



Saras

First Quarter 2019 Results

Welcome

Operator

Good afternoon, this is the Chorus Call operator. Welcome and thank you for joining the Saras First Quarter 2019 Results conference call. As a reminder, all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call, you may signal an operator by pressing star and zero on your telephone. At this time, I would like to turn the conference over to Ms Francesca Pezzoli, Head of Investor and Media Relations at Saras. Please go ahead, Madam.

Francesca Pezzoli

Head of Investor and Media Relations, Saras

Yes, good afternoon ladies and gentlemen and thank you for joining us today for this conference call on Saras First Quarter 2019 Results. The analysts' presentation, the interim financial report, as well as the press release are available on our website on the home page and also in the section dedicated to investor relation.

Our agenda today will be the usual one. Mr Dario Scaffardi, Chief Executive Officer and General Manager of the Saras Group will start with the highlights of the period, followed by a detailed review of the results of each business segment. Afterwards, Mr Franco Balsamo, Chief Financial Officer will discuss the key financial figures of the Group. And then back to Mr Scaffardi for the outlook. Finally, we will have our Q&A session.

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



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Dario Scaffardi
CEO & General Manager, Saras

Highlights

Thank you, Francesca. Good afternoon everybody and thank you for joining us today.

From a market point of view, this quarter has been an extremely complex and volatile one. I would say that the key theme during this whole quarter has been crude oil; particularly the absence of certain types of crude oil. Clearly the impact of the American sanctions of Iran, which were up to a certain point discounted, but, over time, it became more apparent the fact that there will be a hard stop, or at least the Americans will try to make a hard stop on Iranian exports, became apparent and this impacted the market very strongly. So, before that maybe everybody thought that there would be some waivers that would be given. Furthermore, the increasingly challenging situation with Venezuela which is taking out of the market a very important quality, in particular for certain refineries, therefore creating a gap. And I would say that the third big factor are the OPEC cuts and the restraint in production that all negatively affect the availability of sour crude. So, we've had some very strong numbers on sour crudes. Also, sweet crudes, surprisingly, have been rather strong.

On a more positive note, we've had the gasoline cracks that started the year in negative territory and then ended the period basically to much more normal levels. So, I think this is the key theme of this quarter and created a very complex scenario for refining margins. From Saras' point of view, I think we were able to place a very important turnaround in this period. This turnaround has been executed very well. We'll talk a little bit more about it when we go through the various sectors. So, we have in Q1, about €60 million of EBITDA penalisation due to the maintenance which, as I said, we did the right thing to put the maintenance in this first quarter since it's been a very weak quarter and we expect the quarter going forward to be much stronger. This notwithstanding, there's been a very solid operating performance at all levels.

The net financial position is positive at €48 million which is stable compared to the end of last year. If we look at the cracks, as I mentioned previously, gasoline cracks started the year in appalling territory and in March they climbed back to more normal levels, although outside the range. But then, during the month of April, and in this part of the year has come back to much more normal levels. Diesel has been strong, based on decent demand, although we had a relatively mild winter which has negatively affected consumption.



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If we go to the next slide here, I think we can see very clearly the distortions that have happened in the crude oil market where the premiums of all qualities of crude, both sweet and sour, have gone up significantly and this has been not sufficiently compensated by the product cracks. So, this is the reason why overall margins have been so weak. The EMC benchmark has been extremely weak, particularly compounded by the fact that the EMC margin is based on Brent and Ural and Ural has gone at a premium to Brent which is a very abnormal situation which is due partially to the contamination of Russian crude coming through the Druzhba pipeline system in Eastern Europe. We do expect the forthcoming quarters things to normalise, particularly when the full effect of IMO will start to become apparent during the summer.

