



# **Saras**

## **Second Quarter and First Half 2019 Results**

### **Welcome**

### **Operator**

Good afternoon. This is the conference operator. Welcome and thank you for joining the Saras second quarter and first half 2019 results conference call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, 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 Miss Francesca Pezzoli, head of Investor and Media Relations of Saras. Please go ahead, madam.

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

Good afternoon ladies and gentlemen and thank you for joining us today for this conference call on Saras First Half and Second Quarter 2019 Results. All the documents, including the press release, the analyst presentation and the half-year financial report are available on our website, directly in the home page and in the section dedicated to investors financial results.

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

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



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

### **Highlights**

Thank you, Francesca. And thank you, ladies and gentlemen, for joining us today in our conference call.

I must say that the market in these first six months of the year has been extremely challenging and volatile. The issues continue to be more or less the same. There is a tight supply of heavy sour grades, driven mainly by geopolitical factors. As we mentioned before in our conferences, mainly regarding Iran and Venezuela and the OPEC cuts and there doesn't seem to be any change in this situation. So, the results, the refinery results and the benchmark have been affected by this scenario, particularly with extreme volatility on the prices of products. I remember that we started the year with a negative crack on gasoline, but we've moved now to a much more favourable territory. Having said this, the results of this quarter are quite good, given the overall scenario. The Q2 comparable group EBITDA was €76.9 million, broadly in line to the same level to that of last year, mainly due to the refining and marketing results, which have posted some excellent results given the environment.

Notwithstanding the very low cracks of the gasoline and the diesel, we've been able to optimise the refinery fully and the marketing activities and this has been able to compensate the very unfavourable scenario. The comparable group net result was €4.2million versus the €6.3 million of the same quarter of last year. During the first quarter of this year, we had a very large technical turnaround in the refinery that was completed perfectly. And in the second quarter the refinery has performed in an excellent manner. So, this has by and large offset the negative scenario.

If we look at the situation on the crack spreads, the gasoline crack remains disappointing compared to the historical average, but I think it is worthwhile to point out that comparing cracks among years is risky because the value of the crack is dependent on the absolute value of the underlying product. So, a crack with oil price at \$60 is very different from the crack at \$120. So, making meaningful comparisons between the various years is tricky. If we look at the diesel, I would say that the diesel in the first six months has been disappointing. Everybody was expecting a little bit more strength on the cracks due to the impending IMO. This strength is starting to come into the market now. So, towards the end of June, we saw a significant rise in the value of low-sulphur fuel oil, a decrease in the value of high-sulphur fuel and an increase in the cracks of the diesel.



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This slide, which is a little bit dense, contains a lot of information. Basically, we try to give - first of all - the ratios of the product, which are a little bit more meaningful in terms of as a metric in order to gauge the level of refining margins. So, as we can see, particularly the green line, which is the gasoline unleaded, has gone through almost negative value the beginning of the year and now it's back to more or less historical ranges. Diesel is not so bad, although it's slightly disappointing, but improving. The significant factor here I would say, is, first of all, the relative strength of Brent and the relative strength of the low sulphur fuel oil. This is all changing due to the IMO regulation, which is starting to make its effects felt.

One of the big events is, of course, the premium discounts of the various crudes, which due to the reasons that we mentioned before, have been unreasonably strong. If I can give a metric Arab light, for instance, in 2016 was trading at a discount of -4\$/bl vs brent; not trading, it was the official selling price. And today and in 2019, this number is -1 \$/bl. And this increase of about \$3, roughly speaking, is constant for all the major grades. Some grades, even more than \$3. And this is one of the headwinds of the refining sector, of course.

If we look at the Saras margins, here I think the picture is a little bit brighter. In the second quarter, the EMC benchmark has had a very low level of 0.2 \$/bl. Not the lowest in history, but certainly among the lowest levels, while in the first quarter it was 1.1 \$/bl. In the first quarter, we had a strong maintenance, so the premium that we've added to this was only 1.4 \$/bl, but we were able to add 3.1 \$/bl per barrel in the second quarter notwithstanding a very unfavourable scenario. And, as I mentioned before, this was mainly due to the stellar performance of the refining and the marketing sector combined in our supply chain management. And remember that our whole activities are integrated one with the other.

