



## **Saras**

### **Full Year and Fourth Quarter 2019 Results and Business Plan 2020/2023 Update**

**Welcome**

**Operator**

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras Full Year and Fourth Quarter 2019 Results and Business Plan 2020/2023 Update 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, they may signal an operator by pressing star and zero on their telephone. At this time, I would like to turn the conference over to Ms Francesca Pezzoli, Head of Investor and Media Relations of Saras. Please go ahead, madam.

**Francesca Pezzoli**  
**Head of Investor and Media Relations, Saras**

Good afternoon everybody and thank you for joining us today for this conference call on Saras Full Year and Fourth Quarter 2019 Results and Business Plan for the period 2020/2023. I would like to draw your attention to the fact that the investor presentation and the press release are available on our website both in the home page and in the section dedicated to the investor relations.

I am here today with Mr Dario Scaffardi, CEO and General Manager of the Saras Group and Mr. Franco Balsamo, CFO. Our agenda today will cover the results and the business plan. We will start with a highlight of the period, followed by a detailed review of the results of each business segment and afterwards we will look at the outlook and the business plan for the period 2020/2023.

In the interest of time we are not going to present the financials, but we have all the slides with the details and we are available to take any questions you might have. At the end there will be the usual Q&A session.

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



**Dario Scaffardi**  
**CEO & General Manager, Saras**

**Highlights**

*Grazie*, Francesca. Good afternoon, ladies and gentlemen. Thank you very much for joining our call. We are facing a difficult moment, so maybe before we start, I would like to say a few words to express our support to the fellow citizens of this country and of the world that are facing this serious emergency and the deepest sympathies to the families of the victims. I would also like to thank the authorities for their guidance and their support and for all the medical staff that are exerting the maximum effort.

For our part, our contribution, our commitment is to continue to operate and to provide essential products that today are even more needed: energy. Our motto is to step higher and all the people of our company are doing the best to meet this goal. In our headquarters, we have allowed our colleagues to work from home and I wish to thank them for continuing to provide their contribution to the everyday work of our company. I would also like to compliment our IT and HR departments that over a weekend were able to make this happen because we were not fully equipped to have work from home. This has been carried out flawlessly.

Today in our refinery we have thousands of skilled workers who are all at their stations and they are about to undertake a very complex turnaround; probably the biggest in our history and which will have a material impact on our future capability of facing the industrial problems.

Coming now to our results. I think that what has happened in the world economy and in the third quarter is under everybody's eyes. We have faced basically in the fourth quarter a deteriorating scenario and extraordinary volatility of the oil markets. The main negatives are sort of the usual: The high relative price of heavy crude oils due to all the political turbulences around OPEC cuts and Venezuela and Iran. All of these things have not gone away, unfortunately. And unexpected pressure on the diesel crack that was expected to be very supportive and instead due to a variety of reasons, a declining demand in middle distillates compounded by probably strong speculative volumes that have found a way around the world, this has been disappointing.

There's also been extreme volatility around the prices of very low sulphur fuel oil – the fuel which is used today in the shipping market, which has shifted with the extreme volatility to being at a premium to diesel which is an absolute nonsense from a technical point of view and which today is more correctly positioned between the crack price of diesel and neutrality compared to Brent. In this quarter, we have been able to deliver I think what are some pretty good results notwithstanding this



unwelcoming environment because of the good operational performance of our refinery and our supply management team.

If we look at the next slides: I would not dwell too much on the crack spreads and so forth because they are already totally outdated and I think you have a very clear idea about what is happening in this moment and we'll talk a little bit more about the future scenario when we look at our industrial plan.

So, if we go directly into the various segments.

## Segment Reviews

### **1. Refining**

Q4 has had a 7% reduction compared to the same quarter of the previous year. This is due mainly to the unexpected shutdown of one of our gasifiers which was contaminated by crude oil, which was – these problems are becoming a little bit more common – had abnormal levels of metals and other things that were not totally predicted. So, this is the reason basically why we've been able to run slightly less and of course, there's been the scenario in the third quarter, which we have already talked about.