If we look at our refining margins, starting with the EMC benchmark which – as I said before – represents a mid-complex, coastal refinery located in the Mediterranean and as the feedstock which is made 50% of Brent and 50% of Urals which was supposed to represent a balance between sweet crude, expensive sweet crude and cheap sour crude. Well, the situation has been the opposite, because Urals has been almost more expensive than Brent. Clearly, the margin has been distorted and penalized. It has averaged \$2 in the first quarter of 2018, while in the first quarter of 2019 it's been slightly above \$1. This notwithstanding, our premium has stood at \$1.4 to the benchmark, but as I mentioned, this has been a quarter which has been influenced by heavy maintenance cycle. The impact of the maintenance on the results has been approximately €50 million. Basically, this means that if we had had a normal quarter, we would have added a premium to the EMC benchmark of over \$3, which is well in line with our guidance.

Segment Reviews

1. Refining

Now, we move to the various segments, starting with refinery.

As I mentioned our refinery has undergone some very important maintenance and I would just like to give a little bit of flavour on this maintenance, because it has been a huge endeavour. And the most important thing is that the endeavour has been completed impeccably and safely, without any relevant accident. Fourteen units were involved. One of the topping units, one of the Visbreaking, one of the Vacuum and catalytic continuous reformer which is a very important unit which produces reformulated gasoline and hydrogen. One of our hydrocrackers, one of our gasifiers, and so forth. We have installed over 500 tonnes of steel piping. We have performed maintenance of over 145 different pieces of machinery.

And just to give you some flavour: we had over 11,000 work permits, which means that over 600 work permits were activated on a daily basis. And in the height of the period had more than 3,000 people working within the refinery. So, the fact that this has been completed on time and largely within budget,



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and also having performed many improvements to our existing units is no small feat and we believe that this is due, in part, to all the improvement plans that we have executed in these years and to our digitalization programmes.

If we go forward in, I would say that we can skip the crude oil slate production. It's not meaningful on a quarterly basis, particularly in a quarter which has been so much influenced by maintenance. The slate is clearly sweeter than what it would normally be.

In terms of fixed and variable cost. We maintain our guidance; they are broadly in line with the first quarter of 2018. Variable cost was slightly lower. Mainly due to lower electricity costs and they were partially offset by higher cost of hydrogen.

2. Power Generation

If we look at our power segment: the operational performance has been excellent. We have produced almost 1 TWh in the first quarter, compared to 886 MWh in the same quarter in the previous year. So, with an increase of 11%. And also, the power tariff has increased by 4%, going from 9.7 to 10.1. Overall the power margin was slightly lower due to a variety of reasons, mainly due to accounting reasons, due to the negative effects of derivatives on CO2 hedging in this quarter, which will be recovered in the next quarter. And you can see this in the Italian GAAP numbers, which clearly show the significant improvement. But I think that Franco, later on, could be a little bit more specific with the actual numbers.

On fixed and variable cost, I would say that there was not much to say. They are broadly in line with guidance.

3. Marketing

If we look at marketing here, also, I would say the numbers present a situation which is slightly distorted. The numbers are apparently much lower than the same quarter of last year, but this is due mainly to an inventory effect. We have a high inventory in our Spanish affiliate, which was negatively affected by the decrease in price. From an operational point of view if we look at the Italian data, the reported numbers actually are better in 2019 than in 2018. We showed €4.4 million compared to 3.8 million in 2018. So, I would say this is more of an accounting effect. The market in Italy remains a healthy market. The improvements that we've been able to achieve through our policy have been consolidated and in Spain we are in the process of completing the transfer of our retail network to a prominent operator and we expect to complete this certainly by June.

I would like to, also, underline that traditionally due to a variety of effects on the scarcity of products, the first quarter is a weaker quarter compared to the summer quarters.



4. Wind Power

Wind has been a good period, traditionally this is a windier period, so the first quarter did not disappoint from this point of view. The operations on our wind farm from the installation of these nine new wind towers, is proceeding according to plan, and we expect to have them all up and running by the end of the year.

5. Others

On the other segment I would say that there is nothing in particular to say, so I would ask Franco Balsamo to put a little bit more detail into the various numbers.

