



Saras

First Quarter 2021 Results

Welcome

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras first quarter 2021 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. Please go ahead, madam.

Ilaria Candotti

Head of Investor Relations, Saras

Good afternoon, ladies and gentlemen, and thank you for joining us today for this conference call on Saras' first quarter 2021 results. The analyst presentation has been already distributed with the usual channels and is available on our website. Our agenda today will be the following: Mr Dario Scaffardi, Chief Executive Officer and General Manager of Saras will start introducing the new segment reporting of the Group, starting from January 1st, 2021, followed by the highlights of the first quarter and by a detailed review of the segment results. He will then follow with the latest highlights of the refining scenario and our outlook for the year. Afterward, Mr Franco Balsamo, Chief Financial Officer, will discuss the key financial figures of the Group. Finally, we will have the usual Q&A session. At this time, I would like to hand over to Dario.



Dario Scaffardi
CEO & General Manager, Saras

Highlights

Grazie, Ilaria. Good afternoon ladies and gentlemen, thank you very much for joining us. As we had anticipated in our previous meetings, we have decided as of January 1st, 2021, to simplify the representation of our industrial results in order also to reflect more closely the way we want to steer our business going into the future. So, we will have only two divisions, only two business segments. One called Industrial and Marketing, which will comprise all activities which are oil related, basically. So, Refining, Power Production, Trading Activities through our subsidiary in Geneva; our marketing activities, which mean wholesale oil product sales in Italy and Spain, and our energy services company, Sartec, which provides energy services but has recently been incorporated within the refinery structure of Saras Group.

And the other division is Renewables, which today is mainly made up by an existing wind farm, but by another wind farm that we have acquired – and we have announced today the acquisition of this wind farm – and a multitude of expansion products which will span over the next couple of years.

We hope that this representation will make it easier to analyse our results. This comes also due to the fact that the convention through which we were selling power into the grid, the famous CIP6 convention, has expired mid-April, so there is no longer the necessity of having complicated mechanisms that were set up in the 90s to regulate flows within divisions of the company. And also, through this representation, we want to reinstate the fact that our oil refining and power generation business within the refinery is just one business that has to be looked at in a holistic manner.

So, if we look at the highlights of Q1. At the reported level, we have a positive EBITDA of 27 million euros, almost 120 million euros more than the same quarter of last year. This big swing is due mainly to inventory effects. There was a strong reduction of values in the first quarter of last year and at the same time there has been a strong rebound of prices in this. So, this is the main reason of the huge difference at the reported level of the EBITDA.

If we look at this, notwithstanding the fact that refinery margins were very different in the two quarters, the EMC in the first quarter of last year was 1.3 and this year it has been particularly negative at -1.4. We also suffered from an outage of power production in the first quarter, but I will speak a little bit about that later on.

If we look at the comparable level, the EBITDA is negative by 11 million euros for the same reasons lower than the same quarter of last year. In terms of net financial position, notwithstanding the very challenging market conditions, we have been able to show a significant improvement in debt level by almost 75 million euros. This has been due to prices and to inventory matters.



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If we look at the overall market conditions, the first quarter of this year, we had a steady increase in the price of crude. Brent Dated has rebounded strongly, reaching at the end of the period almost 70 dollars a barrel, so well was in the high range of the pre-COVID levels. This is due to the fact that you all know very well, mainly by the very tight market on the part of OPEC that has been able to reduce supply in a market that has been a bit depressed.

In the meantime, I would say that inventory levels – the overhang of inventory levels that were present in 2020 are starting to be absorbed and the market looks relatively more healthy and ready to rebound. I think this is seen more closely in the relative levels of crude oils rather than the absolute levels that we talked about before. These are the news graphs, you see the prices of four benchmarks, benchmark crudes. In particular, if we look at Urals, which is, I remind, Russian crudes, standard crude in the Mediterranean and reflects the medium sour crude, prices in the quarter have gone down significantly – premium, excuse me – in the quarter have gone down significantly in exactly the opposite manner as the absolute price of Brent. This is due to the weakness of refinery margins and to a certain better supplied market.

This is for us a positive development because levels of Urals at minus two basically were not seen apart from certain peculiar moments for many years now. So, this reflects more closely the refining environment. If we look instead at Basrah, the graph on the left, which is the OSP of Basrah Light, here the situation is a little bit different because SOMO, the state marketer for crude in Iraq has been extremely aggressive in pricing. So, has kept the level up, notwithstanding the benchmarks; benchmarks have been going down and as a matter of fact, many term lifters of Iraqi crude have not lifted their crude. And on the spot market, Iraqi barrels have created a very steep discount to the OSP prices.

