

SARAS

Investor Day Webcast

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Welcome

Angelo Moratti

Vice Chairman, SARAS

I am Angelo Moratti, Vice Chairman of SARAS Group. My grandfather started the company in the early 1960s. Many thanks for joining us today. We are pleased to present to you our organic growth plan. Our long-term goal is to further strengthen our competitive position as one of the most important diesel producers in the Mediterranean and in Europe. We are confident that we can achieve this and continue to deliver improving profitability, even with the so-called 'Robin Hood taxes'. Let me introduce you to the members of our senior management team, who have been with SARAS for more than 20 years:

- Dario Scaffardi, our General Manager.
- Giuseppe Citterio, Head of Planning
- Antioco Gregu, Head of Industrial Operations
- Corrado Costanzo, Chief Financial Officer (CFO)

At the end of the presentation, you are welcome to taste our Sardinian wines. I would now like to hand over to Dario.

Vision and Strategic Goals

Dario Scaffardi

General Manager, SARAS

I. Preamble

Thank you, Angelo. Welcome, everybody, to our presentation.

[Housekeeping remarks]

II. Agenda

Today's agenda is based on our business plan. Giuseppe Citterio will outline our view of the market and Antioco Mario Gregu will detail our plans. In our organisation, Giuseppe thinks of ways to spend money and Antioco spends it. As usual, the oil markets are extremely interesting at the moment. Crude oil is at \$140, which is an unprecedented level. There is extreme volatility that has never been seen before. Robin Hood has moved from Sherwood Forest down to Italy. We also now have the Russians banging on Italian doors. All of this makes for some very interesting changes in the market outlook. I would like to congratulate ERG and LUKOIL on their joint venture, which seems to be a very interesting opportunity for both parties and one which will further open up and make more liquid the Mediterranean market.

III. Vision and Strategic Goals

What we will try to do, however, is to continue along our path of organic growth and to be a world-class refiner through the quality of our people and with respect toward the environment. In the future, we want to be a zero fuel oil refinery, which means that we are going to convert every drop of crude oil into valuable transportation fuels. Our plan is based, essentially, on internal and organic growth in our core business, which is refining. We also have ventures in marketing, which is an integral part of our refining business. The projects that we are going to present to you today all deliver high returns and will achieve better returns, we believe, than external growth. The vision that we have is to be top of the class and we will ensure that we remain so. I would now like to hand over to Giuseppe, following which we will have time for questions and answers.

Refining Market Outlook

Giuseppe Citterio

Head of Planning, SARAS

I. Preamble

Thank you, Dario, and good afternoon, everybody. I would like to go through our market outlook, although I do not want to trouble you with figures that you already know. I will go through a simplified summary that explains the core trends.

- First, in the oil market, there is a steady increase in consumption in emerging countries, related to gross domestic product (GDP) growth. This is the key aspect of the market today.
- Second, there is a focus on middle distillates, which is technically based on the versatile and efficient use of middle distillates.

II. Growth in Demand for Oil Products

Despite its high price levels this month, crude oil is not a major issue. It is available at market cost. There is an opportunity to be exploited in new grades of crude oil. Those grades that are more interesting in terms of our market come from the Caspian Sea and West Africa. Rather than

standard grades, they are unconventional crudes that offer some opportunities to large, complex and flexible refineries such as the one at Sarroch.

III. Middle Distillates Will Continue to Be Leading Fuels

It is evident that everyone in the oil industry nowadays is focused on middle distillates. For SARAS, middle distillates represent a long-term strategy. This strategy began in the 1990s in terms of transforming a gasoline-oriented refinery with a large fluid catalytic cracking (FCC) unit into a diesel-oriented refinery. This transformation is in line with current trends.

Of course, there are many good reasons behind the growth in distillates:

- Distillates have a versatile use and a broad range of applications in jet fuel, heating and transportation, and are spread around the world market.
- Middle distillates are efficient and offer operational flexibility, particularly in terms of diesel.
- Finally, distillates deliver good environmental performance vis-à-vis fuel oil or coal, especially in emerging countries.

Another area of increasing demand is the shipping industry, which will progressively switch from bunker oil to gas oil. I will return later to address this issue.

IV. Limited Growth for Gasoline

1. Europe and North America

There is a different scenario in the gasoline market, with limited growth opportunities. However, the gasoline market is a little more complex than the diesel market and cannot be judged simply from a European perspective. In Europe, there is clearly a switch from gasoline to middle distillates in private cars. However, the gasoline market is a worldwide one. In North America, which remains the main market for gasoline, there is no growth, due to:

- Slowing US consumption.
- Political pressure for higher fuel efficiency – for example, the production of hybrid vehicles.
- Substitution with bioethanol.

2. North Africa, Middle East and Asia

On the other hand, however, there is significant growth in other countries, notably in North Africa, the Middle East and Asia. SARAS is well placed to exploit the gasoline growth in the Mediterranean area. It also has the configuration and operational flexibility to match the specifics of the worldwide market, including the challenge of 10 parts per million (ppm) in Europe now and in other Organisation for Economic Cooperation and Development (OECD) countries in future years.