### Segment Reviews

#### **1. Refining**

If we go through the sectors, I think I already mentioned the highlights before on the refining sector.

Here you can see that, notwithstanding a change from one quarter to the other, I mean, from Q2 of 2018, the benchmark was 2.1 \$/bl, if I remember, and in the same quarter of 2019, it was only 0.1 \$/bl. So, a \$2 difference. The difference in EBITDA in the refining sector was only €4 million. So, I think this is mainly due to the brilliant performance of the refinery, to the excellent marketing margin in terms of trading and to the effect of our cost-cutting programmes. And lastly, but not least, all the digital programmes that are starting to kick in. So, we are starting to feel a definite improvement in the performance.



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If we look at the type of crudes, this reflects basically the market. I would say that the highlight here, if we look at the full six months, is that our slate is 34.6 compared to 33.7 of last year, so almost one full API point higher.

And this is due exclusively to commercial reasons; there is no technical reason behind this. There have been more opportunities. What I was saying before was that the average crudes are significantly more expensive. The more opportunity crudes, I would say, are more in the light sector. So, in between the light sweet and the extra ones, there are more opportunities. So, we have increased runs of light crudes exclusively for economic reasons and reduced the heavy sour of course, because the price scenario has been unfavourable. This is the reason why we have lightened our API slate, which I would say is consistent basically with what is happening in the marketplace. And you can see this also on the products where we've tried to maximise the middle distillate slate and minimise the gasoline slat, of course, fuel has been low mainly due to maintenance to one of our topping units and vacuum units that is a big producer of fuel oil. On the other products there are no significant changes.

If we look at the cost structure, I would say that you will start seeing some of the effects that we were seeing before. Costs were €124 million compared to €143 million of the previous six months, for the reasons that I was mentioning before. In terms of variable cost, no big difference, but the variable costs are already taken into account in our refining margin, which is net variable cost.

## 2. Power Generation

If we look at power. The electricity-- in the second quarter of 2018, we've had a large maintenance on the gasifier, particularly two of the gasifier combined cycle turbines were under maintenance and one of the gas washing trains – the gas washing trains are trains which purify the Syngas produced by the gasifiers removing all the pollutants, the sulphur and so forth. One of the two lines was in maintenance, so we had to reduce production. So basically, we had about 20% less production of electricity and power compared to the same period of last year, and that is the reason why there is a lower performance in the quarter, although all the various linearization effects tend to smoothen out over time, these difference from a cash point of view, there's been less cash generation in this quarter. But maybe Franco can be a little bit more precise later on during your questions. Also, regarding the effect of CO<sub>2</sub> hedging derivatives, which I think are brought forward quarter by quarter. And in terms of variable cost, there is nothing particular to mention.



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### 3. Marketing

The marketing side has been very positive. First of all, I would like to remember that on the 24 July we had signed the final closing of the sale of our retail network in Spain to Q8. It's taken a little bit longer than what we expected, but it has been a very careful process. We're also very happy that all of our people and staff are being taken over by Q8, who appreciated the way the network was operated. In Spain we will concentrate now exclusively on our deposit in Cartagena and on our wholesale marketing activity. So, we will have much smaller, or it will operate in conjunction with our operations in Italy, which have been moved to Rome to be closer to the main hub of this activity in Italy.

Also, in August, we're going to start with our bunkering activities, which is the sale of marine fuels to ships. We have received all relevant authorisations from the authorities and the vessel which we have chartered, which is a state of the art vessel coming from Denmark will arrive in the second half of August and there is a lot of interest from all the major ship owners in our capability of supplying this fuel, which we have already been producing on an experimental level. So, marketing notwithstanding, we have contracted volumes a bit in Spain because we want to concentrate only on the segments which are a higher margins. And this is reflected in the numbers that have been extremely interesting in the quarter.

