SARAS

First Quarter 2010 Results
14 May 2010

Welcome

Massimo Vacca

Head of Investor Relations

Ladies and gentlemen good evening thank you for joining us this evening for our call on First Quarter 2010 results. Today we have the usual agenda we will start with Dario Scaffardi, our General Manager, who will give a market overview and discuss the highlights of the first quarter. Then we will move to our CFO, Corrado Costanzo, who will go into a detailed review of the various segments and subsequently to group financials. We will then go back to Mr Scaffardi for the outlook and strategy and finally we will take your questions. Dario please you may start.

2009 Overview

Dario Scaffardi

General Manager, SARAS

I. Highlights

Thank you Massimo thank you very much ladies and gentlemen for joining us this afternoon. We've had a challenging quarter this year. The results are disappointing due to difficult, adverse market conditions and also to some planned maintenance that we had in the first quarter. The first two months of this year have been extremely depressed in terms of refining margin, more or less in line to what was the market at the end of 2009. We are starting to see some definite signs of improvement and we’ve seen this in March and the signs of improvement are of various natures.

On the one side there is an increase in worldwide oil consumption. There is a slight increase in diesel consumption in the European countries after almost 18 months of straight decline. In March we've seen some positive numbers in Europe’s biggest countries. Also a further element which is encouraging is that in March we've seen the spread between light and heavy crudes widening, the traditional benchmark of Euros has moved from an average of about half a dollar which was for the last six months in 2009 and the first part of 2010, started moving to a more normal territory of between $2 and $3. This, of course, improves the outlook for high conversion refineries such as ours.

We've had planned maintenance which started in March and has ended in April so this has eroded some of our conversion margin. We've had planned maintenance on one of our gas fires.

The marketing sector unfortunately, as is traditional in the first quarter of the year, has been depressed. There has been a reduction in volume sales in Spain and also a contraction in margins in Italy. On the other hand our wind sector has posted some very strong results due to the favourable weather conditions.

Market Overview

1. Diesel and Gasoline Crack Spreads

The crack spreads on products are starting to show some sign of improvement. We have seen the gasoline spread at similar levels to Q4. but in March the gasoline has rebounded significantly at $14 per barrel and this came at the same time that there were some supply reductions from American and European refineries who were inside the Spring maintenance season. There has been also robust buying interest from Middle Eastern and West African countries. Also we've seen an improvement in March of the gasoline crack, up 40% to the previous months. Middle distillates continue to be depressed in the first two months of the year, ample inventory, weak demand trends but again the overhang of inventory on diesel products particularly that has characterised almost all of 2009, particularly with diesel produced in Asia and shipped over to Europe is showing signs of diminishing. The storage went down to less than 50 million barrels from what we can see at the end of March and we had peaked at over 100 million barrels. Also the spread between diesel and fuel oil cracks has shown signs of improving.

2. Refining and Power Margin

In terms of our refining and power margin the EMC benchmark over the quarter will average $0.5 per barrel but this average has to be looked at carefully because it’s an average which is formed by the first two months of the year which were -10 cents and +10 cents and only in March did we start to see some significant improvement with 1.5 $/bl. So of course our capability of capturing fully this margin was limited since crude oil purchases always happen in advance therefore the average of the month which is 0.5 $/b is an average which in reality should be read as a smaller average. Our improvement consequently on the average was $0.4 per barrel against an expected 1.4 $/bl. Corrado will go into a little bit more detail on this going through the segments.

Corrado Costanzo

CFO, SARAS

I. Segment Reviews

1. Refining

Thank you Dario. Well let’s look at the refining segment first. Clearly again a difficult quarter here in part because of very well known factors like the market and also planned maintenance. Refinery runs were 7% down vis-à-vis the same period of last year. Broadly in line with guidance. The premium however over the EMC margin was 0.4 $/bl which is undoubtedly lower than our guidance for a number of factors. First of all still very weak conversion spread. We are definitely long on diesel and short on fuel oil and that's where we really make money and this was still a period during which the conversion spread was quite low. Also another factor the light-heavy crude differential which also played a role in eroding our complexity advantage and finally on top of planned maintenance a few operational hiccups here and there, in particular fouling problems in some conversion units which deteriorated their performance ahead of the scheduled maintenance. In other words they were sort of fading away of bonus. And on top of that gasoline was also sold for a number of reasons into somewhat less favourable markets like Mexico, Nigeria and the USA but this is a clearly one off factor due to very particular conditions.