On the positive side, we have had €10 million of EBITDA thanks to supply chain optimization activities and about 5 million less due to inventory management, which you can easily imagine has been extremely challenging in this period.

Looking at the full year, we have had heavy maintenance in one part of the refinery, which is about to be completed in the second part of the refinery now and this has been carried out flawlessly. But of course, it's been responsible for a little bit less runs that we've had on a year over year basis, which has been contained though, at just 3% less, which I think is a good result.

In terms of crude oil slate and products production. Again, we have to look at the yearly figures and here we see a trend which has been consolidated, which means that basically the average crude slate is becoming increasingly lighter. We have moved by about 0.7 API points from last year. And this is due to two factors: One, the unavailability of higher crudes or their cost, whatever, and the availability of many lights crudes that have created opportunities. So, of course, our business model is to try to maximize on these opportunities as we run a slightly lighter slate of crudes. In this, we have been able to increase the percentage of diesel going from 51% to 52%. But what I would like to draw your attention to is not so much the percentages which sometimes are misleading, but to the absolute value. Notwithstanding lower runs, we have been able to produce more or less the same amount of middle distillates and only slightly less diesel and of course, minimizing the production of fuel oil, which, from probably the next presentations, you will see in a breakdown with very low sulphur fuel oil, which is becoming our only fuel produced.



## **2. Power Generation**

Power generation, as I said before, we've had an unplanned outage of one of our gasifiers due to contaminated crude, which decreased the life of the gasifier by – I don't want to get into too many technical details – so we had to make a maintenance a couple of months in advance. This maintenance was actually expected for the first month of 2020 and instead, it was performed in the last quarter of 2019. Other negatives in the power sector is the less favourable tariff based mainly on the fact of a lower gas price in the neutral basis point. And also, there is an effect due to the linearization cost, which maybe Franco will be able to explain later on in slightly more detail should you want it.

## **3. Marketing**

Marketing has been on a yearly basis quite positive. We've had only a slight reduction compared to last year. Demand has been down in the last quarter in Italy and in Spain. We have consolidated in Spain the sale of our retail network last summer, so this is not part of the scope of business anymore and the next presentations will be a little bit more meaningful, the comparisons. As usual, marketing is quite seasonal, so it's not abnormal that in the fourth quarter you would see a decline in activities.

## **4. Wind Power**

Wind has been extremely positive. As mentioned, we have completed the re-blading. First of all, we have completed the installation of our new towers in our existing wind farm, adding 30 MW of capacity, which are working flawlessly. We are re-blading them; this is an ongoing process, of course. We have started to re-blade our entire farm which will not be able to increase the maximum power capacity, but will increase the performance by being able to produce more power when there are less favourable wind conditions.

So, we have had an extraordinary result in terms of production. We have increased the production by 67% on a quarterly basis and 30% on a yearly basis. Unfortunately, the power tariff on a yearly basis decreased by 18% and on a quarterly basis by 37%. And likely, in the same manner, the incentive part of our tariff, which is small, decreased by 7%.

## **Business Plan & Outlook**

We've had to change our business plan various times in the past month due to the great volatility of the market and our idea for the forthcoming decade and in particularly looking at the next years, is to concentrate on what we are able to do.

So, first of all, we want to complete the investment cycle, which will have an investment of €712 million up to 2023, which is all aimed at keeping the refinery absolutely state of the art and to be able



to face the challenges of the next decade. A large part of this has already been completed. Right now, as I mentioned before, we are starting one of the biggest turnarounds in our history and with some very exciting things that are happening from a technical point of view.

We're going to work intensely on production optimization and integrated supply chain, which is our distinctive trademark. We want to be able to exploit all possibilities that will come on the market. I think that this current crisis, as usual, will bring opportunities and we are there to see what these opportunities may be. We have embarked on a process of cost optimisation. Our whole industrial staff is behind the project to reduce this year's cost by at least €30 million compared to last year, keeping in mind that there's an inflationary drift, and there are increased environmental liability costs.