### 4. Wind Power

If we look at wind, nothing in particular, it has been an average month. Usually in the second quarter it is a little bit windier, but it's been a particularly mild second quarter. We have received as I mentioned, we have started to work on our wind farm in the south of Sardinia, where we are building nine new towers, three megawatts each. So, we're adding almost 30 megawatts of power to our wind farm. And we are also going to start a programme of re-blading, of changing the blades of our existing wind farm, which is 48 towers, which will increase not the nominal top capacity, but will increase the efficiency of these turbines. So, we will be able to produce more during average conditions.

I'll pass on to Franco to give a little bit more detail on the financials.

**Franco Balsamo**  
**Chief Financial Officer, Saras**

### Financials

A few comments below the EBIT line. In the second quarter, the group financial income was positive for €6.8 million as a combination of the interest expenses for €3.2 million that is in line with the same period



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of the previous year and €10 million positive of our other financial income. It is the combination of gains on foreign exchange hedging for €8 million and €2 million on the other derivatives on commodities. That is the combination of €10 million for realised gain and €10 million on unrealised.

Skipping to the next page in order to comment the adjustment in the income statement to be between reported and comparable. And we have adjusted gains on inventories for €34 million negative as an effect of the revaluation of products. And the realised and unrealised hedging derivatives and net forex and CO<sub>2</sub> derivatives accounted roughly €24 million and the impact on CO<sub>2</sub> derivatives is about €19 million. This accounts at the end in terms of reporting net result for €28 million and comparable adjusted net result positive for €4.2 million.

In terms of cash flow, the operations generated in the six months €31 million of net cash. We had capex for €204 million and €9 million of net interest expenses. We paid €75 million of dividend. We also had a positive contribution of working capital for €185 million. That is the combination of operating working capital that generated €130 million of liquidity. And one-off effect is presented by the increase of duties on VAT for €70 million, that will be released in the third quarter, other minor effect. For the net financial position is at the end of the period is positive for €77 million, that becomes €28 million taking into consideration the impact of the introduction of the IFRS 16 for €49 million. For the year-end taking into consideration the positive effect driven by the new margin and the other forecast expenses, we foresee to close this year with the net financial position positive in line with the end of June.

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

### Outlook

Thank you, Franco. If you look at the outlook, we expect a significantly stronger market in the second part of the year due to the Marpol VI regulation, the famous IMO regulation, which is starting to make its effect felt on the market. We see strong demand for diesel. We see very strong demand for ultra-low sulphur fuel oil. So, I think we will start seeing a change in the market. What the effects are going to be on the prices of crudes, I think still has to be determined because textbook theory would say that the decrease in the price of heavy sulphur fuel oil should be reflected in the value of high-sulphur crudes. This will not necessarily be the case given the scarcity at the moment of these type of crudes due to political reasons. So, this is going to be I think the imponderable and the interesting part.

As a company, we are fully equipped to take advantage of a variety of situations, so we will maintain our attitude of wait and see and try to take advantage of whatever opportunities may arise. We maintain our guidance of premium over the benchmark within 2.4 to 2.8 \$ per barrel and net of maintenance, I



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remember that the EMC at the moment is in the range of about \$3. On the power side, we have completed the main activity in the first part of the year. So, we expect the second part to be fully in line. Marketing has been extremely promising and I would say that our new organisation is starting to bear fruit. So quite an optimistic outlook.

There is no major maintenance this second part of the year; there will be a little bit of maintenance on a petrochemical plant towards the end of the year. So, thank you very much for being with us today. And we are ready to take your questions.

### Questions and Answers

#### **Operator**

Thank you, sir. 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, then two. We kindly ask that you use handsets when asking questions. Anyone who has a question, please press star and one at this time.

Our first question is from Alex Jones with Bank of America Merrill Lynch. Please go ahead.

#### **Alex Jones – Bank of America Merrill Lynch**

Thank you and good afternoon. Three questions, if I may. The first two on guidance on your capex guidance, the fourth quarter results, you guided to around €280 million for the full year and year to date it looks just over €200 million have been spent. Can you give us an update on the full year outlook and why that might have changed? And then similarly for the power EBITDA guidance, that was at €200 million, is that reconfirmed for the full year or are you making any revisions there? And finally, just on IMO compliant fuels, how's testing going of the blend you'll be offering to marine customers? Have you done any tests with customers so far? And what's the feedback been like. Thank you.