Similarly, also, the sweet benchmark for the Mediterranean, which is Azeri, has traded at historically low levels. So, with slight premiums, below single-digit figures in terms of dollars. So, we're talking 20/40/50 cents premiums, which has been at the lowest levels ever.

On the oil product side, there is a mixed scenario: Gasoline, unleaded gasoline, has been extremely healthy. We see this in the absolute levels and also in the cracks, which have strengthened significantly. On the gasoline side, I would say that the crack levels that we've seen in this quarter are basically some of the highest in the five-year range due to healthy demand because gasoline production is one of the first productions that has been taken off the market due to refinery cuts and reduction in runs.

Opposite for the middle distillate for diesel, diesel is still suffering from the overhang in inventories and from the fact that there has not been a recovery yet in air traffic and therefore in jet fuel absorption, which is showing up in the diesel pools, negatively affecting cracks.

If you look at Saras' – today, we are presenting an integrated industrial and marketing margin. So, no longer the division that we were presenting in previous quarters where we showed a refining margin and a power margin. The power margin was a little bit of an artificial construction because it was mixing power with barrels. So, we always were aware. We tried to explain the intricacies of this type of



representation. We think that today this is a lot simpler to understand. And basically, we are facing a refinery that amongst its yields has also a power production.

Having said that, first quarter results, the EMC has been almost at one of its lowest level ever. It was only worse in Q3 of last year. We've been able to add a significant premium to that of almost five dollars per barrel, or slightly below five dollars per barrel. But we'll get into a little bit more detail when we discuss in detail the segment review.

Segment Reviews

1. Industrial and Marketing

So, if you look at industrial and marketing, so this means all our oil-related activities and including power production, we have had a crude throughput which has been more or less in line with that of the quarter, the same quarter of the previous year. Instead, electricity production has been unfortunately significantly less and has been basically half. It has been 615 gigawatts compared to almost 1200 gigawatts in Q1 of 2020. And this has been due to the unplanned shutdown of two of the three turbines that we have in operation. This has been due probably, although we are still investigating the facts, to a resource pertaining to stress factors in the metal of the blades, which has happened in both turbines.

So, it is most likely due to a fault in the production of these new blades because those turbines were re-bladed fairly recently. This created a shutdown, a rather long shutdown, of both turbines. One shutdown lasted for about two and a half months and has since resumed operations mid-April. And the other turbine is due to restart operations at the end of this week. It has had clearly a strong impact, although in the medium term we will not see too much issues in terms of maintenance because the maintenance will be carried out by the provider of the turbines; the parameters in which the turbines are operated are defined by the constructor of the turbines, of course, that also takes care of the monitoring of this.

So, this has been a negative aspect of the quarter. While the rest of the operations on the refining side have done well, trading has done extremely well in the planning part, our supply chain management structure has performed admirably, and at the same time, we are starting to see the effects of fixed cost optimisations. Negatively has been the increase in cost of power and of CO2 costs.

On the marketing side, there has been a slower contribution, particularly in Italy. This has been due to two reasons: First of all, there have been higher volumes in Italy. So, from that point of view it has gone well, but the cost of biofuel has been extremely high. There is, on the diesel side since 2021, there is a 10 per cent mandatory biofuel component in diesels and the price has gone up significantly. And this price has not been totally offset by sales price. So, this is what is affecting negatively the margins together with a very cold quarter compared to the standards, but the effects of temperature on the density are



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compensated through the month. So, the loss in the winter means a gain in the summer. So, this is, on a yearly basis, sort of something that works itself out.

In Spain, things have gone better. Although there have been lower volumes, the overall market has shown higher margins. Investments which have been significantly cut in our plan have been only about 17 million euros in this quarter compared to the 97 of the previous year.

You see the difference in representation also in our crude oil slate and production; we no longer print the TAR production, which is the feedstock for the power generation plant, but instead we supply the electricity production because we want to stress the point that we are a refinery that also has an output of electrons.

In terms of the qualities of crude that have been run, the slate continues to lighten a little bit. This is due to a variety of reasons. It is due, first of all, to the fact that there is strong gasoline demand, so there is an incentive to run at full capacity our FCC unit, which is the main gasoline producer in our refinery. I like to remind that last year we had a huge maintenance on this unit, which is today performing admirably. Therefore, we maximise production, both of gasoline and also a very important component for very low sulphur fuel oil, which is also a market which shows a positive crack to Brent. So, we try to maximise the production of these two. And you can see that reflected also in the percentages.

