



Saras

Third Quarter 2020 Results

Welcome

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras third quarter 2020 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, 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 Ilaria Candotti, Head of Investor Relations of Saras. Please go ahead, madam.

Ilaria Candotti

Head of Investor Relations, Saras

Good afternoon, everybody and thank you for joining us today for this conference call on Saras third quarter and the first nine months of 2020 results. I would like to remind you that as usual, all the documents, including the press release, the analyst presentation and the interim financial report are available on our website in the section investor relation, financial results. Our agenda today will have Mr Dario Scaffardi, CEO and General Manager of Saras, covering the company and market highlights for the third quarter. Followed by a review of the results of each business segment. In the interest of time, we are not going to present the financials, but we have all realised with details and we are available for 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.



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Dario Scaffardi
CEO & General Manager, Saras

Highlights

Thank you very much, Ilaria and thank you very much ladies and gentlemen for joining us. Today, a little bit different from usual, we are all at home and it has been a bit complicated to put together all the data, and I wish to thank all the people in the finance and admin department who have been able to do a remarkable job notwithstanding the circumstances.

The quarter has been a very challenging quarter, of course, but I think that the only bright spot here is that we have been able, as a company, to maintain a net financial position that has worsened compared back to June 30th, but given the very bad quarter, I think that a remarkable result has been to contain this loss. I think it is a little bit more interesting to try to understand the main reasons for which the market has developed in this way. So, I think that today we have a strange system, so I have to guide you through the various slides, and I will start with the slide on page five.

Of course, we start out with the price of Brent, after a very tumultuous and incredible second quarter, in which we've seen almost everything happen, because, say that in the third quarter, the price by and large stabilised roughly around the 40 dollar mark at least for the time being. So there's been a little bit of stability in that sense. What has been very detrimental for refining margins are the crude oil differentials. If you look at slide on page six, we show the historical differentials of three main crudes which are representative of the Mediterranean: Azeri, Ural and Basra Light.

If we move from the broad view here, we get a view of over six years, just to give a little bit of historical context. If we move to a closer view on the slide on page seven, we can see a little bit more clearly what has materially happened in the last nine months. So, we started the year in a relatively normal situation, whatever that means, but, if we take as a reference, the price of Basra, which I remind everybody is the crude from Iraq, and a good marker for heavy sour grades. It was trading in the average, in the area of about minus four and historically, it has always traded between minus two, minus four, of course, it also depends on the absolute price. Then there was the heave that happened in Q2, which I don't think is really representative. What has been extremely negative is that we moved from minus eight to plus two. So, if we forget, just for one moment, what happened in the second quarter, there has been roughly between the historical, let's say, average of 2019 and the first part of 2020, an increase in price from minus four, to about plus two. That means six dollars. So six dollars margin less everything else being equal with the same Brent price. This has been a huge move, and I would say it's one of the main factors behind the negative refining margins. Of course, in that refining, the price that you see here reflects the prices in June, July, September, of course, the crude that is purchased for those months generally is purchased the month before, so there's about a 30-45 day time lag between the price paid and the market price, for us at least.



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Ural's somewhat similar, there are signs of improvement right now, so we moved from plus two to a slightly negative territory in October and right now, which is definitely a very encouraging sign. If we look instead at the family of the sweet crudes and Saras as a refinery is able to run both qualities, and we use as a marker Azeri, here, sort of the opposite situation happened, again, forgetting a little bit about the second quarter, the historical number is something in the range of about three dollars to four dollars premium, and today, in the third quarter, it dropped to about two, and today it's just mildly positive, and this also is a good sign. Together with the price of sour crudes, if we move on to slide number eight, the real sour point is the diesel crack. The ULSD diesel versus Brent. We were in an environment at this time last year of something like 16 dollars were projections 2020, in the third quarter, we have reached numbers that are, that start with a one. So very, very low levels, never touched before, levels which are unsustainable of course for refining. So this is the second main reason for such poor refining margins and also for the relatively poor performance of Saras compared to the benchmarks, of which I will talk about a little bit later on, when we get to the appropriate slide. The third main factor, which we want to try to simplify, is the relative price between high sulphur fuel oil and diesel. This time last year, people were celebrating the funeral of high sulphur fuel oil, and you can see that at the end of the year it went to -35 compared to Brent, and since then it has made a dramatic comeback. In the 3rd quarter it's been a range of four, five dollars negative with a gasoil that was one, two dollars positive. So, really, the issue here is the differential between diesel and high sulphur fuel oil and you can see this on the graph on the right-hand side, where this differential has been only five dollars per barrel. This number is a very important number because the economics of a complex refinery are all based around the differential between a low-value product, high sulphur fuel oil, and a high value product, like diesel, it could be also gasoline, but in order to simplify, we are just concentrating on diesel. This is true for Saras, but it is true for any complex refinery. The most expensive equipment that we and others have are all based on converting. The bottoms of the barrel, which can be assimilated broadly and generically as fuel oil into a lighter, more valuable product. Of course, if the differential is very low, economics of these plants basically becomes nil, it might become even negative because the energy cost associated with them might be higher than the differential itself. So, one would need to probably shut down certain units, although maybe sometimes that is not technically feasible.