Sustainability clearly is on everybody's agenda. I think that we are a model in this respect, but we will implement KPIs to monitor basically social, governance and environmental commitments. And the newest part of our strategy is to further develop the renewable part of our business. We have the ambition to add up to 400 MW in the next two or three years in order to decrease our carbon footprint by promoting mainly wind and solar. We'll give a little bit more detail on this later on in the presentation.

Our sustainability approach: We are a value-driven company. We have developed the company Purpose more than ten years ago when nobody was talking about purpose. We have very high ethical standards and our core beliefs, which have been around for more than a decade, are perfectly in line with the sustainability approach of the sustainable development goals of the United Nations, so there is total coherence between these issues which we will continue to implement and to develop and to enhance.

So the sustainability KPIs are, of course, of different nature. What can we do for the environment? Well, first of all, we've always tried to improve our energy efficiency and we will continue to do so. Part of the investments that we've had in our plan are exactly in this line. The fact that we have changed the majority of machinery from steam powered machinery to electric machinery is to improve energy efficiency. Our aim, of course, is to reduce all greenhouse gas emissions. We are using extensively vegetable oils by co-processing them in order to take advantage and comply with the regulations regarding the production of D7 diesel in Europe. We have a strong programme to reduce raw water consumption. We have inaugurated last year a state-of-the-art desalinisation plant in order that we do not impact in any significant way the domestic use of waters in the island of Sardinia.

Reducing waste: And when we talk waste, we're talking industrial waste. So we want our refinery to be a truly circular refinery in order that everything that comes in, stays more or less in. And our attention to the environment in reducing air and water pollution is second to no one and we are in the highest standards in Italy and in Europe in this respect. Our social commitment has always been strong. We are a very important presence in the community where we operate. We are very much aware of the



importance of what we do and the guidance that we provide, the jobs that we provide and the favourable input that we have from all the workers in the area where we are. We are a company that has always promoted a democratic aspect; we have no discrimination based on anything. We have tried always to engage our personnel in the activities that they do and that we do to keep them informed. An absolute priority is the safety of all our people and we have reached levels of injuries which are below the European average. And our aim is to be absolutely at zero level and we devote huge resources to training and forming our people.

In terms of governance, we are going to include ESG targets in assessment and remuneration system, increase engagement of the stakeholders and keep under strict control all the risk inherent with these issues.

Now comes the challenging part: the sensitivities to the market. Of course, one of the challenges that we always face when we make these plans is what numbers to assume and any number that you assume a week later seems assumed by somebody who must be an idiot. Because if I look today at the value of dated \$60, and it's been almost 50 today, it won't seem stupid, but of course we absolutely need to make these assessments. How are these assessments made? There are many agencies that provide these services. We have chosen two of the world leaders in this respect and we have made a sort of a – not a direct average of these numbers, but we have modulated something that we think is slightly more coherent to our views and to our specifics.

Diesel at the moment is projected to be relatively strong compared to the numbers of today. And let me remind you that just at our last quarterly meeting, everybody was projecting \$20 and we were saying that was a bit high. So right now, it's a single-digit figure, unfortunately, but I think this is something absolutely temporary and the market will be able to recover and to come to a more normal level. But these are the assumptions that we have made for our plan and we have worked everything out on the basis of this. Then, of course, everybody will be able to make his own assumptions and work out the numbers as they feel more appropriate. Is this the breakdown of the single numbers? I would say that probably the thing that today here is a bit overestimated is the VLSFO, which I think will come down to more normal numbers and also, the other aspect is the fuel oil, the high-sulphur fuel oil, which is projected to increase in price, which I think is something which is reasonable to assume at the moment.