V. Declining Demand and Changing Specifications for Fuel Oil

1. Coal, Gas and Renewables

The market for fuel oil is clearly declining, but for different reasons. First, substitution of coal, gas, renewables and even nuclear for power generation applications. There is no doubt that oil is not a suitable material for power generation; it is better to use oil for transportation fuel or petrochemicals, in which there is no substitution.

2. Bunker Fuel Oil

Bunker fuel oil is a different issue. There is a clear trend that began one or two years ago to improve the environmental impact of bunker fuel, which entails eventually switching to low-sulphur materials such as gas oil. With a low-sulphur target of, say, 0.5%, middle distillates such as gas oil or marine diesel are by far better than fuel oil. This long-term trend will open up new markets for producers specialised in distillates and will be a driver of our long-term investment plan towards zero fuel oil. As Dario said, zero fuel oil means replacing bunker fuel with middle distillates at our refineries, and we think that we have an advantage in terms of such a trend.

VI. Supply: High Entry Barriers

Supply too plays a role in the market outlook. In recent years, supply has had higher entry barriers than previously expected. Problems such as the costs of and delays in current grassroots refineries are well-known in the market. These barriers are evident to a significant amount of refinery capacity. In OECD countries, it is difficult to justify a new refinery. In emerging countries, however, it is difficult to quickly build and operate a new refinery. China is probably an exception, although it is somewhere in between an OECD country and an emerging country, due to the dimension and speed that China has. We think that, based on this consideration, it will be more practical and convenient to improve and develop those existing refineries that merit the investment.

VII. Middle Distillates Supply/Demand Balance

1. 10 ppm Sulphur

There are many issues for middle distillates: first, the change of specifications to 10 ppm sulphur, which is much more difficult to produce than 50 ppm sulphur and requires good technical knowledge and operational skill. This places additional challenges in front of new entrants. We have major experience of this increasingly challenging specification on diesel. We have dealt with the 350 ppm and 50 ppm changes and are prepared for the 10 ppm change.

2. Biodiesel

Biodiesel is the other major issue. While the outlook is uncertain, biodiesel plays an important role. Biodiesel will be required in a scenario of highest demand growth of 2.5% per annum. However, we think that such a large amount of biodiesel is rather unlikely. Biodiesel is related mainly to European Union (EU) regulations. It will increase but not at the pace that the EU imagines. The EU also recognises that second-generation technologies are necessary to meet the emissions targets of 2020. For this reason, we do not think that the entire biodiesel capacity anticipated over the next 10-15 year will be available because it will have to include new

generation units. We think that first generation biodiesel will play a role as a bridge towards more environmentally friendly second and third generation. All of this consideration results in the conclusion that middle distillates will remain a tight market.

VIII. Light Distillates Supply/Demand Balance

1. A Volatile Gasoline Market

We cannot draw the same conclusions for gasoline. Gasoline is a very volatile market, with many uncertainties. It is difficult to forecast the worldwide situation due to factors that I have already mentioned: the slowdown in US growth and the new emerging markets. However, some conclusions are related to the industrial position of a refinery.

2. Local Market Declines

First, there are some disadvantages for certain refineries, one of which is a local decline in market. Any refinery that has to rely on a local market will be faced with serious issues. There may be limitations in terms of logistics facilities to handle a potential gasoline surplus.

3. Competitive Advantages in a Complex Market

We think that SARAS has none of these disadvantages. We have an export market that is available, and it is important to note that North Africa and the Middle East are growth areas. Refineries that may be constructed in the Middle East are diesel-oriented, not gasoline-oriented. SARAS has a large, flexible delivery infrastructure that allows us to supply different grades to all Mediterranean markets, as well as to the US and other destinations. It is a complex market but we think that we have a competitive advantage over other refineries in terms of satisfying key markets.

IX. Reference Market Scenario

We set market scenarios but do not have the illusion of guessing the next quarter. We use these scenarios for our investment plans. We are confident that we have identified the medium-term market's structure and behaviour with a rather conservative approach. We are not taking into account the bullish feeling of last month for diesel. The most important figure is the difference between diesel crack and Brent, which is \$25 a barrel. The 2002-06 five-year average is roughly \$15-20 a barrel; in early 2008, however, the average was \$30-40. This is a clear indication of the tightness of the diesel market and the difficulty around providing an incremental supply to match incremental demand. Our forecast of \$25 is rather conservative and a very feasible number for the medium-term approach.

X. Organic Growth Strategy

1. Based on Two Pillars

As Dario highlighted in his introduction, we have an organic growth strategy. Our long-term vision is based on two pillars:

- First, investment focused on middle distillates.

- Second, a steady and continuous investment policy that allows us to be and remain top of the class.

I can assure you that this is not a last-minute statement prepared for this presentation. Personally, I have been involved in all the refinery development projects since the late 1980s. Nowadays, my colleagues and I are trying to understand the market evolution and translate market trends into our industrial vision, policy and investment.