If we go to the next slide, we see the same sort of situation, although if we look at the situation today compared to the summer, there is definite sign of improvement on the gasoline side, which has improved, and we see this in a consistent manner, and there are signs of improvement also on the diesel, although there is still some way to go on this, because the impact of air travel is important in the middle distillate area.

If we go to the next slide on page 11, we can see summarised Saras' performance compared to the benchmark. The EMC benchmark has been minus one point eight and we have been able to add only point three. Why this? For the reasons I explained before, basically the complexity and the capability of oil refinery was not able to be unleashed because of the various prices,



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high prices of crude, which had basically negative margins, and the very low differential between fuel oil and diesel. This, of course, during the third quarter we also had, we kept shut down certain units, so less runs and less contribution, because we were waiting to see rebounds in the market, and I think that we picked the time accordingly because we restarted our FCC, which is a big gasoline producer after the maintenance in July, and exactly when the market on gasoline started to pick up a little bit. We tried to keep our middle distillate production as low as possible, waiting for the overhang of the market to disappear because there has been a lot of storage accumulation of diesel in the previous months, that is slowly being dried up.

If we go at the segments, I would say that there is not much more to say here, in particular, from what we said globally speaking, the comparable EBITDA, the refinery sector has been extremely, extremely poor for the reasons that I have explained before. We processed about, slightly above 20 million barrels in Q3 which is roughly 20% less than the same quarter of 2019. Basically trying to keep the refinery at about 75% of its total capacity. This means also of course, this optimisation of many things, which impacts, but overall, it was absolutely necessary. On the same side, there has been less contribution from trading and supply, due to the very difficult market conditions that we have experienced.

If we look at page 14, where we have the crude oil slate and production, we see a significant difference compared to the nine months of last year. But this is not really a trend, it reflects the exceptional circumstances of 2020. First of all in all of Q2 and part of Q1 and part also of Q3, we had a major turnaround of the refinement that lasted longer than expected because of the COVID crisis. So, this affected mainly our FCC or gasoline producer, so that meant that the slate of light crudes being used in the refinery was lower, so you can see this in the fact that the light extra sweet crudes pass from 37 to 22, we use this type of crude mainly for gasoline production in the FCC, and so we maintain instead the production of the use of high sulphur crudes, which are used in our gasification processes in order to produce power, which is an essential contributor to the grid in Sardinia, so we try to protect as much as possible power production, and so in relative terms we see an increase in heavy crudes compared to light crudes, but I would say that this is not really representative of a change in trends, it's a temporary effect which you can also see in the mix of products which we are aware are less scarcely produced for obvious reason, and slightly more fuel oil for the same reasons of the maintenance of the FCC.

If we move to the next slide on page 15, there's a little bit of increase in fixed cost, mainly due to the heavy turnaround compared to that of last year and a lower variable cost, mainly linked to the fact that there has been lower energy costs. Many of our variable costs are linked, in the end, to energy prices.