Our Capex plan is €712 million over a four-year period. There is a peak in 2020 due to the turnaround that I mentioned before, and we plan to level that at around 160 million mark starting from 2021. These investments are based on reliability, HSE, the progressive dismissal of steam, power system reconfiguration, many digital initiatives in order to make predictive maintenance and to maximize the processing capacity of the units and the safety of the people.

In 2021, we will have the expiration of our contract with the government for power production; so, the CIP6 tariff. What is our plan in this respect? Well, first of all, our electricity plan has absolutely a



fundamental role for the Sardinian electrical system. It's absolutely essential for the stability of the grid and for operational reliability. And if anything, I think that today this is even more important after the many upsets that have been in other areas in Italy and other parts of the world where there are systems which are not self-sustaining. So, we have a capacity of about 4 TWh of which about 1 TWh will be used for our internal consumption and we'll be able to save all dispatching charges associated with this. The plant, of course, also is a conversion unit, so it provides hydrogen and steam for refinery operations. So, we will not need to make any important investments in order to convert the bottom of the barrel into refined products, so no need for a coker or residue hydrotreaters. We will be able to economically process high-sulphur crudes which we believe will again come on the market hopefully shortly and will be further enhanced by the scenario that will be changed by the IMO regulations that is slowly taking place.

As of 2021, we will change the way we will present our results. We will no longer present power separately, but as correctly should be from a technical point of view, power will be integrated in our industrial activities. The numbers that we have shown before project a reduction in the EMC refining benchmark. Whether this will happen or not will be seen, but we have incorporated this in our numbers and we will increase our premium based on the EMC net of maintenance.

Marketing: we expect it to be broadly stable. There is a healthy market in Italy at the moment. We will continue to try to expand in our wholesale network through storage agreements and others in order to increase our presence. And wind, also, we've had a significant increase, but we have a specific slide on this.

There is a national plan for energy and climate change to 2030 and the European Green Deal that needs to be addressed. Our view is to focus mainly on Sardinia. Why on Sardinia? Because we have a very, very high reputation in Sardinia. The authorities locally know that they can trust our company, our group and our people. We have never exploited the communities as other developers have done or have tried to do. We have a pipeline of projects which are on the authorization stage. They're actually in an advanced stage because we have been able to obtain the first part of the authorisations which is the possibility of connecting your farms to the grid, which is an essential step, of course, before doing anything more. So now we are in the stage of obtaining the, let's say, the authorizations from the authorities, which unfortunately is never something easy, but there are some positive signs of the current administration that wants to speed up these issues. And I would say also the national government seems to be more aware of these issues so we hope to see some positive developments in this respect. We want to keep this business of the renewables separate from our refining business. We'll see how to do this in the forthcoming months. And we see more value in the development of greenfield projects in order to maximize returns on the investments.

At the moment, we are facing relatively limited capital requirements because the capital is development capital and it is relatively modest in the moment that we will have the authorizations and new capacity



will need to be built. We expect a cost of roughly €40 million in order to – anything between 380 and 420, but that's the ballpark range in order to be able to increase 400 MW of capacity and we will see which is the most appropriate way to finance this. Assuming a financial structure that is 50% equity and 50% debt, we will have a pretty high internal rate of return. But these expenses presumably will be enacted in maybe the latter part of 2021/2022 and 2023, of course.

We have revised downward, unfortunately, our cash profile. Basically, we have slashed cash from operations and a significant amount from our previous due basically to the market scenario. We have tried to streamline Capex and working capital and if the scenario is as we have predicted, using the numbers that you've seen before, we should have over this period an available liquidity in excess of €400 million. What are the potential upsides to this? We have not incorporated higher discounts for heavy crudes, which are, I think, likely over this period of time – although we are talking things that are largely influenced by politics – it's extremely difficult to make any meaningful prediction, but I think there is a good chance of seeing positive outcomes from this. And I also think that overall the IMO effect will pass on to diesel once all the – there are two things that have negatively affected this factor: First of all, there has been a large build-up of inventories, particularly in the East, on the assumption that there will be huge demand and this demand evaporated, first because of the financial crisis at the end of the year and now, of course, for the coronavirus effect, which sees ships and planes stranded. So, there is objectively less need for middle distillates. But we hope that this is just a temporary effect and hope certainly as a temporary effect and life will go on as usual. Let's just hope that it will be shorter rather than longer.