2. Sarroch Refinery

We think that Sarroch has rather unique aspects that match the trends that I highlighted earlier, for three reasons:

- First, the continuously updated and improving policy oriented towards operational reliability and environmental sustainability. These may not be wholly appealing issues but they are necessary for a top-level, world class refinery. Investment in operational reliability and environmental sustainability is one of the key factors in the long-term success of a refinery.
- Second, capacity, complexity and location offer advantages in terms of market trends. Without the limitations of having an inland refinery or a specialty product refinery, Sarroch has the flexibility to deal with these market trends.
- Finally, a quick and effective integration between investment planning, operations and commercial is an advantage that our company enjoys, thanks to the lean management structure and to the continuity of the owner shareholders of the company.

I will now hand over to Antioco for the details of our investment plan based on this vision. Thank you.

Organic Growth Strategy

Antioco Mario Gregu

Head of Industrial Operations, SARAS

Dario Scaffardi

I. Preamble

Antioco Mario Gregu

Thank you and good afternoon, everyone. It is nice to see many of you again here in London. Last year, we met at our Sarroch refinery. That was a very interesting day and I hope that today is the same. At the time, I was the refinery manager, responsible for the day-to-day operation. Currently, I am in charge of industrial operations for the Group, which basically entails a more strategic industrial responsibility in terms of the operation of current assets. I am also responsible for the engineering and construction phase of the actual investment plan for the investment projects.

Following the market overview given to you Giuseppe, I will now take you through what I hope is an exciting tour of the skills and people at our refinery and outline some details of our investment plans and how we are going to upgrade our units.

II. Refining

1. Increase Conversion Capacity

a. Mild hydrocracking 2 revamp

As Giuseppe said, increased conversion capacity is one of the main drivers of our plan; in other words, upgrading fuel oil to diesel. The first project is the mild hydrocracking 2 revamp. This is a unit that runs heavy distillates and upgrades them mainly to diesel. It is run at high pressure and high temperature and we will upgrade it by adding some reaction capacity in order to increase diesel production. This project will enable us to increase throughput to the unit by about 5,000 barrels per day and to increase conversion by 5%. This will allow additional diesel production of about 270,000 tonnes per year and will entail capex of €190 million. Results will be delivered by the second half of 2010.

b. Visbreaking revamp

The second unit that we are going to upgrade is the visbreaking unit, which has been largely neglected for many years. However, in the future, the high value attached to the conversion spread between heavy materials such as tar, which are suitable only for gasification units, and diesel will exceed \$500 per tonne. This unit is, therefore, able to convert this very heavy material and convert it into diesel. We will add some reactors and some towers to recover the heavy and light distillates and upgrade them into diesel. We will spend €155 million and deliver the results by the second half of 2011. We will increase production by roughly 2,000 barrels per day. Together with the increased conversion from MMC 2, diesel production will increase by 370,000 tonnes per year.

2. Improve Energy Efficiency

- Given the value of a barrel of crude oil, energy efficiency is a very attractive investment. Those of you who visited our refinery might remember how compact it is, thereby offering the possibility of integrating the units in terms of energy efficiency. Rather than being spread out over several kilometres, if units are located close to each other, it is possible to derive certain advantages. Energy that might be lost from one unit can be transferred to another.
- It is also possible to recover energy from exhaust gases. The technology is now available to improve and increase this recovery.
- Finally, we can upgrade the combustion processes of our furnaces.

These elements will enable us to reduce our fuel consumption by at least 75,000 tonnes of fuel oil and to upgrade the same amount to diesel. We will spend €5 million over the next three years and the results will be delivered between 2009 and 2011.

3. Enhance Refinery Performance

The enhancement of refinery performance continues. As Giuseppe said, a complex refiner has the opportunity to look into its units, to apply the new technologies and knowledge and to recover much more efficiency. In particular, we have specific aims over the next few years:

- First, to upgrade key units such as the catalytic cracker, which takes fuel oil and heavy material and converts them into gasoline and diesel. Next year, following five years' continuous operation, we will shut this unit down for routine maintenance and take the opportunity to spend money on improving its efficiency. The same will be done to the alkylation unit, which takes liquefied petroleum gas (LPG) and converts it into gasoline. Again, we will make some investment there.
- Second, to expand the tank storage farm in order to increase our ability to run unconventional crudes once they become available to and profitable for us.

Flexibility is another key point. We have a great track record in this respect and we will continue to do so. Organisational effectiveness continues, of course, to be another key element. The people involved with the technology make a difference. The total amount that we are investing in this project is €220 million. Through this project, we will increase our refinery throughput by about 10,000 barrels per day or 500,000 tonnes per year of runs. In particular, once they are available, we will be ready for unconventional crudes such as waxy, condensate or extra heavy materials, for example.

4. Impact of Growth Projects on Product Yields

By the end of this investment plan, we will be able to increase our middle distillate yield – and mainly diesel – from 52.5% to 55%, reaching the highest level of diesel yield by any refiner worldwide. While an increase of 2.5% might not appear to be much, I would remind you that this equates to 370,000 tonnes per year. This will be achieved in 2012, which is the first year when all these projects are fully operational. The road to the zero-fuel configuration is progressing, so by the end of this period, we will reach very low levels of fuel oil yield, at just 2.8%. Dario will give you our vision beyond 2012 in terms of reaching zero fuel oil.