If we go to slide 16, this is a relatively good, a bright spot, marketing, although in the third quarter, gasoline in Italy decreased by about something like three and a half per cent, and diesel about four point four. Nonetheless, we showed a very good performance in our activities, being able to maximise margins and return, especially in mainland Italy. Our local market in Sardinia



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has been negatively affected because they had a very poor season for tourism, particularly for people coming with their own cars. So sales in Sardinia have been extremely low. Nonetheless, we've been able to do pretty well. Different in Spain where the decrease during the summer was much more significant than Italy, and margins there were lower. So the performance in Spain has not been quite as good as the performance in Italy.

If we look at the next slide on page 17, power generation, the EBIDTA was about 30.7 million euros compared to 37 of the year before. This change is mainly due to the lower contribution of the quarter of the linearisation on the revenues, which has a non-monetary effect, and a less favourable scenario of course because the value of the power tariff was 18% less and this was reflected only partially by the reduction in the cost of the tar, which is an internal transfer price.

If we look at the next slide on page 18, the fixed and variable costs, there are less fixed costs on the power segment, because of the maintenance planned in this period, and the variable costs are lower because of the reasons explained before on energy costs. Wind, although we have been able to set up 30 extra megawatts of power in our wind farms, so, and there has been a significant increase, wind conditions have been extremely poor in the first nine months and this is the reason why the results are not in line with that of last year notwithstanding the installed power is higher. And of course, at the same time there's been a decline of 34% in the average power tariff compared to the same period of last year.

Outlook, the global outlook on refining remains uncertain, of course, we started to have some pretty good signs and then the situation in Europe has sort of changed the outlook, although our feeling on a more global level is a little bit more positive because we still see good demand in the markets which are outside of Europe. Of course, overall on the diesel crack, as I said before, the impact of air travel is still going to be significant. We do see some signs of improvement in the crude supply, particularly the fact that Libya has come back on stream, should give a positive boost from our point of view, to the prices of crudes in the Mediterranean, particularly on the sweet side. The sour crudes are still a little bit of a question mark, so they could maintain their strong relative value.

We have enacted some very strong actions internally, in order to reduce costs and investments. We have an ambitious plan to reduce by over 100 million euros the overall cost of the company and this is obtained through temporary furloughs of our personnel, unfortunately, this is something that we have never done before in the past and something painful. I must say that I have to thank all our workers and the unions for having acted in an extremely responsible way. We announced this plan on 6 October, I think, and with the space of two or three days, we were able to reach, with all the organisations of the workers, the relevant contracts in order to enact these schemes and then, of course, there's a hold on almost all the investments that were planned, apart from those that are essential for HSC, so of course, health and safety are not in question, and there is a strong review of all the costs process of all the cost issues and a deep change within the organisation in order to internalise certain activities. As a matter of fact, I remember that we have an engineering company, that has done some very good work, Sartec,



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this has been put together with the refinery operations in order to create as much synergy as possible between all the professional people that we have in order to increase the amount of work which is done internally, and not given outside to external companies. The runs in the fourth quarter are expected to be in line with the guidance, so something in the range of about 20 million barrels, roughly, of course, we always maintain a very flexible attitude, so should conditions in the market change, we will adapt accordingly, in order to maximise the cash flow and the returns. We are still on track on our energy transition projects, we have presented these to the relevant authorities in Italy, in order to see if they can be inserted within the Italian national power, the Green Deal and the energy transition plan of the Italian government. We are in an advanced phase in order to increase the amount of vegetable oils that we are able to process and run in our refinery, and we are in a detailed project phase for other more ambitious projects regarding the possibility of enacting a CCS plant within the refinery. There is also extensive study on the possibility of using green and blue hydrogen within the refinery, so there are a lot of activities, we are not cutting back on these sort of activities at all.

So, thank you, at this point, we're ready to answer your questions.

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. Anyone who has a question may press star and one at this time.

The first question is from Alessandro Pozzi with Mediobanca, please go ahead.

Alessandro Pozzi

Hi there, thanks for taking my question, I have three. The first one is on the refining runs guidance in Q4, is going to be fairly low, in terms of runs so I was wondering, what is your view on the first half of next year, do you expect to have a gradual pick up, or to have a flat runs into Q1 next year as well? My second question is on the new investor, Trafigura, I was wondering whether you see any potential in that, so synergies with them, whether you have any conversations about what those could be, and also I was interested to know whether that came out of the blue or whether that was the result of due diligence from their side. Final question, on net debt, an indication of what net debt may go into year end. Thank you.