On the financials, we will answer any specific questions that you might have. And we are available for any questions. 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 touch tone telephone. To remove yourself from the question queue, please press star and two. We kindly ask that you use handsets when asking questions. Anyone who has a question may press star and one at this time.

The first question is from Alessandro Pozzi of Mediobanca. Please go ahead.

### **Alessandro Pozzi – Mediobanca**

Hi there. I have a couple of questions. The first one is on the premium to the EMC which has been quite strong. I guess we've seen probably you have the high-sulphur fuel oil having a positive impact there and also you mentioned supply chain management had a positive impact on the EBITDA, so I was wondering if you can maybe give us a bit more colour on the reasons behind the premium there and how should we think about Q1, whether we should be at the top end of the range or above? That's my first question.

### **Dario Scaffardi**

We had a strong impact on the EMC in Q4 for a variety of reasons. First of all, the most important, the refinery has, apart from this problem with the gasifier, has performed very, very well. They've been able to improve overall production and the process capability of many units. Also, our trading team has been equally proactive in finding alternative sources of crude. I do not wish to be too specific on that; it has never been our policy to divulge our clients and our counterparts. And we've also been extremely active in the products market. Today, Saras and Saras trading team represent one of the top three operators of diesel in the whole Mediterranean market. So, this, of course, since our results are presented in a comprehensive manner, we do not distinguish between refining and trading. And this is done for a very specific reason because, differently from other oil companies, we want our team to work as a team and the industrial parts are strictly linked to the trading part. So, we just present one result, although internally, of course, we have measures to look at this. So, I would say that these are the main reasons.

On Q1, I think that Q1 has been so active that at the moment I would prefer maybe not to make any comments to see how it is going to go. I think that things are developing in such a vast and unpredictable manner that it's sort of difficult. I see some positive signs. Maybe we didn't talk about this before, but for instance, the benchmark quotation of sour crudes – the Urals and the Med – has dropped significantly. But again, I'm a bit shy to make any commitments to this because if you look at



the graph over the last six months, it has oscillated like a scenic curve going from zero to minus three, back and forth. So right now, it's again at minus three and hopefully will remain, from our point of view, of minus three, but I'm not willing to bet anything on it at the moment. The overall outlook, though, is positive from this point of view, because, of course, we are seeing a contraction of demand, particularly in certain parts of the world. We are seeing crudes that were not available to us or were available to us at prohibitive prices which are becoming at the moment available because they are not purchased anymore from these. So, from this point of view, there are some positive signs. Of course, the decrease in demand acts on the opposite direction and on products price, of course.

**Alessandro Pozzi – Mediobanca**

Thank you, very clear. My second question was on the power gen. Can you explain a bit more your comment about the partial recovery of fixed and variable costs and return on capital? Do you expect to have any capacity payments to keep your plant fully up and running by the regulator or something similar?

**Dario Scaffardi**

Well, we believe that our plant is essential to the network. So, yes, we are talking with the authorities to see if our plant will be able to benefit from this sort of thing. But this, I think, at the moment it's premature to talk about because it's something which is being discussed.

**Alessandro Pozzi – Mediobanca**

The assumption behind the 5.5 premium integrated payment from 2021, does that imply a partial use of the power gen or a full use of the power gen?

**Dario Scaffardi**

We are considering the full use of the power plant. We are also considering that we will receive some sort of capacity payment because of the essential role that we have. If this should not turn out, we will work out alternative plans. We have a strong flexibility in our units, but we don't expect this as a likely outcome to be, to be honest.