Franco Balsamo
Chief Financial Officer, Saras

Financials

Thank you, Dario. Page 17 there is the income statement that Dario said before. The EBITDA reported was €108 million and the comparable EBITDA €23 million. Depreciation and amortisation is negative, for €46m. And the EBIT is positive for €62 million the comparable EBIT negative for €23million. If we look at the financial expenses that are equal for €69 million, other represented for €6 million by interest expenses that are a little higher compared to the same period in the previous year, but this is mainly due to higher commissions on commercial activity and higher volumes on the global activity of the company. The other financial expenses were negative by €64 million. They are mainly derivatives of which €40 million are realised and €24 million are negative fair value.

At page 18 we have the gap analysis between the reported and comparable accounts. This is mainly represented by the gains and losses that have negatively contributed for €52 million. This is mainly due to the fact of the rising oil prices between the end of December and the 4th quarter and at December the average was \$50 and at the end of March we are at \$68. The other component, negative for €34 million is the impact of hedging derivatives on oil and foreign net change. That includes also €13 million represented by the CO2 derivative effect as Dario said before in line of principle will be recovered in the coming quarter.

In terms of cashflow, the quarter was positive. The cash flow generated by the operations were positive for €108 million; the working capital positive for €53 million, due to several effects we have a positive increase of inventories that negatively affected the cash flow; €120 million for higher volumes, €50



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million for the higher fair value of the inventories. We have a €40 million positive decrease of trade receivable and \$180 million to the increase of trade payables of which €50 million is related for non-oil investment. The VAT in this quarter was positive for €70 million. And we have also €70 million difference liquidity effect driven by the activity on CO2. At the end of the period the net financial position was positive for €48 million. Due to the application of the new IFRS 16 new accounting principle, we have to account €52 million of assets and liability. Most of them are representative for the 55% is the effect on the state concessions. That refers to the land concessions and our concession in our activities in Sarroch and Cagliari. About 50% refers to the right of use in a few plants we have in the refinery and the remaining part that is not material is represented by office rental.

Dario Scaffardi
CEO & General Manager, Saras

Outlook

Thank you, Franco. If we look at the outlook, we maintain our view a very positive scenario for the second half of 2019 when we believe that the full effect of the IMO-Marpol VI regulation will come into effect. We are carrying out in this period our tests to produce very low sulphur fuel oil for the bunkering market. We have put in place a vessel, we have chartered a vessel to do the lightering in the port of Cagliari and we will be able to start formally our commercial activity regarding the sale of shipping fuels in the forthcoming weeks as soon as we see all relevant authorisations from the authorities which are in the process. We maintain our guidance for a premium on the EMC benchmark in the range of 2.4 to 2.8 to the benchmark. As I mentioned before, in this quarter if it had been a quarter without maintenance, we would have exceeded \$3. So, things are going in line. At this point I would leave room for any questions which you might have. Thank you.

Questions and Answers

Operator

Excuse me, this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. To remove yourself from the question queue, please press star and two. Please pick up the receiver when asking questions.

The first question comes from Niccolò Storer of Kepler Cheuvreux. Please go ahead, Sir.



Niccolò Storer – Kepler Cheuvreux

Yes, good afternoon. Thanks for taking my questions; two if I may. Three actually. The first one: OK, you are confirming basically your guidance on your premium above the EMC benchmark. I didn't get if you are also confirming your EMC benchmark guidance at \$3.2/\$3.5 per barrel. Second question: Coming back to your premium of the first quarter, actually it was really strong, so I was wondering if you could comment a bit on the drivers behind the strong premium. Even highlight the difficult situation that you depicted at the beginning of the call. Third question: On IFRS 16, is there any impact on your EBITDA in the first quarter, and if yes, where is it visible in your by-division breakdown? Thank you