Dario Scaffardi

Thank you, Alessandro for your questions, on runs we always take a very mercantile and opportunistic view. At the moment we are picking up slightly on runs, because currently refining margins are low, but better than what they were during the summer. So, again, the view is to try to maximise the returns. I think that the market conditions at the moment are so uncertain that, you know, having anything that resembles a long-term view above a couple of



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weeks is difficult so, particularly now that there has been so much grievance on the aggravation of the sanitary situation. So, at the moment we are expecting a more definite and marked pick up, definitely by the end of the first semester, so we should start seeing a more substantial pick up in late spring of next year. On the first quarter, I really do not have a view at the moment, I expect it to be sort of similar to Q4 pending any big disturbances on the crude oil market depending on what OPEC+ will or will not do. Regarding Trafigura, I can just say what they have declared, that they want to be a constructive medium-term shareholder and cooperate with the company. We know Trafigura very well, Trafigura is one of the largest traders in the world, it has an outstanding, can't find the words, track record, excuse me, we deal with the Trafigura, Trafigura is, the partner is important, a respected partner, it's not the only partner, we deal also with many others, so I think that Trafigura is familiar with Saras, mainly with the trading part of Saras. So, you would have to ask them if they have further intentions regarding Saras, we cannot, we can only view positively the idea of cooperating more with Trafigura, it could bring to the table their very extensive worldwide network of information on oil commodities and not only on oil commodities. Then I thought you had a, maybe a question on debt and I would leave that to Franco if he's on the line.

Franco Balsamo

Yes, I'm on the line. In the net financial position at the end of September, it's roughly about 400 million euro, also as described in the slide 23, as you can see we had in the first nine months, deterioration in terms of working capital for 150 million euro, 230 million euro representing by investments that are already executed in the first part of the year, at the end we had 80 million euro negative of cash flow from operations. So, in the last quarter, the magnitude of the net financial positions will be negatively affected by the combination of the payment of the excises, the government gave us the opportunity to postpone the payment from Q2, Q3 up to the end of November, so also describing in our balance sheet in November, we are going to pay roughly 90 million euro of excise, so that will worsen the financial position and in the end we are going to have the slightly negative contribution from operations, so having said that, we expect a worsening in net financial position about 100, 120 million euro at the end of the year 2020.

Alessandro Pozzi

Okay, thank you, if I may just go back to Trafigura, I was just wondering whether they have been in touch just to talk about what synergies there may be between the two groups, so whether you already have conversations ongoing or not.

Dario Scaffardi

Well, I would, this, you know as, the answer to this is too fast, it's, in terms of commercial relationship, there has been an ongoing dialogue with Trafigura for many years. As a matter of fact, two of our traders have joined Trafigura, so on the one side we are disappointed that they took away from us two very good people, on the other side, we're happy that our pipeline of



young talents that we were able to develop has been appreciated by one of the major players on the market. In terms if they have, so we can always talk with Trafigura or with any other player to talk about commercial relationships or joint ventures or anything. In terms of operations on the capital, that of course is slightly different, so should they wish to increase their presence in the company, this becomes a totally different matter.

Alessandro Pozzi

Alright, thank you very much.

Operator

The next question is from Niccolò Storer with Kepler, please go ahead.

Niccolò Storer

Yes, thank you, good afternoon, everyone, I have three questions. So the first one is related to CapEx, I was wondering if the 100 million plus cost reduction was designated to P&L costs, or also included CapEx and which could be a guidance for Q4 and 2021 CapEx considering the peak of expenditure you had in the current year, related to the refinery turnaround. The second one is on debt, maybe an update on the government-backed lines that you were negotiating with SACE. And the last question relates to the very strong figures that you, Dario, commented before on high sulphur fuel oil, so maybe if you can give us...

Dario Scaffardi

On..? I'm sorry.

Niccolò Storer

On High-sulphur fuel oil

Dario Scaffardi

Yeah.

Niccolò Storer

If you can give us some sight on why it rebounded so strongly towards the minus five dollar. Thank you.

