

**SARAS**

## **Third Quarter 2009 Results**

**10 November 2009**

### **Welcome**

**Massimo Vacca**

**Head of Investor Relations**

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

### **2008 Overview**

**Dario Scaffardi**

**General Manager, SARAS**

#### **I. Highlights**

Thank you Massimo. Good afternoon ladies and gentlemen thank you for joining us this afternoon. I must say this is an extremely disappointing quarter for us both in terms of market scenario and in terms of our performance. Right now we are probably experiencing one of the worst ever conditions for petroleum refining. The reasons are various. On the one hand there is a world oil demand which is almost 2% down versus 2008. Overall oil products demand in OECD, G7 countries is down 6%. Diesel demand in Europe is down almost 10%. Furthermore there are complications which come from a very bizarre market structure which looks very much like the onset of a bubble which I don't know how long will be sustainable.

First of all we have a market structure which has been for almost the past year with a very, very steep angle structure with future market prices way above current prices. This promotes marginal production and storage of products to take advantage of alleged future demand which up to now has not materialised. The net result of this is that we have huge floating storages of both oil products and crude oil. The last figures show something in the range of 150 million barrels between

the two which of course is depressing in current margins and promoting marginal production from those refiners which actually should reduce production in normal market conditions.

This already very strange situation which in my opinion cannot be sustained for a very long period of time is further compounded by very high oil prices, kept artificially high for a variety of reasons with speculation being one of them. Right now we are in a situation in which the market is oversupplied by at least 1 million barrels, possibly more, between supply and demand. So overall the situation which I believe is very likely that in the forthcoming months the market will change and shift dramatically, in which direction is not really clear at the moment because we've never experienced the current market condition that we see today.

On the side of SARAS' performance we are of course extremely disappointed. We have chosen to place our maintenance in the right period from a market scenario but this maintenance and investment programme has not gone according to our schedule and our programme. We were supposed to finish our scheduled investment and maintenance programme by the end of June, as you might recall we had a severe accident on 26<sup>th</sup> May with the loss of the life of three workers. This, together with other effects, has delayed the maintenance programme well into July and the start of our revamped units in August did not really go according to schedule. One of the main problems that we have encountered was one of the new units that we placed on our FCC unit we totally rebuilt a boiler, called CO boiler which is a unit which burns carbon monoxide producing therefore steam, had some design faults and these design faults needed to be corrected in an important manner between August and September and therefore limited production, actual production, on our FCC unit. We further experienced also other problems in other units and Corrado will go a little bit more into detail when he will review the various segments.

On a more positive note our wind segment did well although wind conditions were not particularly good. Marketing, notwithstanding the very difficult market conditions, has withstood well. We are disappointed by our power unit because we experienced again a series of shutdowns in September and also we decided to bring forward into September our planned maintenance that was scheduled for October/November reducing our power output.

Now our refinery is fully operational, it's back to normal and we are doing our utmost to make up as much as possible of the lost conversion and the lost production.

## **1. Diesel and Gasoline Crack Spreads**

In terms of Diesel and Gasoline cracks I think these are all familiar with you, we have further experienced a loss in value of gasoline as is sort of expected going into the winter and diesel up to now is not really showing any significant signs of improvement and the conversion spread, being the difference between diesel and fuel oil, remains uncharacteristically low.

## **2. Refining and Power Margin**

All this is reflected into our overall margin in Q3 which has been extremely low, negative. The EMC benchmark already was extremely low, was in negative territory -0.2 and typically in a normal quarter we should have been able to add, even in the adverse market conditions, something between \$2 to \$3 per barrel. In reality we added nothing. So we've maintained the EMC benchmark with the negative results. Corrado.

## **Corrado Costanzo**

### **CFO, SARAS**

#### **I. Segment Reviews**

##### **I. Refining**

Thank you Dario. Dario has already briefly described the key issues that we faced during last quarter. Refining was clearly disappointing. What we experienced was a succession of operational glitches and problems mainly related to the major turnaround and upgrading programme that we carried out during Q2 and that also lasted until July. However when we restarted the different units the restarting process was bumpy for most units so that said a number of problems which taken individually would not be particularly noticeable but then at the end of the day the overall picture, I mean the problems ended up and the overall picture is rather gloomy and somewhat unprecedented.