Dario Scaffardi

Thank you, Niccolò. Well, on the EMC of course, we cannot give any guidance there, so much volatility in the market at the moment that I think that's extremely challenging to give any meaningful guidance. So, the answer is basically no, although we do expect things, overall, to improve. Our view is that the current situation, particularly regarding Iran is unsustainable for a protracted period of time. My personal view is that I don't believe in a scenario similar to the one we had previously of almost five years of sanctions from 2011, 2012 up to 2016. So, four/five years of sanctions, during which Iran was still exporting certain quantities of crude. So, first of all the sanctions happened in a period in which the oil price was extremely high and the sanctions were severe in the sense that, yes, the Western countries could not buy, but there was a certain amount of tolerance for others. The situation right now is very different. First of all, the absolute price is not above 100 \$/bl but we're talking in the 70s, so the impact is more material to the Iranian economy. And it would seem, at least from the statements by the American authorities, that the desire is to make the sanctions more stringent. I think that the situation is untenable for three or four years. I think it will be resolved faster, but this is, of course, just my personal opinion.

Likewise, the situation in Venezuela, in which – although everybody thought that Maduro would leave, and he is still there – still the situation would seem that in the space of some months, things should resolve one way or the other. Or maybe not.

The premium: You were saying the premium in our first quarter, yes, we are particularly proud of this and I would say it is mainly due to the fact that the refinery operations have been impeccable. Many of the things that we have done in the last couple of years are starting to kick in in terms of the improved reliability. Also, a lot of the things that are a consequence of the digital programme are starting to kick in. We've had a lot of positive effects in terms of predicting failure of machinery; in implementing access to information and models; day to day operations. So, all of these things are starting to bear fruit. This is the reason for the strong operational performance, apart from the turnaround, which I mentioned before,



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was conducted very well, particularly it was conducted safely which we had no accident, no major environmental impact. And on IFRS 16, I gladly leave it to Franco.

Franco Balsamo

As I said before, the impact of the new accounting principle is on the balance sheet level. There is an increase in non-current assets by €51 million. The increase in financial liability for €52 million. In this quarter, the impact in terms of P&L is €1.5 million positive at the EBITDA level; that is due to lower services cost. On the other side, we have €2.3 million increase in depreciation, so the net effect is negative for 1 million, so not material, a number that will affect the operating account.

Niccolò Storer – Kepler Cheuvreux

Thank you.

Operator

The next question is from Alexander Jones of Bank of America Merrill Lynch. Please go ahead, Sir.

Alexander Jones – Bank of America Merrill Lynch

Thank you for taking my questions. Two if I may, please. Firstly, clearly the EMC benchmark has been weaker, even in the first quarter during April. Could you comment a bit on your actual margin realisations and how the premiums have evolved so far in 2Q? And then the second question would be, do you reconfirm the power EBITDA guidance for 200 million, given you expect those CO2 derivative losses to reverse in future quarters? Thank you.

Dario Scaffardi

On the premium to EMC as I said, we are maintaining our guidance. We gave guidance of 2.4 to 2.8. We think that if anything, it could be even higher than that. So, we maintain our guidance. On the power, I would maybe ask Franco if he can be a little bit more specific.

Franco Balsamo

Yes, we have of course updated our model in order to take into account our forecast and at the end of December; €200 million is still our expected EBITDA. So, no major change compared to our main guidelines.



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Alexander Jones – Bank of America Merrill Lynch

Thank you.

Operator

The next question is from Alessandro Pozzi of Mediobanca. Please go ahead, Sir.

Alessandro Pozzi – Mediobanca

Yes, good afternoon and thank you for taking my two questions. The first one was, I was wondering if you can clarify something for me: I think the premium in Q1 to the benchmark would have been really strong if it wasn't for maintenance, despite the tight differentials. Is that what you were expecting at the end of last year when you did the plan, or not? Because it seems like this tighter differential has not had a big impact on your premium. And if you can mention what is the premium that you achieved in April, as well would be quite helpful as well. And I believe you made a comment that your premium to benchmark would be even higher despite the current environment, and I was wondering if you could maybe expand on that as well? Thank you.