#### **Franco Balsamo**

Thank you for the question. In terms of guidelines for capex at year end, we foresee to have capex for €30 million higher than the budget. This delta is in relation to some accelerations we had this year and it is not a matter of cost. It is purely in anticipation of cash that we can forecast in the region of about €30 million. As far as your question on our expectations in terms of our EBITDA at the end of the year, as we have seen, the level of the gas price that is taking into consideration for the CIP 6 tariff, now are



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lower, so we have the negative effect on the tariff. From the other side we can take benefit driven by the lower electricity cost. We can foresee that the combinations of the two effects could be in the region of about €20 million.

### **Dario Scaffardi**

On the IMO question. Yes, we have made extensive testing of our product, which has been tested in oil laboratories and also in the laboratories of some of the world's major engine producers and has been found fully compliant.

The issue of compatibility and between fuels is something that at the moment has not yet been resolved on a worldwide basis, of course, but we are confident that our product is fully responded. We have sold four cargoes. We have not sold any small cargoes because we didn't have yet the vessel to be able to do this. And this is going to start, let's say, our retail activities are going to start by the end of August, hopefully. And the prices going around for this fuel at the moment. There are talks, something in the range of \$30 to \$50 per tonne above the quotation of the low sulphur fuel oil, which is 1% fuel. But I would say that at the moment the market is extremely variable, volatile. So, it's difficult to pinpoint a value for the time being.

### **Alex Jones – Bank of America Merrill Lynch**

Great. Thank you.

### **Operator**

Our next question is from Alessandro Pozzi with Mediobanca. Please go ahead, sir.

### **Alessandro Pozzi – Mediobanca**

Thank you for taking my two questions. The first one is on the premium to the EMC, which has been quite stronger in Q2. But I was wondering whether that's more of a function of EMC being too low because of the fuel oil cuts and new oil as well. And therefore, I mean, if we look at Q3, can we add the almost \$4 per barrel the EMC to the premium of \$3 per barrel for Q3? So, can you give us maybe your thoughts on that as well? And on the second question, fuel oil, I was just wondering, can you give us an update on whether you're going to be planning to be fully compliant in terms of fuel oil before year end? And how is the pricing that you just mentioned refers to your initial guidance of, I think, was \$6 to \$8 per barrel crack for the low sulphur fuel oil. Thank you.





**Dario Scaffardi**

Yes. Thank you, Alessandro for your questions. Well, first of all, as we mentioned before, the premium to the EMC is a function in itself of the absolute values of the products and the differentials. So, it is influenced by the absolute prices. So, what you pointed out that the EMC was particularly low due to the fuel is absolutely correct. It's not always easy to distinguish the two factors. Of course, the thing that interests us mostly is the sum of the two. So as long as the sum of the two is sufficiently strong, we are happy. But I would say that trying to average out the various effects, I would say that for the third quarter we should be able to achieve something that is close to the \$3 on the EMC, although we maintain the guidance between 2.4 and 2.8 \$/bl because of the variability of the premium on the benchmark itself.

In terms of instead of the fuel line, yes, our fuel oil, the one that we will produce is fully compliant with the IMO regulations. It is going to be a 0.5 sulphur. The other regulations are well known. So that is not an issue. The guidance that I gave before, I hope there is not confusion between dollars per tonne and dollars per barrel. When I said \$30 to \$50, I was meaning \$30 to \$50 per tonne. Fuel oil in the Mediterranean is traded on a metric tonne basis. So today we are talking about the value of low sulphur fuel oil is \$420 per tonne. So, on top of that, it's \$30 to \$50 per tonne. If you look at it on a barrel basis, that is roughly \$6, \$7 per barrel. So, the numbers are \$6 to \$8 per barrel. So, the numbers are more or less consistent.

**Operator**

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

**Joshua Stone – Barclays**

Thanks. Good afternoon. Two questions, please. First, just following up on the premium margin you've been able to achieve and what you think you'll be able to achieve, would you say you're seeing more opportunities on the crude side or on the product side? Or is it just simply a combination, maybe any comments there will be helpful. And then second, I was hoping to get an update on your thoughts on Iran just in light of the payment mechanism we're hearing about in stacks and whether you think that might be a mechanism to unlock greater supply for sour crudes. Would that be something Saras would be willing to participate in? Or are the risks of US sanctions just still too large? Thank you.



