kuzmin - Morgan Stanley

Good afternoon. I have a question in regards to the dividend pay-out, given the strength of the balance first sheet in the first half of 2018. I was wondering if, or would that have meant already had a little bit of thinking about the relevant pay-out that potentially might come out. But maybe just some initial thoughts on this? Thank you.

Dario Scaffardi

The policy that has never been changed is, just to remind you, but is 40%-60% of the adjusted net income. Of course, if there is a big difference between reporting figures and comparable figures. The Board might take into consideration this fact and use, it has the full power to take into consideration the difference that there might be and adjust the mechanism accordingly. So, it is a possibility.

Thomas Adolff - Credit Suisse

Sorry, one more question please if you don't mind? Just quickly going back to the IMO, and just wanted to kind of ask you about how dynamic a refiner actually can be. And when I look at some of the -- when I look at your crude slate kind of over the past 12 months or even longer than that, it kind of shows that you are quite a dynamic refiner, with the ability to shift quite a bit from one type of crude to another. And I mean, I remember, I think you've tested more than 40 blends, or even more than that, I'm not sure.

Dario Scaffardi

Yes. Yes.

Thomas Adolff - Credit Suisse

I wondered if you're thinking about the global refining system, and if everyone is now worried about the IMO and I don't want to produce any high-sulphur fuel oil. If the global refining system were to shift its crude slate, is it easy to shift the fuel oil yield away by 2 percentage points? Presumably, the answer is yes, or not?

Dario Scaffardi

Well, it's a little bit of a complex answer, in the sense that it depends on the refinery. In our case, as you pointed out, we are particularly flexible and we've made this our centre point of our commercial industrial strategy, to be flexible and to be able to adapt. And we're able to do this also thanks to the kit that we have, which allows us ample freedom of movement. Of course, this freedom of movement is not infinite in the sense that a refinery that is built on units, on deep conversion units that need to convert heavy crudes into products, really cannot change from this type of slate.

Like, I'll give an example. Somebody has an oil refinery with a coking unit, as many American refineries have, as many of the refineries in India and so forth, need to run on a diet of heavy crudes. Otherwise, the coker doesn't work. Our case is particular because we have our gasification unit, which is equivalent to a coking unit, and that accounts for roughly maybe a little bit less than half of the refineries. So, half of the refinery needs heavy crudes. Now, it could be theoretically possible to use light crudes, but I think that would be a challenge. But we might be able to do it. A coker would not be able to do it.

The other half is a mix of other crudes, and in order to meet the IMO regulation, one would basically try to use a slightly lighter slate of crudes in order to meet the specification on 0.5%. In the Mediterranean area, a lot of smaller, older refineries that don't have this type of flexibility will either have to rely heavily just on the very light crudes, so having a much more expensive mix of crudes, while somebody like us will be able to continue to use 40%, 50%, depending on the conditions of heavy crudes, extracting full value for them of course.

So, this is the flexibility, the added advantage that we have, this great flexibility as you rightly pointed out.

Francesca Pezzoli

Thank you very much. If there are no more questions, we thank you for joining us this afternoon As usual the Investor Relations department will be available for any follow-up questions. Thank you.