5. Margin Growth and Returns

A comparison between 2012, which is the first year of full contribution from these projects, and 2008, based on the reference scenario, shows a 27% increase in gross margin after variable costs. This equates to \$240 million and adds \$2.2 per barrel to the base refining margin. Our internal rate of return (IRR) after tax is in excess of 15%, in line with our investment criteria.

6. Margin Growth: Timing

Following some growth in 2009, when some projects start to be effective, we will see some step changes in 2010 and 2011, with contributions from the mild hydrocracker 2, visbreaker and energy efficiency projects. In 2012, we will be at full operation, reaching an additional base refining margin of \$2.2 per barrel, or a total of \$240 million.

7. Total Capex

Between 2008 and 2011, our capex will be in excess of €1 billion, of which €20 million will be related to the growth projects. We will maintain health, safety and environment (HSE) expenditure at the standard level. In 2008, the €80 million expenditure on HSE refers to the completion of the gasoline desulphurisation unit which will produce 10 ppm gasoline and the tail gas treatment unit, which is an environmental investment to respond to certain regulations. This unit will enable us to reduce sulphur dioxide (SO₂) emissions by 30%.

8. Reference Long-Term Runs and Capex

In an industry context, where our competitors are dropping their utilisation rates, we project being able to increase our average throughput in 2012 and beyond by about 3%, or roughly 500,000 tonnes per year and 55% of this throughput will be diesel.

In 2009-11, scheduled maintenance and turnarounds and new investment in operational units will reduce the throughput of the refinery. This will impact the refining margin by \$0.5-0.7 per barrel. To maintain these assets and this long-term view in a sustainable way, our HSE capex is expected to be about €80 million per annum.

III. Power Generation

1. Capex

I am very proud to have contributed, in 2001, as plant manager, to the first year of industrial operation of this unit. Our programme is to enable this unit to continue to maintain best-in-class efficiency. In 2008, we are completing our investment to increase hydrogen production. A third of the hydrogen for the refinery comes from this unit and we are increasing production by about 30%, which will be available in the coming months. In 2011, following 10 years' continuous operation, we will have to replace some equipment and will take this opportunity to make some upgrades in order to optimise the unit. For this reason, we have allocated some capex in 2010-11.

2. Carbon Dioxide (CO₂) Reimbursement Confirmed

The energy authority resolution has confirmed the full cost reimbursement for the CO₂ for the entire duration of our CIP6 project, so we need spend nothing on the CO₂ imbalance between the unit's production and allocated quotas.

Thank you for your attention. I will now hand over to Dario for an overview of marketing.

IV. Marketing

1. Key Themes

Dario Scaffardi

Unfortunately our Commercial Director, Domenico Bruzzone, cannot be with us today. I would like to give you an overview of our marketing activities, which are based mainly on wholesale in Spain and Italy and which are a natural complement to our refining activities since they add to the

value chain. At the same time, it provides security, sure outlets for our products and without being too heavy in terms of financial commitment.

- We focus on the Spanish market since it is one of the fastest-growing markets in Europe. According to the Spanish Association of Oil Companies, the market is predicted to grow next year by 4%.
- We have programmes for organic growth and we also look for opportunities for external growth, which mainly would involve logistics assets on the Mediterranean coast of Spain or on the west coast of Italy and possibly to expand our Spanish retail network. At the moment, we have a small retail network of less than 40 stations. Should we find opportunities that fit into our system, we will look at them very closely.

2. New Sagunto Depot in Spain

We are building a new depot in Sagunto, near València. This is an area where the economy is growing quite strongly and which accounts for about 12% of Spanish consumption. It is tight on logistics so we are going to build a 240,000m³ depot, which we expect to be fully operational in 2011. We also expect to be able to increase our overall sales in the Spanish market by 15-20%.

3. Biodiesel Plant

We are about to complete a biodiesel plant in Cartagena, in southern Spain. The plant will be commissioned at the end of this year and should be fully operational by the beginning of next year. It is a first-generation biodiesel plant. As Giuseppe explained, this is a transitional technology but biodiesel is important since it will account for all the biodiesel that we are going to need for marketing operations. As you know, EU regulations recommend 5.7% biofuels in automotive fuels from 2010. Our production here of about 200,000 tonnes will be exactly what we need to achieve this. We also have the opportunity to exploit further opportunities in an important market like the one around Cartagena, where there is a depot that we own and a refinery that is managed by Repsol.

V. Wind

- There has been a lot of strong competition in Italy. This has put pressure on returns, which are not as exciting as they were a couple of years ago.
- We have a pipeline of projects in Sardinia that has been blocked, and we have other projects in Italy that are in the permitting phase.
- We are looking closely at investment opportunities in eastern Europe.
- We are evaluating the possibility of acquiring the 30% share that Babcock & Brown have in our wind farm.

VI. Gas Exploration

Gas exploration is something very new to us.

- We have been conducting seismic tests on the west and south coasts of Sardinia.