We had, in particular design problems with the CO boiler at the FCC unit which was definitely unexpected on the part of the engineering company which is a world class engineering company. Then also, in connection with this, the suboptimal performance of the FCC caused following problems in the etherification unit which required a further round of cleaning and repair. Also the Visbreaker had a shorter turnaround time so we had an earlier shutdown for a routine cleaning procedure but still earlier than anticipated.

Then also the IGCC unit, I'm jumping to the power sector here but just to comment on the effects that the certain problems on the IGCC had on the refineries of lower reduced availability of hydrogen and therefore some impact on the refinery profitability but that was somewhat mitigated and we'll comment on that later, by bringing forward the slowdown of the IGCC trend which was originally planned for Q4.

Overall these problems added up to a quite disappointing loss of about \$2.5 of conversion premium which the refinery could, even under the current tough market conditions, give.

The good news is that by the end of September everything was fixed and since then the refinery has been fully operational and each and every unit is up and running satisfactorily. So hopefully these problems are behind us.

##### **Production**

I would not spend much time on the crude slate or the product slate clearly these are different from our standard slate but the differences are easily explained by the turnaround maintenance and the subsequent problems. So we are back to the normal levels or slightly better as a result of their growing programme.

##### **Fixed and Variable Costs**

A quick word on costs, variable costs are absolutely in line with our guidance. Fixed costs for the quarter look lower than average. We maintained our guidance for the year Euro 230 to 240m. However during Q2 and Q3 the turnaround costs were capitalised according to IFRS accounting rules. So the guidance for the year is maintained and costs were under control and developed as expected.

## II. Power Generation

Power generation complicated Q3 as I said before we had certain problems also with the desalinisation unit which caused a shortage of distilled water, so lower steam production, lower power generation and as a result we decided to bring forward the maintenance on one of the trains, we have three, you might remember we have three trains and one of these was originally scheduled for maintenance slowdown in Q4. Now this maintenance has been performed already so production in Q4 will equal a full production quarter. So, so far production is 13% down vis-à-vis the same nine months of last year but on a yearly basis we're confident we're going to be able to catch up and only suffer a minor reduction in production.

So the profitability was impacted by other factors the first factor being that the CIP incentive component expired in April of this year and then also the CIP/6 tariff with the nine month lag in recognising the oil prices which are basically the main indexation for the tariff. So going further into the year we will benefit from the higher oil prices that have been developing over summer and are still increasing but we have not see that in the tariff up to the third quarter. Actually the tariff, excluding this incentive component, was 8.3 EURcent/kWh vis-à-vis about 10 EURcents/kWh last year during the same period. So we are moving back towards 10 EURcent/kWh but it's going to take some time. So also for the power division we believe that Q4 will be definitely much more encouraging.

### Fixed and variable costs

Costs were in line with the guidance also in respect of power generation. If you look at unit costs clearly they're higher but the base in terms of kilowatt hours is lower. The absolute numbers are in line with the past and with the guidance. With somewhat lower variable costs due to effectively lower costs for "non-TAR" feedstock (propane, virgin naphtha, nitrogen and LCO). So overall costs again under control at the power division also.

## III. Marketing

Marketing well clearly the absolute numbers are lower than last year during the same period but overall we believe that marketing posted an impressive performance when you consider that the Spanish market lost about 5% in volume terms and imports into Spain were down about 20%. Bear in mind that we are importers into Spain. The Italian market also overall was about 5% to 6% down. So in these conditions which were very, very difficult, volumes were somewhat protected in Spain as in third quarter we could be expected to be 20% down and we were only about 5% down and were to the contrary increased in Italy due to our more aggressive policy.

Overall margins also were preserved and the financial performance was more or less in line with the somewhat average quarter of last year. So we believe marketing did very well under the current conditions.

## IV. Wind

Wind small numbers. Production, I mean Q3 is always difficult quarter for wind. Both last year and this year, small numbers because during the summer you don't get that much wind however the Green Certificates average price was up versus last year and overall the tariff is increasing so we're confident that the performance by the end of the year will be encouraging for this division.

## **V. Other**

The other smaller divisions of the company somewhat close to the progress as you can see the turnaround work has been completed and there's no particular drain of resources coming from those.

## **VI. Financial Overview**

### **1. Key Cashflow Figures**

I would like to draw your attention finally on the cashflow figures. In spite of the negative EBITDA there was posted at a consolidated level we were able to keep net debt under control as you can see basically in line with the end of Q2. Clearly we worked a lot on working capital. There's a lot of emphasis currently on keeping debt levels under control and there's a lot of emphasis on keeping costs under control given the current market scenario. So far we believe that we have been successful in these efforts.