We also, for the first time, represent VLSFO, which means very low sulphur fuel oil, which is the 0.5 sulphur marine fuel. And we show this result because it is becoming a very important segment, although not one of the largest ones. So, the sum makes 100 per cent if we add consumption losses and of course, the production of TAR, which is no longer reported, but could be deduced from the power production, of course.

In terms of fixed and variable cost, we start to see the contribution to the efficiency plan on the fixed cost with the saving of about 10 per cent due to many different effects, including lower personnel reductions due to pensioning of old people who could be pensioned and the furlough plans. There were slightly higher maintenance costs on the power plant due, of course, to the shutdowns that I mentioned before, and higher costs related to CO₂.

The wind segment today is presented, as is correct, as the renewables division of our company, which has plans to grow, but concentrating just on the performance of the quarter, we have a power production, which was about nine per cent higher than last year. Notwithstanding that, we have almost completed the re-blading of our wind farm. That should increase power availability by 20 to 30 per cent about. But there have been basically unfavourable wind conditions. This re-blading activity is still underway and will be completed in July.

Power tariff increased significantly compared to last year, of course, because it was particularly low in March of last year, and we are continuing with the investment, as I mentioned before.



2. Outlook

If we look at our outlook, and I think that there are some considerations here to be made. First of all, if we look at – we decided to show these graphs that give mobility statistics for the whole world, for the United States and Europe. So, we see that the US is recovering very, very quickly and it's almost back to – its five per cent less than pre-COVID levels. Europe is still behind; at the moment we are about 20 per cent below the pre-COVID levels and on an aggregate basis, we're about ten. So, there is a definite sign of improvement. We expect that Europe will start more or less following the same trend of the US as the majority of Europe is coming out of lockdown conditions. So, there are reasons to be optimistic on this front.

Important factor for refinery margins, and that reflects directly on the diesel crack, is global air travel. This is showing signs of recovery from the lows of 2020, but still there are big regional differences. It would appear that the US internal market is starting to pick up once again. It is not clear at all if the transatlantic and long-haul travel will start to resume to normal level anytime soon. This, unfortunately, does not appear likely in the short term.

Overall, middle distillate demand is starting to increase. We see that the forecast for global oil product demand is back in the low end of the five-year average and gasoline is squarely back into the five-year average. So, we do expect to see some positive developments on the middle distillate side in the short term.

On the supply side, everything is hinged on OPEC compliance, which at the moment seems strong. So, they are keeping a tight leash on the market. One development, very recent development, is that there have been statements that the Americans and Iranians seem to be close to striking some sort of a deal. This would have probably a negative impact on the overall market in terms of price because OPEC+ would need to accommodate Iran. From our point of view, we believe this would have a positive impact because it would further pressurise heavy sour barrels, which are an important diet of our refinery, particularly in light of the agreement on the production of power through the essential configuration that our plant has been awarded. This is possibly a very interesting development. We will have to see what happens in the forthcoming weeks.

If we look at 2021. We expect the next quarters in terms of crude runs to be in the same rough range. In Q2 and Q4, we will have four runs. In Q3 it will be slightly less because of some planned maintenance, but relatively small. We expect power production to be in the range of 2.7 to 3 gigawatts over the three quarters. So, on a yearly basis, we should be around 3.4 to 3.6 gigawatts. Our historical number has been in the range of 4 to 4.1, up to 4.2 as maximum production.

3. Renewables

Regarding renewables, we have finalised the acquisition of two wind farms with a total installed capacity of 45 megawatts with 30 towers. These two parts are located in the southern part of Sardinia, more or



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less midway between the city of Cagliari and the location of our refinery. So, they are in an area which is an industrial area of Cagliari. This brings the total installed capacity that Saras operates to 170 megawatts. We believe that this wind farm, we'll be able to improve it significantly because we will manage it entirely through the personnel of Sardeolica: Sardeolica is the company within the Saras Group that manages renewable activities, before, this wind farm was managed through contractors while we have our own personnel that are able to do important maintenance work and particularly apply also digital technologies to the operation of the machines and to perform the predictive maintenance. So, we have had exceptional results in this respect, and we have a very high operating factor – one of the highest in the world in our existing wind farm in Ulassai.