- The data have been processed and there are some encouraging results.
- The offshore tests which are part of the overall scheme have not yet started because they are still in the permitting phase.
- In the latter part of this year, we are going to evaluate, in conjunction with consultants, exactly how we are going to move forward in this venture.

I will now hand over to Corrado, who will walk you through some key financial figures.

Financials

Corrado Costanzo

CFO, SARAS

I. Cash Allocation Priorities

1. Capex

a. Long-term organic growth in core business

Good afternoon, everybody. You have heard throughout this presentation that we intend to invest about €600 million in growth projects, so this is the number one priority in terms of cash allocation. You have heard us say that we believe that refining will continue to be an attractive sector and that we intend to continue to be a top-notch, world class refinery. I would like to draw your attention to the fact that what we are targeting, based on our reference scenario, is an increase in our earnings before interest, tax, depreciation and amortisation (EBITDA) of about \$240 million or €160 million today. Comparing €160 million incremental EBITDA to €20 million capex on growth projects, we immediately realised that these returns are not available if you pursue a greenfield refinery project and, in most cases, not available if you pursue an acquisition of an existing refinery. In fact, we have seen a deal go through for similar amount of money at a refinery in northern Italy, with an expected EBITDA which is a fraction of the €160 million that we are targeting.

b. Tight financial discipline

After some thought and discussion, we have concluded that the best way to invest our money is through organic growth. We know our refinery better than any other. We believe that upgrading already complex and existing sites is probably the most efficient way to spend shareholders' money. We intend to continue to exercise strict financial discipline in relation to investments in any sector. Our return on average capital employed (ROACE) target continues to be 10-15% over the cycle, depending on the risk attached to different sectors. Marketing and renewables are clearly less risky and, if you want to be able to compete, you have to accept somewhat lower returns. However, I would like to stress that we believe that we have put in place all the available mitigations that are available to us in pursuing our growth strategy. We are not going for one huge project, so the construction risk is spread over a number of projects, which will be built over time. To some extent, the back-ended projects, if necessary, can be delayed or changed. We believe that the inherent risk of the sector has been addressed to the extent possible.

2. Dividends and Buyback

We believe that there is still room, based on our financial projections and on the reference scenario that we have discussed here, for continuing our dividend policy and our buyback programme.

II. Leverage

As a result of all of this, we will be progressively increasing our leverage toward an area which is within our long-term target of 25-50% over the cycle. As we have always said, we are not afraid of reasonable amounts of leverage, as long as they are incurred for a good reason. We have resisted the idea of re-leveraging the balance sheet purely for financial reasons, but we are entirely prepared to do this in order to support a major investment programme. Clearly, this will also create value for shareholders by increasing earnings per share (EPS), all other things being equal.

III. Costs

Overall fixed costs are expected to be inflation-related. Direct variable costs are already included in our margin calculations, so the additional \$2.2 are already net of direct variable costs, which is consistent with how we disclose our margins as a premium over the Energy Market Consultants (EMC) benchmark. Major turnaround costs are already included in our capex estimates. Most of those costs will be capitalised and, therefore, will not have a significant impact on our P&L. In addition, the risk of cost overruns during our investment programme is limited, for several reasons: all estimates are recent and quite accurate, and all major items have already been secured.

IV. Cash Flow

We have already discussed cash flow to some extent and we still believe that we will be generating substantial free cash flow – enough to support an attractive dividend and buyback programme. To some extent, we believe that there is still going to be room for external growth, primarily in the marketing and renewables areas.

V. Changes in Taxation

1. Oil and Power Sectors Subject to Special Tax Regime

You might have thought that Robin Hood was British, but it seems that he has decided to move to Italy. There have been some changes in taxation. We are still on somewhat uncertain ground here, but I will give you a snapshot of the most recent and reliable picture. Effective from 2008, oil companies and power companies are subject to a special tax regime. The corporate income tax rate was increased by 5.5% and is once again at 33%, which is where it was until 2007. Incidentally, the fact that power companies are affected means that renewables such as wind and solar power are also affected.

2. Increase in *Imposta sul Reddito della Società* (IRES)

Sarlux will be affected, based on Italian Generally Accepted Accounting Principles (GAAP). We will be losing the incentive portion of the tariff in about a year, so the taxation base will be lower.

Rather than International Financial Reporting Standards (IFRS) numbers, therefore, you should make reference to Italian GAAP numbers.

3. Change in Oil Inventory Taxation

Finally, there has been a switch from last in, first out (LIFO) to first in, first out (FIFO) for oil inventory taxation. This is complicated but, in essence, the LIFO reserve – whatever exceeds LIFO in terms of FIFO valuation – will be taxed in 2008 at 16%. You will then move on from there based on FIFO, so you might have higher or lower values in 2009 and 2010. From what we understand, both gains and losses will be treated for tax purposes at the full 33% rate. Therefore, if oil prices drop dramatically, the 16% one-off tax might be recouped, although, of course, this is not what we would like to see. An approximate one-off figure for SARAS could be about €40 million based on 16%, which is lower than most estimates that we have seen. This is due to the impact of third-party processing and lower inventories on our balance sheet.