### **2. CAPEX by Segment**

At the same time CAPEX is in line with the numbers which were projected and even if we admittedly had some problems with our turnaround efforts last summer however from a CAPEX and maintenance cost standpoint the figures are absolutely in line with the projections and expectations. So no overrun which is clearly very important these days.

I don't think there is anything I should further comment on and therefore Dario it's back to you.

## **Outlook and Strategy**

### **Dario Scaffardi**

## **I. Outlook/1**

### **1. Refining & Power - 2009 Maintenance Schedule**

Thank you Corrado. We've already talked extensively about our 2009 maintenance schedule in the last quarter this year we have expected a planned reforming slowdown which has already taken place during the month of October so we have no further planned maintenance up till the end of this year and our refinery, as we said, is up and running.

### **2. Refining & Power - 2010 Maintenance Schedule**

Regarding 2010 we are going to have a much lighter maintenance than the ones that we had in 2009. As a matter of fact we expect to be able to keep the runs in the range of between 14.6 and 15.2, so practically at the maximum of our capacity. In terms of maintenance on the units in the first half of the year we have routine catalyst changes on both hydrocrackers. We have routine cleaning of the Visbreaker unit which has cycles between, vary depending on the types of crude that we run, between six to nine/ten months, generally speaking. We will have some upgrading of

the smallest of our topping units, the unit that we call RT2, and one of the two Vacuum units. The overall effect in terms of conversion capacity loss is about 0.1 S/bl and we expect, these numbers are calculated using the EMC benchmark for the next year, something between 1.5 to 2.5 and a conversion spread between 200 - 300 \$/ton, conversion spread let me remind you it's the difference between diesel and fuel oil. Today the numbers of course look on the positive side but we cannot believe that the market is really going to continue in this current scenario which I mentioned at the beginning of the call.

## **II. Outlook/2**

### **1. Short Term Outlook**

Today we really are experiencing extraordinary conditions, today there was news that a further 1m barrels of new vessels have been put on charter to further store products, this is happening in the East. As I mentioned this sort of situation which is a self-fulfilling prophecy because it will have the net effect of continuing to dampen and depress refining margins and will have to change sooner or later and I think one of the things that will happen is that more of this oil is going to come on the market and will not be sold we will see, we will probably face a very, a further bad, negative refining market but which will help weed out the best players from the suboptimal players. We are seeing at this moment a lot of talk among the major oil companies of rationalisation and we will see if this will happen. The current market is going to push out marginal players, or should at least.

## **III. Strategy Overview**

### **1. Strategy Highlights and Implementation**

In terms of our longer term strategy what we have right now is we maintain our investment or revised investment plan which basically used to be for the year 2010 over €300m of investment which has been brought down for 2010 to something in the range between 120 and 140, keeping only the absolutely necessary "Maintain capacity" and "HSE Investments" and cutting almost entirely any "Growth" investment. All projects at the moment are on hold. We hope to be able to resume them between 12 to 18 months from now, assuming that we will see a significant improvement in the market. So they should be able to restart again in 2011, 2012, depending again on the actual market scenario.

In the meantime our focus is on absolutely maintaining the financial ratios of the company absolutely in line, so strong attention to debt level. We have a programme of cost-cutting which effects can be seen in the fact that, notwithstanding all the adverse difficulties, we've been able to maintain debt within more than acceptable levels. We are going to start programmes because we think it's right to do so in these moments to improve and further enhance our performance so we'll look to improve the profitability of our asset while at the same time reducing its cost. Thank you for your attention and we'll be pleased to take any question you might have.

## Questions and Answers

### **James Schofield, Bank of America**

Good afternoon, James Schofield from Bank of America, just a question in regards to the issues with the design faults at the FCC and the operational problems at the IGCC what gives you confidence that such issues will not be repeated going forward and secondly obviously we've seen the light heavy differentials tightened dramatically this year, given that you're using unconventional crudes can you comment on how much your own crude differentials have changed this year? Thank you.