**Alessandro Pozzi – Mediobanca**

Alright. Thank you very much.

**Operator**

The next question is from Massimo Bonisoli of Equita. Please go ahead.



**Massimo Bonisoli – Equita**

Good afternoon, Dario, Franco and Francesca. Two questions: One, back on the power generation and in case of the inclusion of the plant in the so-called sensible regional asset, what will be the net effects on fixed and variable cost? You already aligned something, but if I got correctly, you will consume 1 GWh out of 4 GWh. And so does it mean that, I don't know, 75 million of the fixed cost will be recovered in case of the green light from regulators as well as all the variable cost for the external consumption?

**Dario Scaffardi**

Yes. First of all, it's 1 TWh and not 1 GWh.

**Massimo Bonisoli – Equita**

Sorry.

**Dario Scaffardi**

So, yes, basically this is based on our assumption that we will provide the local market with roughly about 3 TWh of power. Although these are very rough numbers at the moment and therefore, we will have some sort of capacity payment and reimbursement based on this amount. Yes.

**Massimo Bonisoli – Equita**

And the second question regarding the eventual drop in demand in refined products in Northern Italy driven by the recent coronavirus outbreak, do you think that it may have some direct effect on your logistics costs in the short term?

**Dario Scaffardi**

Well, I certainly believe that there is going to be a drop in demand. The roads are fairly empty at the moment. So, yes. But yesterday I was coming back from the mountains and there was a queue on the highway. And this morning on the news, I was seeing a queue of trucks on the highway from Milan to Genoa. I expect there to be a drop in demand, of course. But I think that the basic industrial demand will remain there. It is not going to be a number which is hugely significant. And of course, Saras, I think that our marketing operations might be affected in terms of volumes. But I think that they will have a positive effect in terms of prices because a drop in price generally means better margin. I think that the drop in quantity might be offset.

In terms of Saras' operations we are not exposed that much to domestic markets. We are able to operate in many other markets, so this directly does not affect us in such a meaningful factor, although of course there is a domino effect; clearly a drop in demand is not that good. It depends if the supply



drops more or not. One of the things that we are seeing is that the flow of speculative diesel from the East is easing.

There is much less stuff coming around. There are many refineries in China which are at the moment being shut down. What is not clear is if this is something permanent, if this is a change in attitude, if they will stop this flooding the market with oil products, which was frankly slightly incomprehensible from an industrial point of view. I think it's very soon to make any meaningful assessment, but there are some positive outlooks from this respect.

**Massimo Bonisoli – Equita**

Ok. Thank you.

**Operator**

The next question is from Henri Patricot of UBS. Please go ahead.

**Henri Patricot**

Hello, everyone. Thank you for the presentation. I have two questions, please. The first one to follow up on the comments that you've just made and given the very weak refining margins that we're seeing at the moment, do you see any downside risk to your own volumes on the refining side if the situation remains as challenging over the next few weeks? And then secondly, on the fourth quarter financials, cash flow generation: There's a fairly large working capital release. Can you perhaps give us some idea what is structural? Because you mentioned that you're doing quite a bit of work on capital. And what is just timing related of cargos maybe slipping into 2020? Thank you.

**Dario Scaffardi**

Well, on the weak refining margins, you are absolutely right. I think calling them weak is an understatement at the moment, so thank you. I think that we are in a way lucky because we have planned this huge turnaround starting exactly at the beginning of March. I would like to say that we planned this, but we did not. We did expect margins to be slightly softer in this period, which is one of the reasons why we placed the maintenance. Of course, we did not plan them to be so soft. We will have our turnaround right now when the margins are very weak and this is the best moment in which to be short on products. And we expect, when we will be fully back on stream – let's say beginning of May, roughly speaking, or beginning of May – we will be back on stream, but the processes is we will be able to explore in a little bit more relaxed way the market and see opportunities both on the crude side and on the profit side. I'm looking towards the market, which I expect to be more robust going into the summer. So, I think that period of maintenance comes by luck or by chance or by ability in the best possible moment, given the circumstances, of course.