I will be happy to take any of your questions on the details, but will first hand over to Dario.

Closing Remarks

Dario Scaffardi

I. Zero Fuel Oil Configuration

1. High Value Distillates versus Power and Utilities

How are we going to move to a zero fuel oil configuration after 2012? We are currently studying investments in various areas. The two main options that we have before us are either to build a new hydrocracker, which would privilege the production of diesel at the expense of fuel oil, or to build a new gasification line. We have three in operation, as well as three power production lines. Building a fourth unit would privilege the production of power and utilities and, to an extent, it would also produce middle distillates. Going forward, we will look carefully at what we expect from the market, what kind of crudes we imagine will become available, and what would be the most convenient crudes; the relative prices between various oil products; and, most importantly, the price of power. We expect to have something relatively definite in 12-18 months' time. These investments would probably be able to start construction some time in 2012.

2. Carbon Capture and Storage (CCS)

Our gasification unit produces CO₂, which today is considered negatively but is inherent in producing power from fossil fuels. It does, however, has the advantage of producing CO₂ in a very concentrated manner, so the difference with a normal power plant that burns natural gas is that you would have CO₂ mixed with a lot of air, so any use of the CO₂ would be difficult. The nature of the gasification unit is such that it produces CO₂ in a concentrated way, which opens up a whole series of opportunities in the area of CCS. A lot of research is being undertaken in this field and we can imagine pumping the CO₂ underground and earning carbon credits. We can also imagine using it to produce algae as a fuel that, in turn, would be needed to produce oil for biodiesel plants. There are a variety of opportunities here that we are studying.

II. Investment Highlights

- Giuseppe has explained why we strongly believe in the diesel market. We are firmly committed to it and are a pure player in this field. We feel strongly that all the investments that we have made in the past have been geared to diesel. We believe that, in the future, this is going to be the fuel of choice.
- Antioco and Corrado have explained in more detail our investments and the return that we expect from them. These are all investments that higher and better returns than external acquisitions and a very low execution risk.
- We are committed to remaining a first-class refiner because we are able to couple together two important features that are unique in the sector. We have technical and operational excellence on one side and a very good knowledge of the oil market on the other. By merging these two factors, we will be able to remain ahead of the class in the future.

Thank you very much. We will now be pleased to answer any of your questions.

Questions and Answers

Alexandre Marie, Exane BNP Paribas

You mentioned that turnarounds will reduce refining margins by \$0.5-0.7 per barrel. Could you link that to the \$2.2 increase in the margin? Is this increase net of the reduction linked to the turnarounds?

Dario Scaffardi

The \$2.2 increase is what is going to happen when all the investments are in place in 2012. Of course, in the course of building these investments, they will be performed during normal turnaround shutdowns of the various units, but there will be more work on them. During the execution of the plan, there will be some loss of conversion capacity, which is what has been estimated as \$0.5-0.7.

Corrado Costanzo

In addition, the \$2.2 will not happen all at once in 2012, so we will add x every year. On average, however, we will lose \$0.5-0.7.

Domenico Ghilotti, Euromobiliare

I would like to check the improvement in the performance of Sarlux in 2010-11 that you mentioned in your presentation. Second, in terms of the visibility that you have of the capex plan, you mentioned some confidence in cost overruns. Could you give us some details on the timing?

Antioco Mario Gregu

We have not reported an improvement on 2010 when we will change some equipment after 10 years' operation in the integrated gasification combined cycle (IGCC) because this plan is related to 2009-11. However, we expect, up to 2011, to slightly improve the efficiency. The level of capex is not that big, but we will pay for that capex with our improvements.

Dario Scaffardi

In terms of your second question, the majority of the big expenses have already been secured. The equipment that we need to put in to the mild hydrocracker, the pressure vessels and the compressors – the most expensive parts – have already been secured and fixed, as have many of the contracts with the builders. We expect, therefore, to remain reasonably in line with our expenditure plan.

Henry Morris, Goldman Sachs

First, you mentioned a middle distillate yield of 55%. Could you give us a rough split between diesel and jet fuel in that figure? Second, is the incremental margin growth net of the \$0.5 per barrel reduction in margins?

Dario Scaffardi

No, it is not net. These are additions and, on top of that, you will have to take out this guidance, which is an approximate guidance. Giuseppe can explain the mix between jet fuel and diesel.

Giuseppe Citterio

The majority of middle distillates in SARAS are diesel. Jet fuel is only a minor proportion since there is not a big demand for it in the Mediterranean market, in total contrast to the market in north-west Europe. There are some small amounts of other distillates for use in petrochemicals, which have a premium towards the diesel market, as well as a minor amount of gas oil that is used for diesel or heating oil outside the EU in diesel motors that use non-European specifications. The vast majority is 10 ppm diesel for Europe.