Dario Scaffardi

Yes. Well, let me start with the last question, so I can leave some time to Franco for the first two to come up with a good answer. Basically what has happened is that refinery runs globally, you must imagine that oil prices are global prices, have come down. And the first product that gets kicked out in the chain is high sulphur fuel oil. So, irrespective of the type of crudes that



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one uses, less refinery runs means less production of fuel oil generally because the marginal barrel will produce some fuel. So, there has been a decrease in demand of high sulphur fuel oil. So the vision, the scenario of last year that there would be a decline in demand of high sulphur fuel oil was correct. What was the black swan that came into the equation, was that the decline in production was larger than the decline in demand. This put a floor on the price. So the price of fuel oil is relatively high because notwithstanding that there is a relatively small demand because demand is mainly for ships which have scrubbers installed and are able to use it and for power production in some areas of the world, still, it is in good demand. So, it is a very abnormal situation, which I don't think is sustainable for any real length of time, because it would mean like that bread made of chestnuts is worth a lot more than brioche, but at the moment there is demand for bread made of chestnut flour and not brioche. So, chestnuts are in demand, and brioches are not. So this is probably not the best metaphor, but it tries to give a sense of why a product that is less in demand and is clearly not a very valuable product is so high in price. Something very similar happened some years ago with sulphur. I can give you an anecdote, about 20 years ago, the year 2000, there was a huge production of sulphur in refineries because there were no sulphurisation units being installed, because of the change in specifications of diesel and nobody would want sulphur and at the time, the price of sulphur was very low, like ten dollars a ton, so people would start paying to have it removed. It would have a negative price. And this sort of happened for a while, then the price of sulphur all of a sudden went to 7-800 dollars because of demand for fertilisers and others. So, since this spike, things have gone back to normal. The price of sulphur is relatively low. I think something similar is happening to fuel oil. We need the market to rebalance, to go back to some semblance of normality. So once that will happen, I think everybody will reassess systems and the differential between these two products will go back to a sustainable and reasonable level.

Niccolò Storer

Thank you.

Franco Balsamo

In order to the second question relating to have an update on the negotiation with banks in order to underwrite the new financing guaranteed by SACE, the process was closed, but you know that the publication in the newspaper, of the investigation of the procura di Cagliari created a stop in the sense that the lending banks had the obligation to enter into a compliance, a compliance process, they went through the different operations that were within the perimeter of the investigation and they need another couple of weeks in order to complete this process. The first reaction received by the banks, of course, is positive, so we do believe that in the next couple of weeks, all this compliance process will be completed and we will be in the position to execute the loan and to borrow the full amount, it takes, I believe, a couple of weeks. Same issue is related to the request of waiver which, in line of principle, have been approved, but also this process is within a more general framework within the compliance department of the bank. Also in this issue, we are positive so will take another weeks. As Dario first question



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related to the CapEx and OpEx optimisations for the year 2021, of course we are trying to operate in both the area, of course the CapEx will be reduced in the term that most of the investment will be postponed in the year 2022 and in the year 2023. The final amount is still under evaluation, but will be material. In order, the OpEx optimisations will be the combinations on mainly, it's a different family of cost, the first is represented by wages, and of course will pay the contribution of the extraordinary "Cassa Integrazione", the second family of costs are represented by maintenance cost, of course here there is a trade-off between lower maintenance and the opportunity to take all the benefits given by market. And finally there are all variable fixed cost that are altogether under review. So we do believe that in terms of OpEx there is a sort of break between 70 and 90 million euro that is the amount where we can really get a benefit for the year 2021. For the year 2022 and 2023, it depends to the other process that Dario described before such as additional optimisation, in line with the internalisation of many activities, but to be more precise on this amount, as already disclosed will be minimum amount of 120 million euro. A combination of CapEx and OpEx.

Niccolò Storer

Thank you, thank you very much.

Operator

The next question is from Henri Patricot with UBS, please go ahead.

Henri Patricot

Hello, everyone, thank you for the update. I have two questions please. The first one is upon your comments on Capex cuts, I was just wondering about the implications for some of your investments, in particular the expansion of the wind capacity. So when would you expect that to come on stream, you said that the reblading project is slightly delayed in the first half of next year, rather than the first quarter, but then thinking about the capacity expansion, when could that come on stream. And secondly, I was wondering if you could give us an update on your discussions regarding the pricing after CIP 6 or if there's been any progress there. Thank you.