We have discussed the Saras premium and reasons why we were below the guidance, like Dario was saying before the more encouraging part here is on the graph on the right which addresses the heavy-light differential and what we're seeing today is a widening differential and therefore we believe that the market conditions which are conducive to higher profitability for SARAS are starting to create again and we believe therefore that moving forward things will be less disappointing for us.

2. Fixed & Variable Costs

A quick look at fixed and variable costs, fixed costs in particular are interesting when you perform planned maintenance were lower than the first quarter of last year and definitely in line with our guidance. So things are under tightened and variable costs as usual are already reflected in the EMC benchmark.

II. Power Generation

Power generation, production here again because of planned maintenance was somewhat lower than last quarter but higher than the same quarter of last year. The real difference here comes from the exploration of the CIP/6 incentive which plays a big role in terms of tariff and in terms of Italian GAAP.

Fixed and variable costs

Also fixed costs for power generation are strictly in line with our guidance.

III. Marketing

Marketing the first quarter is always a difficult one traditionally. It's not the quarter where wholesale marketing usually traditionally posts the most impressive results and this year was not an exception to this trend. It has to be said that also in general global demand was weak both in Spain and in Italy and that had a big impact on margins. On the other hand volumes are up in Italy thanks to the fact that our Arcola marketing subsidiary took over the ENI business in Sardinia and so there was a 24% increase in volumes on the part of Arcola.

IV. Wind

Wind. A very nice quarter luckily the weather was windy and cold in Sardinia for most of the time and therefore the plant was running at full speed. We are also, during the second quarter, looking ahead for a second, we started upgrading the Ulassai wind park to 96 megawatts. We are starting to build the last of the power generators now and we expect the wind park to be in full operation at 96 megawatts starting in Q3 of this year.

V. Financial Overview

1. Key Income Statement Figures

Next financials, let's take a quick look at some income statement figures that have not been discussed so far, in particular interest expense. Interest expense was about €4m , entirely consistent with our debt levels and I would say also on the low side in terms of interest rates paid. And then the balance of the financial charges were net losses realised and unrealised on derivatives, both commodities derivatives and interest rate derivatives but these are very volatile results so I wouldn't factor them in for the next quarters. Tax is clearly and unfortunately a positive because positive taxes means tax credit vis-à-vis a loss. So this is not exactly the kind of situation that we like, we like to pay a lot of taxes.

2. Key Cashflow Figures

Cashflow figures. CAPEX was about €25m for the group. We're looking at about €120m for the entire year and this is clearly a by product of decisions which were made last year when we postponed certain expansion projects, especially at the Sarroch refinery in order to stay in sync with the general and overall economic conditions. Last year we still invested a lot of money, over €300m so this year we are going down significantly and this is also going to have an impact on our debt levels. There has been an increase of about a little over €100m in our net financial debt and that's primarily due to higher working capital. Our working capital is necessarily very volatile swings around €100m plus or minus, quarter on quarter, should be regarded as structural. In this particular case also a third party processing contract was not renewed because we decided that it did not make sense to lock in unfavourable margins for the longer term and therefore part of the working capital increase is related to that move. It could be reversed in the future if and when we resume certain third party processing and also we are working hard at optimising anyway our working capital under the new trading conditions. So there is certainly room for improvement there. So we're going to take a look at the future.

Outlook and Strategy

Dario Scaffardi

I. Outlook/1 Short Term Outlook

1. Refining & Power - 2010 Maintenance Schedule

Thank you Corrado. Our maintenance schedule for the remaining part of the year is basically unchanged to the guidance that you have already received. We've had this maintenance of one of our topping units, one of our hydrocrackers, a vacuum unit and the Visbreaker unit and actually both hydrocrackers which occurred between March and April and the guidance has already been given on the economic impact that this will have. There will be no further major planned maintenance for the rest of the year. Same situation for the gasification unit. It has its standard maintenance which has occurred between the first and the second quarter and we have no further plans for the rest of the year.