### **Dario Scaffardi**

Thank you, thank you James. Well no the problems that we've experienced at our plants are absolutely behind us. What happened to our CO boiler was a design fault in the actual design by the engineering company. The company is a world leader in terms of boiler design I must say that this unit that we have is one of the largest of the units of such type in operation in the world so certain phenomenon which do not occur in the smaller units which are typical, happened in our unit. The problem was related to vibrations, vibrations due to the full dynamics of the design of the boiler. It was, let's say, relatively simple to correct these faults but of course we needed to shut down the unit entirely in order to access inside. The faults were identified, corrected and once we started up the unit again in September it has been operating flawlessly. So that is definitely behind us.

On the IGCC we had indirect problems unfortunately. The IGCC is a very complex unit which uses a multitude of plans and a very key component is the availability of large quantities of water, of demineralised water which needs to be treated and we have the desalting units which take water from the sea and these have been operating suboptimally so the non-availability of water has caused a series of problems that caused the advanced shut down of one of the units and the loss of production of hydrogen and steam which is needed by the whole refinery and that impacted on the refinery. Hopefully this is behind us. We were aware of this vulnerability that we had in the desalination units but they were already scheduled to be performed in the next couple of years, we've done some emergency repairs and we trust that we will be able to go forward without any major problems.

In terms of what you were asking of the differential of crude oil the situation is, again I have no other way of defining it other than bizarre because we have today that lower quality crude, crudes that are intrinsically lower in quality are worth less than higher quality crudes, again because the market is operating not according to free market forces so there is an excess production of high quality crudes. OPEC is cutting back of course on its least price crudes, so we actually have high demand for heavy crudes which have a price which is artificially high. We need this to change dramatically. We need this whole scenario to change. So what we try to do is to continue to look for suboptimal crudes to look at crudes that are different from the average crudes, particularly now going through the winter since there has been a very weak bitumen season in Europe, we are trying to look at crudes which are high on bitumen and are starting to come at a certain discount in the winter months and basically we are playing it by ear because it's very difficult to make any long term plan.

**James Hubbard, Morgan Stanley**

Good afternoon, three questions if that's okay? You mentioned storage of crude earlier on do you have any insight on what the latest dynamics are in floating distillate storage if that's still rising or if it's coming down and I'm talking about floating here not onshore. That's one question. Secondly on the positive working capital move am I correct in thinking that's just to a collection of payables i.e. you've for some reason sped out the collection of money that was owed to you or is there something else going on in there? And finally, you mentioned that everything has been up and running smoothly Q4 to date is there any way you could say what you think your Q4 to date SARAS' margin is, i.e. the figure that's comparable with the minus \$0.3 per barrel that you ended up with in Q3, what that number would be if the quarter ended today?

**Dario Scaffardi**

Yes I think that maybe Corrado can help you with your second question I will come back to you right away on your first one okay?

**Corrado Costanzo**

Well working capital, aside from collecting payables which we do with a lot of attention, regularly is not a market where delaying payments on any side is taken very lightly. We did pay additional attention to inventory levels and we might still have some room to play for optimisation there in order to reduce our debt levels. By the way by doing so that would also be reducing inventories which were created at much lower prices, I mean created during the first half of the year and certain quantities might be decreased at today's prices. So there is going to be some profit embedded in that move.

**Dario Scaffardi**

I am coming back to your first question the data that I have which comes from a London-based shipping consultant, SSY, which is available, I mean it's published data, show that at the end of August an excess of 56 million barrels of crude on the sea and 71 millions barrels of products on the sea. The other day in Singapore there was an announcement made that a further one million barrels or something like that, if I remember correctly, have been added, so another million barrels of tankage has been put on charter for storage so that 76 has become now 77. It still looks like a huge overhang of products, actually excuse me, at the end of August this was 71 and at the end of September it was reported 76 with a further one million added so an overhang of products.

**James Hubbard**

Okay. And the final one would be I don't know if you're able to say but what do you think the margin quarter to date would be, the figure that's comparable with the - 0.3 from Q3?

**Dario Scaffardi**

Well we're confident that we were able to add to whatever the EMC benchmark is so I mean with this current market scenario it would be something in the range between \$2 and \$3. Let's hope that the EMC benchmark will recover strongly from now onwards. Up to now it has been quite disappointing I think that the number to date is slightly negative if I remember correctly.



**James Hubbard**

Thank you.