Dario Scaffardi

On the CapEx cuts regarding the, thank you Henri, first of all, no, the reblading process is underway, so the expansion of the existing wind farm is happening. There have been delays due mainly to COVID and other issues but the process is underway, so the tank farm has been expanded and also the reblading is being performed. It was supposed to be ready by the end of the year, it probably is going to happen in the beginning of next year. The other projects are a little bit longer in the pipeline, so there is no immediate CapEx expenditure, but we plan to safeguard CapEx in the area of renewables and the areas of energy transition. The CapEx cuts are mainly on existing projects of optimisation in the refinery and increasing the tank farm and other activities. The discussions on CIP 6 are still going on, there are some encouraging feedback from the authorities. It has not been settled yet, , the process is that the grid operator



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makes a recommendation to the regulator, so this process is ongoing, and like many other processes, it has been delayed due to the emergency, so everything is happening a little bit slower-paced, but I think things are going well and are on track.

Henri Patricot

Okay, thank you, when do you think you could have some more news around that?

Dario Scaffardi

I would, well before the worsening of the emergency, I would've thought easily before Christmas, now, I'm not so sure, but hopefully it will happen.

Henry Patricot

Okay, thank you.

Operator

The next question is from Massimo Bonisoli with Equita, please go ahead.

Massimo Bonisoli

Good afternoon, Dario, Franco and Ilaria, thanks for the presentation, I have three questions. The first is back on Trafigura, I don't want to bother you too much on this, but just to understand what kind of idea of cooperation or the synergies, so eventual business collaboration with them, considering that this is something not new in the industry, like Vitol a few years ago. So just to understand the business rationale of a collaboration between you and the trader. And the second question is on the power generation, if you can provide us a rough guide for EBITDA for Q4 and a third question on Libya, they just started full production, so just to understand the level of crack spread of those crudes and the contribution it could have in Q4.

Dario Scaffardi

Thank you, Massimo, so, let's start from your last question. On Libya, of course there is a positive development and you can see that very clearly in the graphs that we showed, the price, the market price of sweet crudes in the Mediterranean has gone down significantly on the back of Libya. A lot will depend if Libyan barrels will be taken up by the Chinese, but one way or the other, from the point of view of the buyer, we are crude buyers, the fact that there is more production is clearly positive for us. What the overall effect on global prices will be, I think it will be bearish on overall prices and also bearish for the seller but positive for the buyers on crude differentials. I don't think it's going to change very much the outlook on sour barrels, of course, which at the moment is the sore point for all complex refiners. In terms of, you know, Trafigura, well, first of all we don't know what the plans are of Trafigura, one would have to ask Trafigura, not Saras, of course. Having said that, possible areas of cooperation, well I think



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it perfectly reflects the business model that Saras has. We have developed, Saras' business model is based on technical excellence and marketing and commercial excellence, of course, and this is the reason why we have established a trading company and we are the only company of our size that has a very active presence in this area with an office in Geneva. Of course, we are limited by our size, so one thing is, our trading division is buying crude for slightly more than what our needs is, so if our nameplate capacity is about 300,000 barrels a day, we are roughly buying something more because we trade something, Trafigura moves millions barrels a day of crude, so clearly their fire power, their access to information, their capability of accessing opportunity crudes is certainly greater than ours. Instead, if we look at the other side of the equation on products, there may be, we can bring a little bit of our expertise and our knowledge to the table, Saras is a niche player in the Mediterranean on diesel we a large player or one of the top players on diesel because we concentrate very much in our local market and on this product so maybe in that respect we can bring to somebody like Trafigura or others we could bring our expertise, so in the areas of cooperation are wide, being able to managing a larger system is beneficial so it is a way of having some sort of consolidation. This, of course, is something which is theoretical in nature, I mean, again, you would have to ask Trafigura what their intentions are exactly, but oil traders have a history in the past, like you rightly pointed out, with Vitol and also with others of moving into the downstream and the midstream sector.

Franco Balsamo

In relation to your questions regarding the projection of EBITDA for the power sector, we are forecasting to account for the full year, EBITDA at a level of 110 million euro.