In terms of outlook as I mentioned during the introduction there are some encouraging signs coming from the market which I think can ease the overall negative view on the refining sector which we believe is slightly overdone. For the first time we have seen in the figures of the International Energy Agency overall oil consumption which has started to grow from the maximum level which was reached in 2007. The first couple of months if I remember correctly we were averaging 86.6 million barrels per day. So we are basically back at the pre-crisis level and this is extremely important in our view because it basically then reflects on the qualities of crudes that will become available on the market and differential between qualities of crudes. So we expect that in the forthcoming six months and also for the next years we will see again a widening in the gap between low sulphur light crudes and high sulphur heavy crudes which is one of the important pillars of the profitability of a complex refinery. So we are optimistic from this point of view and again we have seen some positive signs in product consumptions. Of course Europe is basically flat and all that has happened is that there's been a stop in the decline but other parts of the world are progressing significantly.

Again the situation, the fact that the forward market is showing signs of easing in terms of the contango, although in the last couple of days it has had some extremely dramatic effects, basically due to the plays on the WTI in Cushing and for the first time, well not for the first time this has already happened but it’s an unusual scenario in which we see a differential of almost $5 between Brent and WTI. So this is an extreme situation which is altering the conditions of the market. We expect that as soon as the play on the storage in Cushing, Oklahoma, will cease we will start seeing some more positive effects on the market side. The fact, as I was mentioning before that the contango is easing this year is extremely positive because this means that the burden of inventories and the overhang of gasoil on the market will start to ease.

II. Strategy

1. Strategy Highlights and Implementation

In terms of the things that SARAS has been doing first of all what we have been concentrating on, and we started exactly in the first quarter, a very important programme of asset management. This programme which is in conjunction with several major world class consultancy firms is aimed at improving the sustained profitability of our assets. It is based on three main legs.

The first is asset integrity. We intend to increase the time between routine maintenance so overall increase the availability of plants. We plan also to spend less for this so there is a significant programme in the way of cost cutting, both in terms of internal and external cost cutting.

We intend to improve asset efficiency which is mainly addressing our consumption and losses. So we today are in a situation in which the whole aspect of consumption and losses has become extremely more important than what it was in the past. Consumption and losses today are a high factor in the refinery because margins are in a low area but the absolute price of crude is extremely high so we are in an $80 environment, in a $75-$85 environment so the percentage impact of consumption and losses today is much more significant than what it was a couple of years ago and also much more than what it was five or six years ago when we had a crude price of around $20 to $25 so therefore the cost of energy was a lot lower. So we are putting a lot of focus on this in the same way that we are putting focus on all the accessory costs, so chemicals, catalyst and so forth, where we plan to gain significant improvements.

And of course the third leg is asset effectiveness, which is mainly the productivity of the plant. We expect to be able to realise about €10m this year and on a three year basis because it takes time to implement these programmes of course. None of the actions that we are undertaking have an immediate effect they're all long term things that regard the way people operate and the way we use the hardware. So €10m right now but in the longer term we are hopeful to be able to obtain much more significant numbers.

We intend to continue to consolidate our presence in the marketing sector, notwithstanding the difficult quarter we have. We believe in a strategy of increasing our presence in the retail market in Spain. We have consolidated fully into SARAS the petrol stations that we acquired last year and we are negotiating for another small acquisition of retail stations. Our biodiesel plant is fully operational although it does have some disappointing results mainly due to the fact of the very high prices that we've seen in the first quarter of palm oil and Corrado already mentioned what we have been doing in the wind sector so our wind park will be at 96 megawatts by the third Q of this year and we still have a couple of other projects in the pipeline.