**Massimo Vacca**

Sorry if I can just add something, this is Massimo Vacca. James we actually know that the current average of EMC is -0.4 however we also know that average levels for the conversion spread is now in the range of \$200 per tonne which means, with the refinery operating at standard conditions, a premium between 3 \$/bl and 3.5 \$/bl per barrel on top of the EMC. Therefore SARAS margin would now be in the range of 3 \$/bl as Dario was mentioning.

**James Hubbard**

Okay thank you.

**Lydia Rainforth, Barclays Capital**

Thank you good afternoon gentlemen, three questions if I could, firstly just in terms of you mentioned cutting back the CAPEX for next year and focusing on maintenance CAPEX I'm just wondering in terms of energy efficiency projects are they still what you see as a focus or are they sort of being put more towards the later focus and then secondly in terms of use of cashflow obviously we have seen a weak sort of period for earnings are we likely to see, or what do you think about the dividend at this stage? And then just finally in terms of, you mentioned potentially weaker margins or distillate margins coming through what margin would you need to see levels come down to before you would start to make economic run cuts or is that just not a possibility?

**Dario Scaffardi**

Well cutting back CAPEX let's say yes we are cutting back on CAPEX, not on maintaining and safety capacity of course. Energy efficiency projects let's say that what we have just completed in terms of the investment programme in the past summer, a lot was related to energy efficiency. The unit that I was talking about before, the CO boiler, is a unit that will add significantly in terms of energy efficiency. So all those projects have been performed. Let's say that we will try to tackle the problem of energy efficiency more from the point of view of operational efficiency trying to cut back on any losses that we can correct from an operational point of view but in terms of investment we are trying to hold onto our cash for the time being so investments in terms of new, adding energy recovery units, has been put on hold for the time being.

In terms of dividend there is not much to say the policy is 40 to 60% of the adjusted net income and that policy has not changed so we will see next year what it's going to be.

I'm sorry Lydia your last question about margins?

**Lydia Rainforth**

I just said is there a specific margin at which you would have to think about making economic run cuts and are we getting closer or are we just nowhere near that at this stage?

**Dario Scaffardi**

Well we're not there yet and I mean if a refinery like SARAS starts to be in a situation in which it needs to cut runs it means that everybody else needs to just shut down entirely. So as long as we are able to maintain a positive towards covering variable costs and we're producing some contribution to the fixed cost, we're not really going to cut runs but I cannot rule out, given the current market of course, that we might decide to make slight reductions in runs if they become necessary but these would be tactical moves to adjust to immediate market conditions.

**Lydia Rainforth**

Okay that's great thank you very much.

**Ryan Kauppila, Nomura**

Yes with regards to marketing could you elaborate a little bit on why, you're losing share in Spain and gaining share in Italy, so prolifically I guess, particularly with regards to gasoline?

**Corrado Costanzo**

Quite frankly I don't, I mean I think there might be a slight misunderstanding here because we are not losing market share in Spain and we're basically maintaining our market share, give or take point something percent. At the same time we have taken a more aggressive approach on the Italian market and it's paying off. Clearly there are also from time to time opportunistic sales to competitors, particularly on the Spanish market but we do not consider that a serious market share. Those are, as I said, opportunistic sales which yield a marginal profit. In terms of actual, owned, market share we're basically in line in Spain and gaining in Italy.

**Ryan Kauppila**

Okay I guess it was just in reference to seeing gasoline sales down 23% year on year.

**Corrado Costanzo**

Yeah but gasoline is a small percentage of the overall. Okay I accept the comment if we have been misleading to an extent by saying -23% gasoline but gasoline is a small percentage I don't have it off the top of my head but it's...

**Massimo Vacca**

I have it. In Spain gasoline sales were 100,000 tonnes in the third quarter whereas gasoil was approximately 450,000 tonnes so as you can see it's less than a quarter in terms of importance and if you sum up this is 450,000 tonnes in terms of diesel for automation for cars but if you also sum up agricultural gasoil, heating oil, the total of our middle distillate sales are in excess of 550,000 tonnes whereas gasoline is only 100,000. So it's true that it came down but in terms of its absolute importance it's a much lower impact.

**Ryan Kauppila**

Okay yeah that makes sense. Thanks very much.

**Alexandre Marie, BNP Paribas**

Hi good afternoon, in your press release you mentioned some technological enhancements and I'm not very clear as to what this is. Is it referring to the FCC design faults or did you undertake any other quantifiable improvements to the refinery? And the second question I guess probably a follow up on working capital, Corrado you mentioned the level of inventories which I guess was impacted by the level of maintenance in the quarter do you expect the level of inventories will continue to go down in Q4 and is there any colour you can give us on your working capital in Q4? Thank you.