Part of this windfarm still has incentive tariff, which will last up to 2027. But I would say that one of the most interesting things about this wind farm is that since it has a well-structured and installed system of power cables that connect to the Sardinian grid, we are confident that we will be able to install a significant amount of solar panels in an area that we have a ready optioned, which is nearby this wind farm. So, we can make use of the existing electrical infrastructure without having to rebuild it and therefore, this is a significant part of the cost of a solar farm.

So, we are planning – we have in the authorisation phase – 80 megawatts of photovoltaic. As soon as the permitting phase will be completed, we will be able to start building this. And at the same time, we are in the final phases for the acquisition of existing and greenfield wind projects in Sardinia. There is a lot of activity in this and we are also looking to find possibly suitable partners that can enable us to become a leading player at the regional level for renewables.

So, Franco, maybe you have a little bit to add on financials.

Franco Balsamo
Chief Financial Officer, Saras

Financials

Yes, I'll just make a quick comment on the evolution of the net financial position. We'll leave all the other financials comment over to the Q&A section. The net financial position is improved in the first quarter in line with what we had the opportunity to comment one month ago in our previous conference call. The improvement is driven by the changes in working capital and mainly by the evolution of the commodity price that accounts for more than 80 million euro of cash flow. The CapEx is about 20/22 million euro and is in line with our budget projections. So, in terms of the evolution of our net financial position in the first quarter, the results were in line with our budget projections.



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Of course, the evolution of the working capital is strictly related to the evolution of the commodity prices. But take into consideration the current forward prices, our estimate is to keep the net financial position over year end between the existing level and the level we had at the beginning of the year.

Ilaria Candotti
Head of Investor Relations, Saras

I think we can start with the Q&A session.



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. 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, sir.

Alessandro Pozzi – Mediobanca

Good afternoon. Thank you for taking my question. The first one is on the guidance for the integrated premium, and I believe that was left unchanged since last time we spoke. I think it's a bit surprising given the essentiality payment was approved and maybe was a little bit better than expected. So, I was wondering whether maybe there's something else, especially that the heavy light differentials are widening, so you would have thought that maybe you could have achieved a higher premium, especially from Q2. And also, in light of the fact that in Q1 you delivered 4.8 dollars per barrel. So, any colour there would be appreciated.

And also, as a follow on this one, in terms of essentiality payment, can you tell us how you would account for those payments? And in terms of cash payments, the timing of those payments, when you will receive those? Thank you.

Franco Balsamo

I reply to the second question related to the mechanism of the essentiality system. The payment covers fixed costs and variable costs. The variable costs are paid on a monthly basis, so it's a rolling system whereby we count the costs and we ask for the reimbursements. In terms of cash flow, there is a delay of 30 days. In terms of the cash payment for the fixed cost, the mechanics is longer, and we do believe that part of the payment related to the accruals cost suffered in the year will be paid in the first part of the next year. But there are the opportunity to net part of this cash. So, the system needs also to be equalised, but when the system will be on regime, all the flows will be within the twelve months.

Alessandro Pozzi – Mediobanca

Will it be booked above the EBITDA?



Franco Balsamo

The reimbursement is an amount that we receive because we do provide services to the system, so it will be accounted such as revenues. So, regardless the fact that they covered costs, the procedure and our repayment of capital employed, in any case, from an accounting standpoint, it will be treated such as revenues.

Alessandro Pozzi – Mediobanca

Okay, so most of it will be revenues.

Franco Balsamo

That is correct.

Dario Scaffardi

On the guidance, it's a good point. The question is that – I wouldn't say that the agreement is better than expected because the mechanism of the reimbursement cost is exactly that. It's a reimbursement of costs, so there is no commercial agreement, whatever the costs are. The variable part of this, because the amount of power that the grid actually requires and this is on a yearly basis or longer period; it depends on the grid operator, of course. We have had on this different signals, in the sense that initially there was a provision for a slightly lower power to be supplied, and since the declarations that were stated at the end of last quarter of last year, they since have increased. And we are fairly confident about this because we know how essential our plant is for the stability of the Sardinian power grid and to keep the lights on.

So, on the reimbursement there is no surprise; it was not a matter of negotiation. On the amount of electricity, of course, that is something that can change. We have decided to keep this for the time being, the guidance unchanged, because everything has happened quite fast and the final pieces were in place not even ten days ago. So, there was not enough time to think things totally through and we decided to leave the guidance unchanged. We might decide to change it in the next quarter, of course, when we have more clarity.