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### **Dario Scaffardi**

Thank you. I think it's a very good question. Today I would say that there is more optionality on the products market than on the crude market, just because the crude market has become so tight. Having removed from the market so many important actors makes the market less liquid. So, I would say that, by and large, there are less opportunities. Some of the opportunities lie within low-sulphur crudes, particularly those that have a higher acidity index. So, there is maybe a little bit more opportunity on the sweet side than on the sour side, today. On the sour side there is not that much, although we've seen some of some signs of improvement in the last month. Some grades are becoming a little bit more available.

Coming to your question on Iran. My personal opinion is that this impacts thing is not going to work, but this is just my personal opinion. I mean, I doubt that it can be made to work. I think that the position in the US is just too strong regarding Iran. No company will be willing to defy the US sanctions or the banking community, insurance community will not support anything like that. So, at the time being, I don't see any way, given the current environment. Then if things change, of course, we will be very happy and very willing to do anything that is completely compliant to the legal requirements. And it's a commercial financial requirement, of course, because legally there is nothing that prevents an Italian company from buying Iranian crude. Practically, it's impossible.

### **Joshua Stone – Barclays**

Very clear. Thanks

### **Operator**

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

### **Henri Patricot – UBS**

Thank you for the update. I have one question on the refining side and one on cash flows. The first one I was wondering if you can give us an update on your point of views on how you see the IMO 2020 playing out, especially given the discussions you've had with shipping companies recently around your new fuel oil products. How you see things playing out between gasoil old and very low sulphur fuel oil. I know you would expect margins to develop over the next few months. And then secondly, on the cash flows, can you give us a sense of how you see the working capital movements for the rest of the year? There's quite a large positive in the second quarter. So, should we expect this to reverse in the later part of the year? Thank you.



**Franco Balsamo**

I'll start with the last question related to the cash flow. As I tried to explain before, we just don't see this positive effect of working capital not to normalise. Some of it will be recovered in the second part of the year, mainly for the VAT. That there would be-- need to repay in the third quarter and the normalisation of the operating working capital. We do expect that part of that positive amount will be absorbed. Having said that, all the remaining part of the cashflow will be fully utilised in order to cover the remaining part of the capex and to pay the tax at the end of the year.

And for this reason, we foresee a still positive net financial position at the end of the year.

**Dario Scaffardi**

Henri, regarding the ultra-low sulphur fuel. I think there might be just a little bit of confusion on the prices because, very often, in the market, there is a little bit of confusion regarding prices in tonnes and prices and barrels. In the Mediterranean market, I should say the European market, oil products are traded in the dollar per tonne basis. So, if you just look at today's number: Diesel is traded at around \$580 per tonne, roughly. And 1% fuel oil is \$420 per tonne, roughly.

The ultra-low sulphur diesel, like I said before, will be sold at something on a wholesale basis or on a cargo basis at \$30 to \$50 per tonne above low-sulphur fuel. So that would put it today at something like 450 to 470 still at least over \$100 below the price of diesel. If you look at that in terms of dollars per barrel, it gives a little bit of a different picture. And you might think that the two products are much closer to each other because today, in terms of cracks, we're talking a \$15 crack on diesel, a \$4 crack on the low sulphur. If you add \$6 to that it seems that the number becomes very close to diesel. In reality when you count to cash, it's quite different, so I would give a word of caution on that. On top of that, of course, that's how you can work out a little bit the numbers, we hope not this year, let's say that once we are in a steady production mode, so in 2020 to be able to produce initially about half a million tonnes. And we hope to be able to ramp that up over time if the market is favourable. On top of that, we will have a marketing margin, which is the benefit arising from the sale into ship of the product, which adds a significant further margin to this.

**Henri Patricot – UBS**

With regard to your comments regarding, much cheaper pricing for the compliant fuel oil makes is very attractive for the shipping companies and you expect very good uptake for the product even in the early stages of IMO 2020?



**Dario Scaffardi**

I'm sorry, I didn't catch the first words that you said, sorry.