**Dario Scaffardi**

Okay Alexandre well first off all our FCC unit had no design faults luckily. We improved it significantly by adding various accessory units. Without getting into too much technical detail let's say that we have been able to either increase the throughput which we can put through the FCC unit or alternatively worsen the quality of the feed that we give to this unit. So this opens up a series of opportunities in terms of the crude oils that we can run and the feed stocks that we can run. Whether we are able right now at this moment to take full advantage of this remains to be seen due to the fact that certain qualities of crude are either not available or they're not really economically convenient but we have added a lot of flexibility to the unit. This is the enhancement that we did, the upgrading that we did on the FCC.

Then what I was talking about before this unit which is called the CO boiler which is the equivalent of a six or seven storey building. It's not, and one might imagine that it's a small little thing, it's a seven storey building in the middle of a refinery which is extremely important in terms of energy production and this has been totally redone and the old boiler has been demolished and a new one built in its place which has enhanced energy recovery, higher production of steam. So a much improved unit which will give its benefit in terms of consumption and losses going forward.

In our turnaround we've also improved very significantly the plant which is next to the FCC unit which is our alkylation plant and the alkylation plant is a unit which uses certain streams coming from the FCC to produce a high quality gasoline which is called alkylate gasoline. This unit has been significantly revamped and once it will be fully in operation with the new enhancement it will have a ten to 15% increase in throughput and an improvement in the quality of the alkylate gasoline that it will produce in terms of octane.

The other unit that has undergone significant improvement is our topping two unit, this is a very large topping unit and we have completely rebuilt the furnace which is working now perfectly with better energy recovery and the possibility to increase, if necessary, throughput through this furnace or alternatively to use different types of fuels in the furnace because these furnaces can run both on fuel oil and on fuel gas inside the refinery. So being able to add flexibility and this is extremely important.

**Corrado Costanzo**

Coming back to working capital Alexander it's difficult to give a specific guidance, you know the winter might be somewhat of a challenging season so we do have a plan but anticipating exactly what we're going to have at December 31<sup>st</sup> is somewhat of a risky exercise. You might still have a few days of choppy sea conditions and then not meet the guidance that I just gave you. So there is potential there and we're working on it but I prefer to leave it like this for the time being.

**Alexandre Marie**

Okay thank you just a follow up actually on the CO boiler is there any way you can quantify the savings in terms of consumption and losses with that new unit?

**Dario Scaffardi**

Well it's a little bit we have a plan of course you know the projected figures for that, let's say that we want to see an operation for three or four months that will show that we were able to calculate exactly what the effective results are compared to the plan, so maybe we can talk about it in the next call.

**Alexandre Marie**

Okay thank you.

**Anish Kapadia UBS**

Good afternoon I've got three questions as well if I can. Firstly looking at your fixed costs in the refining division I notice they were down in the third quarter could you just explain why that is, is that part of your cost savings programme and what would you expect for that going forward? Secondly if you just help me with some guidance, if you take into account current oil prices and FX rates, what would your expectation be for the Italian GAAP, EBITDA, for the IGCC plant for next year? And then thirdly just looking at your profitability and refining again in the third quarter I think even if you exclude the extraordinary outages and issues that you had this quarter you still would have made a negative EBITDA I was wondering if you think you're suffering from being an export refiner in this market at the moment where there's a lot of new global export capacity coming on stream?

**Corrado Costanzo**

Well let's start from our projections in terms of IGCC, Italian GAAP EBITDA, it might be at somewhere between €120m and €140m. It's rather safe to project because the main component is, or the indexation is linked to oil prices and with a nine month delay so by the time you budget your year you basically know already quite a lot so it's a fairly reliable projection.

**Dario Scaffardi**

Well if you're talking about the question whether we are happy or not being a coastal refiner, we are extremely happy on being a coastal refiner. Now there is no doubt that in this moment we are facing competition and I guess that you probably refer to the Reliance Refinery in India which certainly is trying to target the Mediterranean market in terms of diesel which is the strongest market in the world and there is no doubt that we're together with all the storage that is coming mainly from, with all the gasoil on storage, which is mainly produced in the East this is right now hurting us but, you know, refining is a long term business which you have to measure in decades and I can tell you that our Italian colleagues which have refineries inland, some of these are loading products on trucks and shipping them to the sea in order to be able to export them. So there is no doubt in my mind that to be competitive in the long term you have to be in a position where you can easily access upstream markets and downstream markets wherever they may be placed in the world. So yes to the first part we're certainly not happy to see this diesel coming in from India but

we do believe that this is going to be a relatively short lived phenomenon and it's going to find its natural market towards the East and certainly not to this side of the Suez Canal.