We, as some of you know, have also an activity regarding gas exploration in Sardinia, in our backyard and this activity is continuing. What we are doing right now is a fine tuning of the seismic exploratory test in the area on the onshore part of our concession which is crucial to determining in which area we will start drilling some test wells. Hopefully the full data will be available in the latter part of this year and we will schedule for some time next year when the first exploratory well can be scheduled. We have been able to benefit from the fact that there has been a sharp decrease in price on all activities regarding the exploration sector that had reached some very, very high levels in the past years but now the costs are a lot more reasonable.

So thank you very much for your attention and we will be pleased now to take any questions which you might have.

Questions and Answers

James Schofield, Bank of America - Merrill Lynch

Thank you good afternoon gentlemen three questions if I may. Firstly given the current fiscal situation in Italy can you please describe any risk of the CIP/6 tariff being cut and how entrenched that contract is? Secondly can you please give more details on the reasons for the bond issue, why you abandoned the issue and whether you would seek recourse to the debt markets in the future? And thirdly could you please indicate when your next third party processing contract expires? Thank you.

Dario Scaffardi

Thank you James, let’s start from the last question. We were a bit unlucky with our processing contracts because they all came to expiration in the bottom part of the refining cycle so we were in the awkward position of renegotiating them in a throe instead of being in a crest. Having said that we were not amenable to give out our refining capacity at any cost. We believe that we are at the bottom of the cycle and we have decided to interrupt renegotiations of the processing contracts until we have a more favourable overall market scenario in which we will be able to obtain what we believe is correct values for our capacity. So on the processing contracts they have basically, we have one contract that will expire in 2010 and negotiations for a possible renewal haven't started yet but at the moment I don’t think a renewal will be extremely likely. I think that Corrado can answer you on the bond issue and probably also on the CIP/6.

Corrado Costanzo

Well CIP/6 no news basically. The government issued a broad framework for a termination of the CIP/6 framework last year and the framework was actually very broad and it required further details and none of those details so far have been decided or no provision has been issued so everything is still where it was six months ago. We still believe that the fact that the government established this framework for voluntary termination shows that from a legal standpoint and probably also from different standpoints also they believe, as we believe, that there is no possibility for a unilateral substantial change of the CIP/6 provisions.

The bond issue. Well our goals were to lengthen the duration of our debt and also to possibly use our bank lending facilities to a lesser extent in order to have a very wide and very comparable cushion. We did test the bond markets and probably the markets are overall too troubled for a new name and also to an extent for a name which is involved in a difficult business today like refining, probably too many new things and we decided that we were not interested in the conditions that could be achieved and we still have the luxury to look at other alternatives because we have no immediate repayment needs for any credit facility.

Dan Ekstein, Macquarie

Thank you good afternoon everyone. Three questions if I may, just looking at the EMC benchmark that you publish on your website the April benchmark was at a zero which was essentially unchanged from January or February when in the real world diesel gasoline margins and crude differentials were all much better I was wondering if you could explain what was going on there. Secondly we're now halfway through the first quarter and I was just wondering if you could give some indication of whether your refinery is breaking even on margins and differentials that we see today. And finally just on the market we saw some interesting demand data coming out of the IEA earlier this week saying that diesel demand in Europe had picked up quite sharply in March is that something that you guys are feeling at the coalface so to speak? Thanks.

Dario Scaffardi

Can you repeat Dan your second question please sorry I didn’t catch it.

Dan Ekstein

Yeah just that we're now halfway through the first quarter and just whether your refinery is breaking even under current market assumptions as we see them today.

Dario Scaffardi

Well our margins at the moment are in line with what EMC. So April again was a rather disappointing month since the margins did come down but this was rather a temporary factor and we saw a strong rebound in May. By the way we had the majority of our maintenance in the month of April so it was actually a positive to have the bigger part of the maintenance in the month in which we saw some relatively low margins. In terms of market demand we've seen some extremely erratic market demand because we've seen some discontinuities in the usual commercial channels. We've seen the expiry of a variety of contracts not only with us but also with other operators in North Africa and the Middle East which sort of shifted the patterns because there has been some, I would say a little bit of commercial wars going on so we tried testing other markets which is part of the reason why we had some disappointing results in Q1. We shipped gasoline to the Caribbean and to Nigeria as opposed to other areas. At the moment the market demand is showing some signs of recovery. There are strong markets particularly in Turkey at the moment although Turkey is a quality which is slightly different from the standard European quality but another encouraging sign is the fact that Turkey I think at the beginning of next year, although this might be possibly delayed, will switch the specification of its diesel fuel from the current 1,000 PPM to European standards of 10 PPM. So I think this will further boost the market for high conversion refineries.