Alessandro Pozzi – Mediobanca

Is it possible to quantify what could be the positive impact on the premium, on the new regime?

Dario Scaffardi

No, not for the time being.

Alessandro Pozzi – Mediobanca

So, we could see a potential upgrade in the guidance for the premium?



Dario Scaffardi

Possibly, hopefully.

Alessandro Pozzi – Mediobanca

Last one on the wind farm. I was wondering what kind of contribution should we expect from the new acquisitions? And also, in terms of CapEx required, what kind of level do you envisage?

Franco Balsamo

Well, our wind farm acquisition and the related CapEx are not material. So, the cash flow generated by the business will be good enough to support all the other capex programme of the windfarm. So, it's a couple of million euros, not a real big amount.

Alessandro Pozzi – Mediobanca

That's all from me. Thank you

Operator

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

Henri Patricot – UBS

Yes, thank you for the presentation, a couple of questions, please. The first one or two to come back to the power plant and the essentiality regime. I was wondering if you can give us some sense of how much of your portfolio you would expect to be considered essential in some sort of rough range. And when it comes to the remuneration, what's the asset base that we should use to give a sense of how much you get?

And secondly, on the renewable's expansion plan. Can you give us a sense of the pace of the expansion beyond 2021? How quickly do you get to the 500 megawatts? It would be useful to know just 22/23/24. When you get there. Thank you.

Dario Scaffardi

Henri, I didn't quite understand your first question.

Henri Patricot – UBS

The first one was on the power plant and the new regime, and I guess two questions in that. The first one is: how much of the capacity do you expect to be deemed essential and be effectively covered by the variable cost reimbursements? And then secondly, what's the asset base that we should use when we try to calculate the compensation for the asset?



Dario Scaffardi

Well, here you have to look at this in two ways. The essentiality: first of all, our plant is one plant. So, the costs of the plant are for the entire plant, irrespective of how much power the grid wants from it. So, the cost of the plant, the reimbursement is for the total cost of this plant, whether it's operating at 100 per cent or 50 per cent. Of course, the difference here is the variable cost. Of course, they do not reimburse the variable cost that you are not sustaining.

So, here we have, the components are the fixed costs and those are fixed, which is relatively easy. And then there is the reimbursement for the fuel that we are using for the CO2 allowances and for the electricity, oxygen and so forth. All these factors are market related. We have changed the way in which fuel is represented. In the CIP6 contract, it was a rather complex formula which originated in the 90s to regulations that existed in Italy at the time that were giving a price to methane based on oil prices. So, without going into the history of this, today we have a formula which is straightforward and reflects the commercial value of the feedstock, which is a fuel-related oil product. So basically, the variable cost relates to high sulphur fuel oil with a discount, of course, because this TAR is not ready to use fuel oil, so it's worth something less, but its energy value is still very, very high.

And then you have oxygen, which is very closely related to the price of electricity. Basically, it's directly linked to the price of electricity, and then electricity. So, the whole part of the fixed costs is totally reimbursed.

How much power will be required? It's not for us to say because it depends on the authorities. Our opinion is that the island of Sardinia for many years to come will require a significant amount of power, even more so going forward when one of the plants that exist in Sardinia will shut down in 2025. So, we are looking at a fairly long horizon, way beyond 2025. So, making provisions much beyond that would be premature at this phase.

Then maybe, you asked something regarding expansion. Franco?

Franco Balsamo

The expansion of renewables: in terms of renewables, within this year, we expect - as Dario said before - to have the authorisation in order to begin the development of the solar plant, for a total capacity of about 100 megawatts. The remaining part of the development is related to wind farms that should be about 300 megawatts. Let me say 100 megawatts per year. That's the expansion. Based on the existing pipeline and based on the existing capacity.

Henri Patricot – UBS

Okay, thank you.



Operator

The next question is from Massimo Bonisoli with Equita Sim. Please go ahead, sir.

Massimo Bonisoli – Equita Sim

Good afternoon. Two questions. First question on your outlook. There are different moving parts here versus Q4 results conference call. One is the EMC benchmark which is maybe weaker than expected. And the second is the agreement with ARERA, which is slightly better than expected, as you mentioned. If you can just translate your outlook on premium, which is basically flat versus Q4, on the implied guidance on EBITDA. Last time we talked about a double-digit number result if I remember correctly. Is that number still relevant or the ARERA impact is much better and so you changed your mind? Just to have a rough idea.