Massimo Bonisoli

Very clear, thank you.

Operator

The next question is from Roberto Ranieri with Intesa Sanpaolo, please go ahead.

Roberto Ranieri

Yes, good afternoon, everyone. Two questions please, just to understand on liquidity and some more colour on your cash liquidity and cash flow generation. My first question is on liquidity, what is your available cash including as of September, including revolving credit facilities and all the cash items including also financial derivatives and others? My second question on cash flow. Please give us the figure you reported in the nine month 2020, just to understand if you are at a break even or much lower than the break even. And overall, I would like to understand if you have enough cash availability in order to complete your operations and if this cash availability is enough for a long period, even in a downsize scenario or a worsening of this scenario or if the things will go in line with your expectations for the full year. My last question is just to get back to the discussion with banks, could you please give us some more colour on



the discussion, on the items that you are discussing. I would just like to understand if you are discussing about any vision of period maturity of debts, or covenants or some other things. Thank you very much.

Franco Balsamo

Okay, so at the end of September we have available credit facility for more than 320 million euro that are related to the credit facility midterm and more or less for four years. And we have another 200 million euro short term uncommitted credit facility. In addition, starting from the assumption that within the month of November, we are going to borrow 350 million euro from SACE. I would say that the company will be in a very safe situation because the credit lines committed are in excess of the liquidity needs for the year 2020. And it's good enough to support what's going on in the year 2020-2021.

Roberto Ranieri

Sorry if I interrupt you, so basically, these are the figures of the cash availability relating to the uncapped, so what you have available and you are completely in line and the cash you have not utilised so far?

Franco Balsamo

Yeah.

Roberto Ranieri

That is correct? Okay.

Franco Balsamo

Yeah. At this moment, we have, let me say, room for more than 500 million euro, of which 200 uncommitted in the short terms and 300 related to long term credit facility.

Roberto Ranieri

In addition to the 350 from Sace?, correct?

Franco Balsamo

Yes, okay.

Roberto Ranieri

Okay.

Franco Balsamo



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In terms of cash flow, for the next quarter, of course, we are going to burn liquidity for an amount that is much lower than burn of liquidity we have accounted for third quarter. So, having said that, our forecast is still under analysis related to the budget for the year 2021. We start from the assumptions that the combinations between cost efficiency and a reduction in terms on CapEx combined with a lower generation of cash flow will put the company in any case in a situation very close to the break even at the EBIDTA level. So, having said that, of course we are also incorporating the opportunity to pick up in profitability in the last quarter of the year 2021 and for the year 2022. For the time being, we have credit facility in place in order to support the company also in the year 2021.

Roberto Ranieri

Okay. Thank you. And about the covenant discussion with banks?

Franco Balsamo

You know, banks, the covenant, the potential breach of course is related to the covenant at the end of December and the approval process within the bank is completed and we are waiting the final approval. As far the financial covenant related to the ratios at the end of June and December 2021, we'll see, but of course banks are supporting us, in case there is a potential breach in that request for waiver will be approved.

Roberto Ranieri

Thank you very much.

Operator

The next question is from Igor Kuzmin with Morgan Stanley, please go ahead.

Igor Kuzmin

Good afternoon, I have a couple of questions, please. First question, I would like to understand a little bit, the guidance for the CapEx for the fourth quarter overall for the company and so a similar sort of guidance if possible would be much appreciated for the full year 2021, in terms of CapEx. Second question is in regards to the savings, so 120 million euros that we have already previously discussed during this call. I would like to understand a little more in regards to which period this is related to. Is it an annualised figure, conceptually, or is that the savings that potentially could be achieved in the period from let's say the start of October until middle of 2021? And in this case how would you recommend, for modelling purposes, we can allocate this on a per quarter basis? Thank you.

Franco Balsamo

I'll try to answer to the first part of the questions, related to the CapEx for the year 2020, we had a budget for 230 million euro and more or less we are in line with the forecast. In September



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we are 10 million over the budget. So in the last quarter, the CapEx will be for an amount lower than 20 million euro. For the year 2021, the CapEx will be including the capitalisation of wages, and the other costs that are related to different operating costs for longer periods, let me say that will be in a region of 50, 55 million euro

Igor Kuzmin

So just to be clear, so up to 55 million euros for the full year?