Dario Scaffardi

Yes, thank you. A strong influence on this premium is driven by the relative prices of crude. So, there's a sum of effects. On the one hand, we have had a significant improvement in operational performance which we will strive to maintain. So, from a strictly technical point of view. Then our premium on the benchmark is influenced by a sum of factors. Our own operations and, of course, our capability of purchasing alternative crudes with respect to the benchmark at a more competitive price. Which, at the moment, is not really possible.

We've had a strong increase in the relevant prices of crude compared to our budget which is negatively affecting the situation in this moment. So, if we look at the month of April, the month of April has been particularly disappointing from this point of view, because I would say that all the various effects that we talked about before have come fully into force and have manifested itself. So, April has been a particularly weak month for the reasons that I said in the beginning. Is this situation going to reverse? I hope so. We've been for a long time in the market and these situations tend to be very cyclical, so I don't expect this type of situation to last for a long time, but it's difficult to make a prediction whether it's going to last for one month, two months, three months or longer than that. It is totally dependent on geopolitical factors at the moment which are totally outside of our control.



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Alessandro Pozzi – Mediobanca

Thank you. And also, maybe another one on the bunkering operations: I believe they are going to be starting in the next few weeks. I was wondering if you had any enquiries from potential clients or customers about securing the fuel oil ahead of January 1st? Thank you.

Dario Scaffardi

Well, let's say that, yes, there is a lot of interest on the market. I would say that, at the time being, what we are trying to target are the richest clients, which are the clients which are already, the clients being ship owners which are already calling at our ports. So, clearly, the ones that are most interested and the ones from which we can obtain most are the ones that are already calling for other reasons to the port of Cagliari, because clearly, we would have no deviation cost. So, since our intention is to start this business slowly; first, it's a new business and we need to get a feel for it, I would say, at least for the time being, our production is going to be fully covered by vessels already coming to Cagliari. Our intention is to expand the business and at that point it would be more interesting to target specific other ship owners that might start to consider deviating from their usual routes to call into Cagliari, if the quality that we will produce will be suitable.

As I mentioned in other calls, there is going to be a large issue regarding qualities and I think also a fragmentation of the market in the sense that different operators will probably take different strategies depending on the type of itineraries that they have and the length of their voyages, and so forth. So, it's an ongoing and developing situation.

Alessandro Pozzi – Mediobanca

Thank you very much.

Operator

The next question is from Giacomo Romeo of Macquarie. Please go ahead, Sir.

Giacomo Romeo – Macquarie

Good afternoon. Thanks for taking my question. Couple of questions: First one is regarding the ongoing marine environmental protection committee meeting that is happening this week in London. There is an interesting motion from the Greek shipping association; just wondering if you take this as a potential threat or something that you worry about regarding potential implementation of IMO, or do you think it's too late to make any change? Second question is regarding a bunker trader, this last week actually, published a paper suggesting that the concerns around the VLSFO compatibility are overstated. I just



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wanted to have your take on that? And whether you would agree that the concerns that the shippers have on the VLSFO compatibility is probably not something that has been overstated.

Dario Scaffardi

On your first question, to the best of my knowledge, the shipping community, from what I understand, from what I've been told from ship owners, is that there is no delay in the implementation of the rules. So, this seems not possible. Then, of course, in all case can decide whatever they want, but it would seem that the consensus is not to give any delay. It's not surprising that certain ship owners at the eleventh hour would ask for a delay, which has already been decided against in the last meeting, if I remember correctly, in December.

Regarding the compatibility issue: this is a very technical matter which there is no way to give a straight and unquestionable answer, because it depends on the chemical characteristics of the crude that are used to produce this. So, some fuels might be compatible among themselves; others might not. So, I realise that I'm giving an answer that is a non-answer, but that's the way it is. And that is also why it's a challenge, because it's not a straightforward process. And to the best of my knowledge there is not yet a specification, because the specification of compatibility is compatible with what? So, the way things are construed is that they reference fuel is sort of established and then everyone sees if his fuel is compatible or not with the reference. And this is, as far as I know today, it has not been established. So, first of all, there is not a standard, but even if there was a standard, at least personally, as a producer, I would be very careful, because certain crudes can do funny things and in the past there have been horror stories of crude residues which would be used particularly for low sulphur paraffinic fuels which have clogged the vessels and vessels have needed to be cut apart in order to get them clean. So, it's an issue which may go from being a mild nuisance to a very severe disorder. It's something that needs to be taken carefully until a consensus has been developed.