**Anish Kapadia**

And just a final question on the fixed costs which were lower in the third quarter I'm just wondering if that's something we can expect as an ongoing thing?

**Dario Scaffardi**

Fixed costs yes perhaps Corrado can say more. I will say that the guidance overall remains the same in terms of fixed costs, we're in the range of 230/240 per year. It's related to the fact that part of the maintenance costs have been capitalised so that is to account for the reduction in fixed costs in Q3 but maybe Corrado can be more helpful than myself in this respect.

**Corrado Costanzo**

We're currently going through a very detailed exercise in respect of costs, operational costs, and also CAPEX costs because at the end of the day money is money and we believe that from next year the operational costs will be equal if not lower in spite of inflation and in spite of a number of issues which arise all the time in respect of operational actions at the refinery, in respect, for instance, to environmental issues and all that is being addressed very thoroughly and as I said we'll be more specific next quarter but anyway everything is under control and it will be in line with this year or better.

**Anish Kapadia**

Okay and sorry just going back to my first question again I just wanted to double check that the guidance you gave on the IGCC was for 2010?

**Massimo Vacca**

The guidance for the IGCC Italian GAAP for 2010 is indeed in the range of €120m to €140m. Italian GAAP. IFRS it's linearised it's going to be 180 as we previously mentioned in various occasions.

**Anish Kapadia**

Sure, thanks so much.

**Domenico Ghilotti, Equita**

Good afternoon I have three questions. The first is a clarification on your dividends policy particularly in the case of the results that you are achieving or even lower. The second question on the marketing division, in particular if you can give out the contribution from the acquisition of the oil stations acquired on your Spanish volumes? And the third question is on your Italian GAAP EBITDA for 2009 from the Powergen you gave a guidance at this point in 2008 and it looks a bit stretched so I would like to understand if these are normalised results including the problems you had in the third quarter

**Dario Scaffardi**

Thank you. Well on the dividend policy we really could not comment further we have a stated policy and in case of negative income probably the dividend will be 40% of negative numbers it might be that the market has to give us back money, I'm joking of course.

On the marketing division we are extremely pleased, notwithstanding a very, very adverse market in Spain, we have been able to maintain the same market share as Corrado was explaining before to a previous question there has been a sharp contraction in Spain and our contraction has been roughly about 6% which is in line with the overall market but of course the market is different from the Spanish producers, the Repsol, the Cepsa's, the BPs who actually are producing in Spain for companies such as ourselves which we import into Spain, so the fact that our division has been able to shrink by the same amount as the overall market we consider it is an extremely positive result. Part of this positive result has come exactly from our acquisition of the ERG stations which has become fully operational in July and so the volumes into these stations is part of the fact that it's helped maintain our market share and it is in line with our strategy of trying to go down to the final end user avoiding, as Corrado was saying before, what we call sales to co-operators, meaning other oil companies which are more in line with this blind trading department to blend with our marketing division.

And I think regarding your question on EBITDA for the SARAS division I think Corrado can try and make it a little bit clearer.

**Corrado Costanzo**

Well Q4 I mean first of all I hope I understood correctly we're talking about 2009 here?

**Domenico Ghilotti**

Yes you mentioned the ...

**Corrado Costanzo**

Q4 will be full quarter, no slowdown, the slowdown of one train was brought forward, we discussed that before and so we should be able to finish around EUR150 ml. Q4 will be a full quarter.

**Massimo Vacca**

But Domenico as usual I can be very detailed if you phone me up afterwards and I'll explain you all this.

**Henry Morris, Goldman Sachs**

Hi there it's Henry Morris of Goldman Sachs, actually all of my questions have been answered.

**Dario Scaffardi**

Okay thank you.

## **Closing Comments**

**Massimo Vacca**

Okay then thank you very much for your time today again if you have more detailed questions please do not hesitate to contact me directly because otherwise we'll talk again on the occasion of the presentation of the next quarter results. Thank you to everyone and good evening.