Franco Balsamo

Yes.

Igor Kuzmin

Okay.

Franco Balsamo

For the year 2021.

Igor Kuzmin

Yeah. Okay.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. We will pause for a moment, as callers join the queue.

The next question is a follow-up from Niccolò Storer from Kepler, please go ahead.

Niccolò

Sorry to come back again on CapEx. I didn't understand the answer to the previous question, so are you expecting 50 million of CapEx for 2021 or are you expecting 50 million of savings from the 2020 basis in 2021?

Franco Balsamo

We are expecting to have a CapEx for the year 2021 about 50 million euro. Okay? In the previous budget were 160. Of course, this is an extraordinary situation, it would be very difficult to keep 50 million euro CapEx also in the longer term. In order to enhance liquidity, the effort is to keep the CapEx within 50 million euro for the year 2021.

Dario Scaffardi

Niccolò, if I could add a little bit of colour on this, basically, the original CapEx plan that we had was a plan that would have put the refinery in the best possible condition to face the decade



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2020-2030, or 2021-2030 with minimum amounts of further investments going forward. Since the pandemic has changed the visions on everything, all those maintenances and those large turnarounds that we had programmed for those that had already been programmed for this year, of course, were already up and running and it made no sense to stop them because we would have lost everything, but many other programmes that have been put in place for 2021 and 2022 have been postponed further on and our people are trying to find ways in order to continue operations as best as possible and delaying all these things by one or two years to see how the market is going to develop going forward. So it is also, it's not only a cost cutting process; it is also a deep soul-searching process of seeing if we can reoptimise our investments and reoptimise our operations. So as always, we try not to waste a good crisis.

Niccolò Storer

Okay, thank you, maybe a very short follow-up on what you mentioned before about further the deterioration you are expecting for that year end 2020. You talked about 100, 120 million of worsening, which is exactly the amount of excises, taxes and VAT?

Franco Balsamo

90 million.

Niccolò Storer

90?

Franco Balsamo

Nine and zero, the postponement of excises

Niccolò Storer

And so basically you are not expecting any farther worsening in working capital, maybe some...

Franco Balsamo

In line of principle, we start with the assumptions that the commodity prices will be relatively stable, so that is the forecast that is planning commodity levels in line with the current one, so we are not expecting the deteriorations in working capital.

Niccolò Storer

Thank you, thank you.

Operator

The last question is a follow-up from Igor Kuzmin with Morgan Stanley. Please go ahead.



Igor Kuzmin

Thank you. I would like to come back to my second question in regards to the savings estimates on the back of the sort of extraordinary initiatives you guys are undertaking right now, but on the P & L side. I would like to just understand a little bit more in terms of the quarterly magnitude of the impact on P & L level, so thank you very much for the answer on the CapEx side, that is understood, but on the P & L side, can you maybe talk a little bit about the impact on Q4 this year and then Q1 and Q2 in terms of how do you apportion those savings potentially and another question is to understand correctly that the figure you mentioned, which includes CapEx and OpEx up to 120 million, effectively that is an annualised figure so you, let's say, support lots from October to the middle of next year, then it's not going to be 120 million, it's going to be potentially a smaller figure because that's only three quarters. I just want to understand a little bit more the impact at P & L level on a quarter by quarter basis.

Franco Balsamo

Well, the impact quarter by quarter is difficult to be disclosed today because it's related to the maintenance, so for us it's much better to say that on an annual basis, we have a basis of costs that could be optimised, let me see, in the region of 100 million euro, but probably the right and more appropriate is a variable amount but in that region. So, more or less, if you want to consider it as a linear saving, it could be between 20 and 25 million euros work. Of course, on the 2021 because most of savings are achievable only because activities are postponed, so we can't postpone forever activity, but it's just an extraordinary plan for next year.

Igor Kuzmin

That was great, thanks a lot.

Operator

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

Gentlemen, would you like to add any further comments to conclude the conference?

Dario Scaffardi

No, thank you very much, thank you, everybody for joining us, and for your questions. Stay safe.

Ilaria Candotti

Thank you very much for listening, we are available as usual for any follow-up or questions you might have. Thank you very much, bye bye.