And the second question is on the net financial position. You mentioned the curve as a reference point to calculate your guidance in the NFP. If we assume that oil prices stay flat and margins improve over the coming quarters, as it is likely to be assumed, does it mean that the NFP can improve going forward?

Dario Scaffardi

Regarding the outlook, I think at the moment we are in really a period of transition. On ARERA and so forth, we have been positively impacted by the fact that the amount of power that is being requested is slightly above what we had assumed. We were sure that at least 380 megawatts would be required; instead, the number is higher than that. So that will show a positive impact. If I need to equate that back to premium, offhand I don't want to say any numbers. So, I would have to make some calculations on a piece of paper to give a more meaningful idea. But I would assume a positive impact from this fact that we are able to provide more power. And at the same time, we're also seeing a favourable impact from the overall market scenario because the margins for heavy crudes is improving; their price is diminishing and at the same time the price of fuel is slowly declining.

So, remember that high sulphur fuel oil is the only product which has a negative crack. So, the less fuel oil you produce, less money you waste basically. So, the fact that VLSFO is still showing a positive crack is positive. And the way we run the power plant depends very much on the market. At the moment, we don't see an incentive in producing excess power. We could. We don't see too much of an incentive to do that also because we would have to place the power on a spot basis, which we are not fully equipped to do, at least for the time being, although we are setting up a team that will be able to deal with this. But it will take time; it's not something that will happen overnight.

So, I see some positive impact on the power side. The EMC is looking not so good, although I think we really have to go and see what's going to happen in Q3 and Q4 with their definite signs of improvement in the middle distillate pool. So, if we can start seeing a three or four dollar increase on the diesel crack,



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that would equate back to something like one-and-a-half to two-dollar improvement on the premium of some of the EMC, considering that about 50 per cent of the output is middle distillates.

So, again, I think the market outlook at the moment is still uncertain, although it's looking a bit more bullish, a bit more constructive, I would say.

Massimo Bonisoli – Equita Sim

And on the net financial position?

Franco Balsamo

On the net financial position, you are right. The projection is calculated on forward prices, now current prices are lower than forward prices. So, if the model works, of course, the indebtedness will be within the current level and the level at the beginning of the year. Of course, you are fully right, in case of improvement in margins or accelerations in closing the gap between spot and forward prices, of course, we may expect an additional improvement in the working capital. Of course, the absolute level of crude oils is essential for the generation of genuine flows from working capital.

Massimo Bonisoli – Equita Sim

Very clear, thank you very much.

Operator

The next question is from James Winchester with Bank of America. Please go ahead, sir.

James Winchester – Bank of America Merrill Lynch

Brilliant, thanks very much. Just reverting back to the industrial margin premium guidance for both 2021 and 2022 onwards, would you be able to provide the contribution split by the refining and power segment? And can you provide some detail on what that means with respect to the power division and the expected EBITDA contribution following the new regime? Thank you.

Dario Scaffardi

Well, if I understand correctly your question, this is exactly what we are trying not to do, in the sense that the power division, which was represented as a separate division for historical reasons that go back more than 20 years, has been eliminated because our industrial operations are just one. So, the power cannot be separated from the refinery and vice versa. It is truly an integrated operation. So, what we have is a refinery that has an output as power. And so, we don't want to list specifically the contribution because in our internal accounts, we will not make this split. Well, of course, we will represent the renewables division, which is a totally different and separate business from the oil refining and power production in the refinery.



Operator

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

Operator

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

Joshua Stone – Barclays Capital

Thanks, and good afternoon. Two questions, please. Firstly, just looking at your crude run, refinery run guidance for Q2, it's a pretty hefty increase quarter on quarter and also a bit inconsistent with the environment today. So, I was wondering if you could just talk about what's driving that and perhaps also if you could comment on how things have gone so far during April in terms of refinery runs.

And then a second question. You mentioned Iran and the prospect of those barrels returning to the market. Are you already in conversations with suppliers there? Meaning, as soon as Iran can export crude, presumably you'll be first in the queue. Thank you.

Dario Scaffardi

Thank you. Well, crude runs have been strong in Q1, although they were affected by the shutdowns in the power plants. So, this has changed our crude diet. So basically, that means that we shifted from heavy crudes to light crudes. Light crudes, by the way, were incentivised by the very strong gasoline crack. So, we ran significant amounts of light crudes in order to produce gasoline and to produce VLSFO. Generally, the two things tend to go together. So that's the reason why the runs.