And I think on the working capital, which is a difficult question, I will leave it to Franco.

**Franco Balsamo**

The working capital, released is €300 million of which €200 million in the last quarter of the year. And of course, it is a combination of different effects. The first one is the increase of inventories in terms of quantity for about €200 million. €60 million is the increase of trade receivable. And the remaining part which is roughly about €50 million is the increase of trade payables. On these issues we have to take into consideration two different effects: one is in terms of prices, mainly the Brent level, between the beginning of the year and the year-end. And the increase in Brent for about \$10/barrel is about €175 million. And the other €110 million was the crude acquired in December.

In terms of the POs: payables outstanding. Now our paying situation is roughly ten days additional compared to the previous years. Part of this, to answer to your question, is structural because the POs will be kept in place and part of course, will be released in a lower cash position. So, we can say that probably around €100 million euro in excess will be recovered within the liquidity in the coming months.

**Henri Patricot**

Got it. Thank you.

**Operator**

As a reminder, if you wish to register for a question, please press star and one on your telephone. The next question is from Niccolò Storer of Kepler. Please go ahead.

**Niccolò Storer**

Good afternoon, everyone, and thanks for taking my questions – two, if I may. The first one on your premium guidance for 2020 and the following year. So, which could be the gross of maintenance level we should think about? Is it reasonable, something in between 3.5 and 4 from 2.53? And what are you projecting also going forward? Should we assume 21/22/23 as maintenance free and so keep the same level of 2020 also for the following years?

And the second one, maybe a silly question, you talk about huge inventories build up in anticipation of IMO. This now is keeping margins low. But if this is the case, why haven't we seen any kind of strengthening in refining margins in the second part of 2019 when this build-up started to take place? Thank you.



### **Dario Scaffardi**

Well, Niccolò, thank you. I don't think your question is silly. It's not silly at all; it's a very important question. I think that probably the answer to this is that part of the strong refining margins that we had over the last part of the summer and in September or October were not due to the build-up effect on products. So, I think that in a way we are paying with an extreme weakness in the last part of the year; the maybe exaggerated strength that we had in the previous months. Then, of course, all the other external factors came in which has disrupted everything. So, nobody was predicting the economic slowdown globally and of course, all the recent effects by the coronavirus and so forth. So, if we take these effects out for a moment and imagine that things would have been business as usual, the last part of the year you would have had a lot of inventory build-up. You would have had a lot of speculative plays of which we have seen, because the fact that very low-sulphur fuel oil went from a premium to diesel cracks to a discount is an effect basically of speculative measures because it has no sense whatsoever.

You are talking a product which – if we want to make a very simple approximation: very low-sulphur fuel oil is a feedstock to produce diesel so that the feedstock is worth more and the end product is sort of absurd. Why not use the end product? I think the combination of all these factors, of course, has created the situation that you have pointed out. Also, we have had – which has reduced demand – a very mild winter. The winter in Europe basically has not developed and this has influenced strongly all those plays that have increased storages – which are normal plays, of course – increasing storage in autumn to face the winter. So, I think that all these things combined have created the situation in which we are today.

And instead on the premium guidance, we do not provide guidance regarding cost without maintenance. But your assumption that 21/22/23 are maintenance free years is sort of correct. This is never completely true because we have ongoing maintenance in machinery that is complex and requires constant attention. But let's say that we will not have the big turnarounds that we've had into 2019 and we are having now in 2020. In 2021, the only major maintenance is at the end of the CIP6 contract. When this will expire, we will put under maintenance all the gasification units in order to give them another ten-year lifespan. And on the shadow of this maintenance, because whenever we have high maintenance in these areas, we don't need sour crudes and we have some specific plans that ordered sour crudes. We will put under maintenance also those units, but they will not have any material effect on production. And after that I think we should have a smoother ride.