On your question regarding the EMC benchmark, as a matter of fact the EMC benchmark takes into account an average refinery and this average refinery has a production I think of about 15% of fuel oil and there was a temporary situation in April in which fuel oil was particularly strong so the overall margin was negative in that month but the trend line is resuming and for the first part of May it’s 1½ if I remember correctly.

Massimo Vacca

1.7 $/bl so far.

Dario Scaffardi

1.7 $/bl..

Massimo Vacca

If I may just add one further comment we also saw in April gasoline weakening significantly right after a number of refineries came back from their Spring maintenance so that's also part of the EMC benchmark and refining benchmark in general coming down. Now in May as we just said the EMC has gone sharply up to $1.7 per barrel to date and that's again gasoline driven mostly because there is some interesting signals of demand coming from the US and we saw yesterday’s Department of Energy data in the US showing 2.8 million barrels of decrease in gasoline stocks in the US.

Dan Ekstein

Okay thank you.

James Hubbard, Morgan Stanley

Hi. Good afternoon, just two questions please. On the light-heavy spread widening people tend to say it’s because OPEC compliance is falling but it seems to me that where OPEC compliance is falling this is from countries which at the margin are still producing light crude so are you happy with that explanation that the light-heavy spread is widening just because of OPEC compliance falling or do you see something else going on there? And as an aside to that question do you have direct exposure to that or is still a large portion of your crude coming from Libya which presumably is not as exposed to this light-heavy spread movement? And then the second question on the exploration drilling I'm just wondering what is the philosophy behind wanting to drill for gas in Sardinia as a refining downstream company? What is it that drove you to go and get the acreage in the first place? What do you hope to get out of it and where might it lead in the future? Do you have bigger plans than Sardinia in E & P or is that it?

Dario Scaffardi

Thank you James. Well regarding our heavy-light spread, the heavy-light spread first of all directly impacts our margin. The fact that we have a very large gasification unit and a Visbreaker unit and this is optimised towards using the heaviest possible crude if we want to optimise that unit and we run it with heavier crudes as the differential widens. So yes it has a beneficial effect to at least part of our runs because we use a large portion of Libyan crudes but the large portion of Libyan crudes is we have about maybe 50% of Libyan crudes but Libya also produces soured crudes and we also purchase sour crudes from Libya so we're not purchasing only sweet crudes.

The explanation of OPEC compliance or not compliance I think it’s slightly a little bit of a moot point the fact is that as soon as you have an increase in worldwide demand this increase basically comes from Saudi Arabia and partially from Iran. Now if we imagine just for a second that all other producers are producing at top capacity which is what they have been doing always so we only have two swing producers and it’s questionable whether Iran is a swing producer, any extra crude that is put on the market is heavier crude so I would think that as soon as consumption starts growing, whether there is OPEC compliance or non OPEC compliance you are going to see some more heavy crudes on the market and at least the trend line is what we are seeing today. Of course this trend line can be interrupted continuously by the fact that you have new players coming into the market, you know, in the last couple of years this has happened with the Caspian region which has injected several million barrels a day at the end only for reserve and we have a million barrels and the other pipeline is probably in the range of something similar if I remember. So we had an injection of sweet crudes which has altered the picture. A couple of years ago we were all expecting the light-heavy spread to widen significantly. It has not happened because of basically CPC blend and Azeri blend coming from these areas but the longer term overall picture is what we were just saying, as a matter of fact all the new wells which are being found in the Gulf of Mexico, off of Brazil and so forth are all of the heavier quality crudes. So long term picture is what we've been saying before.