Corrado Costanzo

I would like to return to slide 20 and look at 2011. As a result of our cumulative efforts, you see an increase in gross margin of about \$1.6. In your projections, you should deduct \$0.5-0.7 as a result of work that will be performed on certain units, in order to achieve the final \$0.5 of 2012. However, you should bear in mind that we do not shut down the refinery all at once. Every so many years, just as other companies do, we shut down individual units according to a set programme. Therefore, our maintenance schedules always imply about \$0.3 a year of reduced conversion capacity, which is already embedded in our 2006-08 financial performance.

Will Forbes, Credit Suisse

First, do you expect to continue your existing buyback programme after the 18 months of the existing programme have finished? Second, you see the movement of shipping from bunker fuel

oil to diesel. I am interested to know what your take is on where all of that fuel oil goes if it is not being taken up by shipping.

Corrado Costanzo

Shareholders authorised the 18-month buyback programme. It is difficult to make a firm projection at this point. We will see where we stand at that time, which is at the end of 2009, and we will make a decision then. The answer, therefore, is 'maybe'.

Giuseppe Citterio

In terms of the transition from bunker fuel oil to middle distillates for marine utilisation, it will be a long-term transition and not one that happens overnight. I did not give you much detail earlier but, for example, in the EU there is additional legislation that requires the use of 0.1% distillate in ports and ferries. This means that, on a worldwide basis, there will be a continuous shift from bunker fuel oil to distillates. Of course, the market will adapt to this transition with different production all around the world. We are not predicting a collapse in the bunker fuel market but a continuous transition. In addition, there is also the replacement of the current ship fleet with new ships. Probably, new ships will be designed to use marine diesel that offers operational advantages and simplicity in building and maintaining the unit. Ultimately, it will be a challenge for refineries that produce bunker fuel oil, since they will run the risk of an acceleration of this transition. On the other hand, refineries producing diesel oil will see an opportunity to put better products on the market.

Domenico Ghilotti, Euromobiliare

What is your view of the ERG deal? Is there any impact that you see on SARAS from that deal? Second, how do you expect your crude slate to change over the next three or four years? Could you relate that to how you expect the global crude slate to change given the changes in production and in new complex refining capacity? Finally, in this much higher oil price environment, could you say something about your inventory management and what inventory requirement you have for the marketing expansion?

Dario Scaffardi

On ERG, we were not taken by great surprise, since it has been talked about for quite a while now. We were pleasantly surprised by the level at which this transaction appears to have happened. We have been travelling all day, so we have not read through it very carefully, but I do not think that it will have any impact on the market for us. It is, in fact, an opportunity, since the fact that the Russians are becoming more involved in day-to-day business in the Mediterranean area is going to be advantageous. LUKOIL already has a strong marketing presence because they operate a company called LITASCO, which is their trading arm. They are fairly active and we already cooperate with them, so I think it is just going to be a new player on the market. What I understand is that ERG and LUKOIL are going to maintain two separate operations. They will manage the refinery but each of the two companies will have a contract with the refinery by which each party brings in the crude oil and then lifts the products independently. Rather than things changing for us, I think there will be some opportunities.

Giuseppe Citterio

In terms of crude oil sources, part of our policy is to have flexibility. Based on a basic load of relatively standard heavy sour crude with the addition of some acidic North Sea crude and some unusual crude from North Africa, we normally try to exploit market opportunities. All the investment strategy is geared towards increasing the exploitation of these unusual crudes. I can give you three examples that are included in the investment plan and that we are starting to test for industrial operation. The first is to exploit the new crudes from the Caspian. They are relatively sweet crudes but with some problems relate to the light ends of the crude. The light material in the crude requires some flexibility in terms of handling in the refinery. We have made some investment and we have just tested this crude in significant quantities. In the future, we expect to increase it slightly

The second is naphthenic crude, which can create problems in the refinery in terms of corrosion. We get around this by treating it and we will continue to increase our capacity to do so. It also has bad qualities for middle distillates. We have a unit that is able to handle this crude and we are able to exploit some synergies with light sweet material. For example, in the last year, we have begun exploiting some unusual West African crudes that make their way to the Mediterranean when there is a significant discount. In the future, we think that we have some additional flexibility to treat this kind of crude, thanks to some investment in a topping unit that is included in the plan.

The third is to exploit the heavy sour crudes, which are not so popular because the increasing capacity coming from the Caspian and the Middle East is based on lighter material. After 2010, however, it is expected that Saudi Arabia and Iran will put additional heavy sour crudes onto the market. More recently, some Iraqi crude at Kirkuk had a very high sulphur quantity. With this level of investment, the refinery – and notably the visbreaker – will be able to increase its capacity to handle these crudes with no limitations in terms of sulphur content. The sulphur limitation in the crude and the residue will be a constraint on bunker fuel production. As I said, it is a spread of the risk of crude availability with a different plant option, and it is the traditional policy to be flexible and to exploit the market opportunities that are reinforced by our investment strategy.

Corrado Costanzo

In terms of our inventory management, we generally do not take a speculative approach to this. We tend to minimise inventory based on our operating targets. As for the expansion in Spain, Spain has been constantly gaining market share over the last few years. What we are targeting here is a 50% expansion in four or five years. We believe that the effect on working capital will not be dramatic. Bear in mind that you have certain payment terms on your purchases and sales, but also excise taxes and payment terms will play a role, so the calculation takes a little bit of time and we would be happy to go through it another time. Overall, the combination of all these factors will not be dramatic.