Again, our runs are entirely regulated by a figure. We have a person who is the supply chain manager. He's in charge at the same time of the commercial activities. Not in charge of the commercial activities, he guides the commercial activities and guides the industrial activities. So as long as there is a positive contribution, we run crude, even if this contribution is small. So, although the scenario where margins have been negative, still it was better to run crude rather than not to run them. Let's put it that way.

Also having today, when we have what we're calling the essentiality system; it's not an opportunity to provide power to the grid, it's an obligation to provide power to the grid. So, it's not our option to decide to provide or not the power. It's our obligation to do so. Our legal obligation to do so. So that's the reason why the relatively strong runs, although the runs were not at our maximum capacity, of course. Always optimising the various slates, as is our custom. We have had on the product market some very interesting results. We had a very bullish gasoline market. And also, we have been able to do some pretty interesting things, both on the diesel market and on the VLSFO market.



Regarding Iran, it is no mystery that we have had a relationship with the country that has spanned almost 30 years. And we have kept contact, of course, and as soon as it will be possible to legally – let's say commercially, because legally there is no rule that prevents a European company to purchase Iranian crude, but the American banks would not be happy. So, let's say, it is an indirect legality. As soon as it will be possible and commercially interesting, I hope we will be able to resume, I'm confident that we will be able to resume relationships. It will depend on market conditions, of course.

Joshua Stone – Barclays Capital

Great, thanks, Dario.

Operator

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

Roberto Ranieri – Intesa Sanpaolo

Yes, good afternoon, everyone. Just a couple of quick questions about the power generation asset value. Could you please share with us the net asset value and the gross asset value of the power plant? My second question is on the agreement with ARERA, the regulator. And I understand that the new tariff will have a duration of one year, until the end of this year. And my question is if there will be revisions every year from now and until when? And my last question is on a clarification on the renewable and new capacity, the 40-megawatt new capacity, if you are going to consolidate that line by line or is it a JV with another operator? Thank you very much.

Franco Balsamo

So, in terms of asset value. We do not disclose the value of capital employed by segment. We have a representation that takes together also the two previous segments. But in order to give some answer, a technical considerations is that - this is a public information and you can find it on our balance sheet - the depreciations on power asset is about 56 million euro, of which 26 million euro roughly were the representation of the linearizations; it was an extraordinary item driven by the past cip6 contract.

So, in terms of depreciation, we are talking about 30 million euro and for the time being, the remaining life, the technical remaining life, for accounting principle, is for the next ten years.

Dario Scaffardi

Yes. Well, regarding the agreement with ARERA, it's not so much as a personal as a private agreement between Saras and ARERA, but its rules are set out by the government and interpreted by ARERA, which is the body. So, I expect these rules not to change, but I don't know. The agreement lasts only one year because long periods longer than one year will require European approval. So, the agreements are kept at one year level. We expect the agreements to be more or less renewed because the groundwork has



already been carried out. There has been extensive information provided to the governing bodies. At Saras we have given full disclosure of our cost of the way we operate. So, I don't expect significant changes. But of course, this is not in our power to decide. I would expect though, I think it's likely that by and large, for the forthcoming years, things should remain more or less the same while on the side of our supply, I am reasonably optimistic because of the way we are familiar with the power grid in Sardinia. I don't expect any significant reductions. But again, that is my personal opinion, not based on any statements or otherwise by the authorities.

Franco Balsamo

I answer to your question related to the consolidation of the new acquisition. For the time being, we have signed an SPA agreement. There are still a couple of condition precedents and so the final execution of the share price is expected within the next 30 days. And in any case, we are going to consolidate all the accounts line by line. These is set to start on 1 January. So, in the next quarters you will find the contribution of these new assets into the renewables segment.

Roberto Ranieri – Intesa Sanpaolo

Thank you.

Operator

Next question is from Paolo Citi with Intermonte. Please go ahead.

Paolo Citi – Intermonte

Hi, good afternoon. I had an addition question to the one that Roberto on the wind assets. It is quite clear that you are going to give us details regarding this transaction in the next few weeks regarding the evaluation, the price—

Ilaria Candotti

We can't hear you very well. Could you repeat your question?

Paolo Citi – Intermonte

Can you hear me now?

Franco Balsamo

It's not very clear, to be really honest.

Ilaria Candotti

Try again, maybe we can hear you better.



Paolo Citi – Intermonte

Hello?

Ilaria Candotti

Yes, please go ahead and we try to hear you.

Operator

Mr Citi, your line is open. Try to speak now.

Paolo Citi – Intermonte

Can you hear me now?