Giacomo Romeo – Macquarie

Yes. Understood. Thank you very much.

Operator

The next question comes from Massimo Bonisoli from Equita. Please go ahead, Sir.

Massimo Bonisoli – Equita

Good afternoon. Two questions, please: The first one on capex. The level in Q1 was above estimates. Any meaningful update on capex phasing and guidance would be appreciated. The second question on



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Spain: Does it make sense to keep the ownership of the terminal in Cartagena following the divestment of the marketing network in Spain? Thank you.

Dario Scaffardi

Thank you. I would ask maybe Franco to–

Franco Balsamo

In term of Capex, for the time being, the outflows are in line with expectations. We might have some additional increase, but not material in order to get additional benefit driven by the industry 4.0 sector, but in line of principle we confirm our guidelines.

Dario Scaffardi

Regarding Spain. Thank you for the question I think it's a very good point. We specifically excluded from our sales process our terminal at Cartagena, because we definitely want to keep the terminal at Cartagena. We want to keep the terminal at Cartagena because it's 120,000 cube terminal which is state of the art. It has a beautiful harbour; it has a deep-sea harbour, completely protected with a jetty that can accept very large vessels. So, although, at the moment it is working mainly for Repsol to export products, but it more than covers its costs. So, it's an optionality that we prefer to maintain rather than to give up.

Massimo Bonisoli – Equita

Very clear, thank you.

Operator

As a reminder, if you wish to register for a question, please press star and one on your touchtone telephone.

The next question comes from Joshua Stone of Barclays. Please go ahead, Sir.

Josh Stone – Barclays

Hi, good afternoon. Thanks for the presentation. Two questions left please: One, I might have missed it, but on the refining maintenance on 4Q '19 are you able to give any, what the EBITDA reduction from that would be, if that's provided? And then secondly, just more of an observation, I guess, but you have your EMC benchmark which clearly doesn't reflect the profitability of the Sarroch refinery that well, given that it has a 50% Ural slate in there. Is there any consideration, update or indicator change in that indicator, because it does feel to be something that impacts the share price. Thank you.



Dario Scaffardi

Joshua, thank you very much. On the maintenance 4Q, there is going to be some maintenance on our VisBreaking unit and on the petrochemical part of our refinery. All in all, I think that in terms of – we haven't given any specific guidance – but I think it's relatively marginal already considered within our numbers. Instead, on your observation on EMC, your point is a very valid point. Although we are the ones who introduced the EMC benchmark in 2006. So, we designed it specifically. As all benchmarks it's unsatisfactory. The only point, and today, of course, in which we have the absurd situation in which one of the two crudes which was supposed to be the cheaper component is actually more expensive, which of course brings some distorted results. I think where we have considered trying to see if we can propose an alternative benchmark and it is something we have studied it very carefully without being able to come up with an ideal solution. I would say the advantage of the EMC is just its consistency. It is been the same, it's been equal for what now, 13 years? And, at least it's easy to measure against and maybe if we're able to introduce some more proactive factors which are more to the point, we might keep on using it, but we're open to any suggestions that the market might have, of course.

Josh Stone – Barclays

Right. Thank you.

Operator

Gentlemen, Ms Pezzoli, there are no more questions registered at this time.

Francesca Pezzoli

OK. If there are no more questions, thanks to everybody for joining the conference call. As usual, we are available for any follow up questions you might have. Thank you, have a nice afternoon.

Dario Scaffardi

Thank you very much. Goodbye to everybody.

Franco Balsamo

Bye bye.