Michael Alford, Morgan Stanley

Given the extra capacity coming on at the end of the year in Asia – particularly the Reliance refinery – are you anticipating any weakness in the diesel crack with extra supply coming into Europe? Second, are you seeing any softening in demand growth in the marketing business in Italy or Spain, given the higher product prices that we are currently seeing?

Dario Scaffardi

In response to your second question, the answer is definitely 'yes'. Recent figures from the industry association have shown the decline in demand in Italy. Something similar is happening not only in Spain but all over Europe too. There is, then, currently a decline in demand. Most likely, prices will tend to readjust themselves. In the longer term, I do not think that today's levels are sustainable and I think that we will return to more manageable levels, which are not dramatically lower than today but more in the double-digit range rather than the triple-digit range. At the moment, there is definitely some demand reduction.

Reliance is going to be able to put quite about 250,000 barrels of gas oil per day onto the market, but the Mediterranean market is an extremely short one so they will push out marginal suppliers to the Mediterranean market. The Mediterranean market is being supplied by the US, Korea and a variety of sources that also make a lot of arbitrage plays. I think that Reliance will provide a more stable source but, since the overall increase in demand is there, the impact will be negligible.

Giuseppe Citterio

For the Mediterranean market, we have to begin considering other countries too, one example of which is Turkey. The increase in consumption in Turkey is starting to be significant. For new grassroots refineries, there is a period of learning. You cannot have full operational capacity in line with the design goals within three or six months. It requires more time for a complex refinery to fully exploit the new unit. That means that there is a lag before the new refinery is fully exploited.

Dario Scaffardi

Also, the fact that we are going to have 10 ppm next year is going to result in a reduction in capacity. 10 ppm is a totally different environment from today's of 50 ppm. It means that there will be no room for error for anybody. Since it is difficult to imagine that anyone is going to be able to operate consistently at 100%, there is going to be a reduction in availability of diesel. It is difficult to say to what degree, but certainly several percentage points will be shifted into the heating oil market.

Kim Fustier, JPMorgan

First, you have given guidance on fixed costs and I understand that your guidance on margins is net of variable costs. However, could you give us any guidance on variable costs too? Second, when do you expect to have confirmation on the change in Italian corporate taxes? Could you also clarify whether the change would apply retroactively to 1 January this year?

Corrado Costanzo

The changes should come into effect as of 1 January this year. As for the IRES, the LIFO/FIFO aspects will come into effect at the end of the year. This is what we understand. A quite definitive draft has been circulated. However, the final approval of this new law will require some time. Before the summer break, we will probably have a definitive picture.

Variable costs will clearly be impacted by rising oil prices although, in our calculations, the reference scenario that was adopted is lower than today's figures. Utilities, steam, hydrogen and power are all affected by today's oil prices. However, these are factored into the benchmark and

into our current financial performance. If you look at the scenario, it is less aggressive than today's actual price levels for most of those products, so we believe that there should not be any surprises in this respect.

Dario Scaffardi

Not only have we provided our product yields, but we have also provided the amount of consumption and losses, so that already factors in any rise in price. Clearly, there is an advantage in reducing that figure as the value of crude goes up, but contrary to other operators, which just give a breakdown of the products that they produce and forget that a certain amount of the crude oil is used to produce the products, we give all the figures. That already factors in the base value of energy consumption. Then, of course, there is a little extra because we buy electricity and catalysts etc, which tend to move with energy prices but in a much more limited way than what we have here. The bulk is this 5.8%, of course.

Corrado Costanzo

I would like to point out that not everyone shows consumption and losses in their product slate. Clearly, if you forget about consumption and losses, your product slate will look quite different. All the percentages in terms of products will be different. We chose to show everything and to be as straight forward as possible.

Dario Scaffardi

Technically, it has always been done whenever you have a yield that always shows the consumption and loss figure, which, to a degree is variable, depending on the type of crude.

Sergio Molisani, Unicredit

[Inaudible]

Dario Scaffardi

I did not hear you very well. Can you repeat your second question a little more slowly?

Corrado Costanzo

I will answer your first and last question but you might want to repeat the second question because the line was unclear. In terms of extraordinary dividends, I would give you the same answer that I gave for the buyback: we will closely follow the amount of gearing on our balance sheet. We will closely follow margins and our financial performance overall. Based on all of that, we will make a decision. I would not completely rule it out but, certainly, that would be the case until the end of this current buyback programme at the end of 2009.

In terms of cost inflation, I would say that we were not particularly creative. We used an average for cost inflation estimates from a number of forecasters who you have access to.

Sergio Molisani

[Inaudible]

Dario Scaffardi

The product yield here is going to be something intermediate. Given that the increase in margins is going to happen in 2010 and 2011, we will see a similar increase in those two years.

Closing Comments

Dario Scaffardi

If there are no further questions, thank you very much for coming. I hope you enjoy the wine-tasting.