Ilaria Candotti

Yes.

Paolo Citi – Intermonte

Yes. I have a question very similar to Roberto's question on the wind farm acquisition. So, you think that you are going to release details regarding this transaction in the next few weeks. And I'd like clarification regarding your further investments and variables. Are you going to consolidate line by line all these investments?

Franco Balsamo

Yes, we're going to consolidate line by line. Yes.

Paolo Citi – Intermonte

Okay, because during the Q4 presentation, I had the impression that you had the opportunity to consolidate the equity part of this investment.

Franco Balsamo

The reason why we are not consolidating is because the SPA is not fully executed. So there are a couple of condition precedents to be satisfied.

Paolo Citi – Intermonte

Okay. Thank you very much.



Operator

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

Niccolò Storer – Kepler Chevreux

Good afternoon, gentlemen. Thanks for taking my question. I would like to come back to the power generation plant and the new set up. So, can you detail once again the main items that you are going to look to decide on where to run the plant also beyond what would be reimbursed by ARERA? Thank you.

Dario Scaffardi

Well, Niccolò, that's a complex question. The plant basically runs as a feedstock, what we call TAR, which is a very heavy fuel oil. So, let's say that the feedstock cost today is directly linked to an oil cost, or it's an oil-related item. So, that's on the cost side. The other big cost for getting, for the fixed cost for the moment, is oxygen, which is directly linked to the price of electricity. Again, apart from the fixed cost, naturally, and then a certain amount of electricity. These are the three main determinants.

And on the output side, you are producing CO₂, which has a cost but is reimbursed. So, you're talking about the incremental capacity. So, CO₂ cost will be extremely important and the absolute value of power. So, let's say that there are many variables in this equation. Let me outline two or three scenarios: If we have a scenario which power has a high price and oil has a low price, let me say that it is likely that incremental power production may be economic. We are giving very rough estimates, so the wild card here is CO₂, of course.

Niccolò Storer – Kepler Chevreux

Exactly. There is something that would be economically convenient, also taking into account CO₂. So, high price for power and low price for oil is okay also after taking into account for CO₂?

Dario Scaffardi

No. It depends on CO₂. Let me say, if we didn't have CO₂, probably, in high power and low oil it would be favourable. But then you have CO₂, which is a wild card, which is not accountable. The opposite is true if you have a scenario in which you have high oil prices and low power prices. Now, generally speaking, power is generally linked to gas. Gas used to be linked to oil. It is not so closely linked to oil anymore. But still, I think that the majority of the Russian gas contracts have a link to oil. It's the American energy that doesn't have a link to oil, which is linked directly to the Henry Hub prices, which are generally low. So that is what keeps gas prices at an international level relatively low.

So, it's a long answer to a direct question. Let me say that at the current market conditions, I would think it rather unlikely that it is economical to make incremental power today. In six months' time, I have no idea.



Niccolò Storer – Kepler Chevreux

Very clear, very clear. Thank you.

Dario Scaffardi

But on the other hand, we are producing a lot of VLSFO, which is the alternative because we can switch incremental production by changing the crude slate from, let's say, light crudes that make VLSFO and crudes that don't. And in that case, there is no CO2 cost for VLSFO because the product, at least until we don't have to get into step three emissions, is not viable. So, to give you a straight answer today, it doesn't look very likely. What the future has in store for us, you know the good thing about oil markets is that they are always surprising. So, I think I've seen a lot of things change over the years, so I wouldn't be surprised by anything.

Niccolò Storer – Kepler Chevreux

And maybe a follow up on the remuneration that you're going to get for your capital employed. Is all the capital employed 100 per cent of the plan, not just the one related to the power?

Dario Scaffardi

The IGCC plant is working entirely to produce power, whether it's oil requested or not is another matter. Then of course, there is a part of the plant which is separated since the plant is also producing steam and hydrogen for the refinery. The cost related to these parts have been carefully looked at by ARERA and have been separated from the cost structure. So, there is a piece of cost which is allocated to power and a piece of cost which is allocated to these productions which are not directly linked to the power.

So the remuneration capital is based on that percentage, which is a high percentage, by the way, but it's not 100 per cent.

Niccolò Storer – Kepler Chevreux

Ok, thank you.

Operator

For any further questions, please press star and one on your telephone.

Ilaria Candotti

Okay, if there are no more questions, I would thank you for being with us this afternoon. I'm available for any other questions you might have. Good bye.

Dario Scaffardi Thank you and good bye to everybody.