### **Niccolò Storer**

Great. Thank you.



## **Operator**

The next question is from Joshua Stone of Barclays. Please go ahead.

### **Joshua Stone – Barclays**

Thank you. Thanks for the presentation. I've got two questions, please. One on the very low sulphur fuel oil. I've been reading reports of some performance issues and sludge being created and blocking engine filters. I wonder if Saras has seen any of that happening to some of their very low-sulphur fuel oil which has been sold. And if you think this could be a factor that actually could push shipping companies to buying gas oil instead? And then secondly, you talked about the carriage ban from 1<sup>st</sup> of March. I just wondered, does that drive also some of your confidence that the IMO effect will start to be seen later in the year? Thanks.

### **Dario Scaffardi**

Well, I think these are interesting questions. The question of sludge is certainly an issue that everybody had anticipated. And from the information that I have from some friends in the shipping industry, the number of issues regarding sludge has risen significantly. Still, it seems a problem that has been managed and probably given the current circumstances since they need less ships, they will just stop the ships which are clogged by sludge. But I'm joking, of course.

Regarding Saras, we have a product which is extremely high quality not because of any particular magic, but the way our refinery is configured. We use some very specific components that we were lucky enough to produce before and they were not very valuable in the market and have become extremely valuable in this environment because they are ideal feedstocks for the very low-sulphur fuel oil.

So again, not wanting to become too technical, but since we have a high naphthenic content in our pool compared to aromatics and we are not blending aromatics with naphthenes – they are just two different families of crude – our product is extremely stable and compatible with other products. This is certainly an issue that the industry will slowly resolve. What I know is that many ship owners tend to segregate different batches within their tanks on the ships. So they are aware of this. And the main problem that you have is that if you mix them, if you put them in separate tanks and in between the use of the two products, you maybe use diesel for a couple of days, that should be able to resolve the issue. Although it's not easy for an engine which is geared to use high-sulphur fuel to switch to diesel easily, but that is an entirely other matter.

So also, I think that the carriage ban, which you rightly pointed out, which has given basically almost a three-month delay, has had some effect. How this effect has manifested itself in the current market,



which is a very abnormal market, I'm not quite sure exactly. But yes, I would expect more strength on the diesel market. I think this is a reasonable assumption to make.

**Joshua Stone – Barclays**

Very clear. Thanks, Dario.

**Operator**

For any further questions, please press star and one on your telephone. The next question is from Paolo Citi of Intermonte. Please go ahead.

**Paolo Citi – Intermonte**

Hi. Good afternoon. I have a very quick question regarding the IGCC plant, in particular on slide 20, just to be sure that I understood correctly your message. If the plant is considered essential for the system or for Sardinia in particular, all the variable costs, including also the CO<sub>2</sub> costs should be covered with the national authorities? Is that's correct.

**Dario Scaffardi**

Let's say that this is subject to specific agreements with the various plants that are under these schemes. So there will be partial reimbursement of certain costs and these things are negotiated on a time-by-time basis with the single plants and the authorities. When we will have a clearer picture, we will be able to give a little bit more detail. At the moment, we must remain a bit generic.

**Paolo Citi – Intermonte**

Because after the expiry of the CIP6 clearly the CO<sub>2</sub> costs are quite relevant for the economics of the plant?

**Dario Scaffardi**

Absolutely. Absolutely.

**Paolo Citi – Intermonte**

Ok. And the counterpart is the national authority or the government or?

**Dario Scaffardi**

No. It's the authority, ARERA.





**Paolo Citi – Intermonte**

OK, thank you.

**Operator**

For any further questions, please press star and one on your telephone. Gentlemen, there are no more questions registered at his time.

**Francesca Pezzoli**

Thank you very much for listening and for staying with us this afternoon. As usual, we are available for any follow up questions. Thank you very much. Bye bye.

**Dario Scaffardi**

Thank you.

**Franco Balsamo**

Bye.