On gas exploration this for us is a niche business. SARAS had acquired some years ago exploratory rights in Sardinia basically for free. So we have the right to explore in a very wide area and over time we have run seismic tests and other activities for a total investment of about, over time over the past two years basically of about €10m and we plan to go ahead in a cautious way in order to assess whether there is true potential for gas in Sardinia or not. We hoped to have some sort of definite answer in this with an exploratory well some time during 2011. In case the results are positive of course there would be an excellent market for gas locally in Sardinia which is not connected to any international grid although there is a project of a gas line coming from Algeria, the Galsi gas line which was initially projected to come online in 2011/2012 and I think it’s probably delayed by several years even and maybe is going to depend on the local market. Apart from this we have no intention of moving in any other way into the E & P game so this game is a niche game, a limited game because we're playing in our backyard.

James Hubbard

Okay fine thank you.

Alex Inkster, Sanford Bernstein

Good afternoon I've got a couple of questions. You mentioned firstly that the light-heavy differentials you saw in the first quarter were quite narrow and came in at $0.9 per barrel but it seemed like other European refiners saw a benefit from a wider Euros Brent differential could you just clarify what the $0.9 per barrel spread is that you were referring to and whether you benefitted at all from the wider Euro Brent spread.

Secondly could you clarify what type of studies you conducted that showed the presence of gas and can you give any guidance for the CAPEX budgets for that division?

Dario Scaffardi

Well quotations we've seen I can get out now the Euros compared to Med which is different from the north European. We have seen a spread going from 0.47 cents in January, it widened to almost a dollar in February and then it went to almost $2.5 between March, April and May. The quotations in the Mediterranean are slightly different from the quotations in north west Europe. So these are two different markets, the Euros market in the north and the Euros market in the Med are slightly different markets.

Regarding gas, as I mentioned we've had an expenditure of about €10m over the last couple of years. This year we plan to spend something in the range of about five which is the maximum expenditure which we plan to have in 2010. Further investment for exploratory wells has not been quantified exactly at the moment but I would imagine that it could be something in the range between €5 - €10m over a one to one and a half year period.

Of course this is all step by step of course it has to be seen if and when we will undertake any exploratory wells.

Alex Inkster

Sure and just another follow up just in terms of the tests that you carried out that indicated the presence of gas was that just based on seismic studies?

Dario Scaffardi

At the moment yes there have been detailed seismic studies which have shown encouraging results. We have then conducted a further round of different type and more detailed seismic testing which is underway right now which is aimed at being able to define in a very precise manner the areas which are most promising in terms of test wells but the analyses that have been carried out are of a seismic nature. We have also carried out some analysis of rock samples coming from the ground which have shown some extremely positive results in the sense that they have shown presence of methane but of methane which is conducive to imagining formations of natural gas but of course this is all extremely preliminary so we have to wait for some harder results. This is one of the reasons why we have not really given much publicity about it at the moment.

Alex Inkster

Okay thank you very much.

Lydia Rainforth, Barclays

Thank you and good afternoon gentlemen. Two questions please. Firstly in terms of the premium or relative to the benchmark margin at what stage during the quarter did it become apparent that you were having problems with the quality of products that you were producing from the units and have there been any similar problems with the maintenance around the sets that we've had so far in the second quarter.

And then just going back to this idea of asset efficiency or the asset integrity and increasing the turnaround time for maintenance how do you avoid problems like you've had in the first quarter stage with the catalyst of degrading and things like that? Is it just that we end up trying to push the assets too far? Thank you.

Dario Scaffardi

Thank you Lydia. Well first of all the problem that we've experienced was that some of the units that were going to shut down in any case between March and April showed an increased rate of decline of their performance so in reality our production of ultra low sulphur diesel was less than expected and we had to switch production to 1,000 PPM diesel which is a diesel that finds a market in the Lebanon and Turkey, as I mentioned before. So this was an unexpected downgrading of the performance of the catalysts. So we definitely hope not to see these problems again but this is something that is relatively, I wouldn't say normal but they are things that happen. The study of catalysts is something which is delicate and we're always trying to optimise the use of the most appropriate catalyst. I would say that our programme of assets efficiency should help us avoid this sort of situation by monitoring much more closely exactly what is the performance. So we need more attention to detail. The refineries in the last decade have changed dramatically. I would say that a refinery today is much closer to the idea of a petrochemical plant or a chemical plant compared to what it was only ten years ago. If you imagine that the specifications that we have to live by on all automotive fuels, so diesel and gasoline that goes into the European market is 10 PPM and 10 PPM is basically zero. So this contains a level of care and fine tuning of the whole system which is definitely difficult to obtain and we have to work a lot on the training of personnel and so forth in order to be able to maintain it at a sustainable level.

Lydia Rainforth

That's great thank you.

Domenico Ghilotti, Equita SIM

Good afternoon I have a question on your cost reduction programme could you give us some more colour on what you have already done and what is the impact already seen in Q1 and if there is any improvement in the next few quarters?

Dario Scaffardi

Thank you Domenico. Well up to now the impact has been relatively limited because we have started the programme at the beginning of the year so there is an important part which is actually measuring things, assessing things and identifying what are the objectives that we can realistically obtain. All this preliminary part has been done at least in a broad level but then we will have to go down to extremely deep level of detail and what we have identified is that we believe that we'll be able to obtain €10m this year. So basically concentrated in Q3, Q4 and it will be mainly concentrated in Q4 of course. On a yearly basis of course the amount would be higher and we expect to be able to obtain other improvements when we will tackle the problems. We will undergo a severe review of our organisation and will make some also important changes so we are reassessing the way we are doing business starting top down. So we're quite optimistic that we will be able to obtain results and work better with this programme.

Domenico Ghilotti

Okay thank you.

Dario Scaffardi

Thank you, you're welcome.

Thomas Adolff, UBS

Good afternoon gentlemen just two questions. Firstly going back to the drilling programme is it too early to say I mean you have completed a seismic study and in terms of prospectivity can you give us initial resource potential you are seeing or is it still too early?

Secondly just on the IEA data, the IEA recently, or this week, lowered the demand data effectively showing that Chinese demand which has probably been somewhat inflated by the world export plateauing in the second quarter for this year and then it's kind of coming off and pretty much since the beginning of this month you've seen future cracks coming off, particularly for gasoline and also gasoil, what makes you so confident that cracks are improving in the second half, given also the fiscal challenges you are seeing in Europe?

Also another question what's your view on fuel oil cracks given the recent strength over the past two weeks or so? Thank you

Dario Scaffardi

Regarding the gas there is not much more that I can add to what we have said before. I mean the seismic results were sort of positive in the sense that the interpretation of the data was the base data has been carried out and there are some encouraging results but this is the situation at the moment and we don't really wish to divulge any further data on the assessment of possible fields that can be found.

Regarding the overall market scenario yes I agree that there has been a revision but I think that the sign has changed and demand is starting to creep up again whether it's going to happen in this quarter or in the next quarter I think that is something which is absolutely given, it's a trend. I also think that the strength that we've seen, for instance, in fuel oil cracks is absolutely temporary because if you go in reality and try to sell fuel oil, particularly fuel oil which is not of pristine quality because the only market for fuel oil today is basically in the Far East. If you look at any data regarding fuel oil consumption in Europe the last three months, if I remember correctly, all major European countries were down 20 or 30% on fuel oil consumption. So SARAS' strategy on imagining that fuel oil is basically, high sulphur fuel oil particularly, is a product which in this part of the world is doomed and still has today some market in the developing world but again any incremental demand on crude will automatically be driven by demand by automotive fuels so basically diesel and also to an extent gasoline. So all this will create a further availability of fuel oil and I would imagine that the cracks of fuel oil will further widen. So I'm not optimistic at all in the medium term on fuel oil.

Thomas Adolff

Okay thank you.

Closing Comments

Dario Scaffardi

Thank you very much for being with us this Friday afternoon and have a nice weekend everybody. Bye-bye.