**Henri Patricot – UBS**

I was interested to know of the feedback you're getting from the shipping companies. And the sense I got from your comments, is that there is very strong interest given the much cheaper price versus diesel gasoil.

**Dario Scaffardi**

Well, there is a strong interest because, of course, it's still significantly cheaper than diesel. So frankly, for anybody who has a large two-stroke diesel to run diesel would be really a last resort. So, everybody's going to try to find ultra-low sulphur, which is still going to be cheaper by far. How much cheaper? We hope that it's going to be very expensive, but this is our point of view, of course. So, yes, there is strong interest. I would say that the strong interest is also derived from the fact that there is a new player on the market. So, Saras is a big player. It's a position is in the centre of the Mediterranean, which has on its back a huge refinery, which is able to produce a variety of different fuels. The oil shipowners will need more viscous, less viscous fuel oil. So, having a refinery is a big opportunity.

And also, there is, in any case, a significant market for marine diesel, marine gasoil, which is basically the same as seeking oil more or less. So, all the smaller ships use this type of fuel at the moment they are not able to refuel in Cagliari; they will be able to do so once our lightering vessel is going to be operational next week. So that there is a lot of interest, I would say, due mainly to commercial reasons for being the new, important player in the bunkering scenario.

**Operator**

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

**Massimo Bonisoli – Equita**

Good afternoon. Two clarifications left, please. The first on the drivers of the good performance of the refining division in second quarter compared to second quarter last year. You mentioned a contribution from production execution for about 25 million and 10 million from the supply chain and trading. This



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scenario should be negative for about 37 million if my calculation is correct. So, there are 2 million left for the cost-saving programme. Does this calculation make sense or should we consider either items in the bridge? And the second, on the guidance on the net financial position: Excluding the disposal of the marketing assets in Spain, would it still be positive?

### **Franco Balsamo**

As explained before, it is not taking into consideration the disposal of Spain, because I was talking about the operational cash flow. Of course, the disposal of Spain is about €35 million, so this part of liquidity will be kept into the into the net financial position.

### **Dario Scaffardi**

So, Massimo, I think you had also another question regarding the drivers.

### **Francesca Pezzoli**

Yeah. The question was about the impact on scenario. According to our estimate, the impact on scenario is slightly higher because we have included also the effect of the more expensive heavy sour crude. So according to our estimates it is in the region of €60 million. And then that are lower fixed costs so the final calculation is different. But then if you want, we can follow up. I can give you all the details.

### **Operator**

As a reminder, if you wish to register for a question, please press star then one on your telephone. Our next question comes from Nick Linnane with Sefton. Please go ahead, sir.

### **Nick Linnane – Sefton**

Thanks for taking my question. Can you give us some colour on how you're producing the 0.5% compliant fuel? Whether you're doing it largely as a straight run product from very low-sulphur crude or whether you're blending in VGO or kind of how roughly you're doing it, if you can talk to that?



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### **Dario Scaffardi**

We don't disclose too much detail on this sort of thing, but let's say that mainly we're taking vacuum bottoms coming from specific crudes which are blended with certain streams that come mainly from the FCC units. So, we're talking FCC bottoms and vacuum bottoms, and then a little bit of life cycle oil added on top. So, this is the recipe for making some good ultra-low sulphur fuel oil.

### **Nick Linnane – Sefton**

Can you also talk a little in terms of what sort of the opportunity cost products are? So, by producing some of this fuel, what effectively are you sacrificing?

### **Dario Scaffardi**

Well, that's a good question. Thank you. I think that Saras is ideally placed in this respect because we are not sacrificing almost anything. Basically, we have a pool of fluxant which is very low on sulphur, which before this was sold as a cover stock, basically at a level which was below what is the value today of ultra-low sulphur fuel oil. So already this is a benefit for us. At the same time, we have the opportunity, basically, of deciding if we want to run the incremental barrel as a sour barrel or as a sweet barrel, and given the opportunity on this type of product we, of course, switch to sweet barrel. So, we are increasing runs of crudes like CPC blend, like Algerian crudes, like a variety of other small niche crudes of sweet origin from around the world. And this is basically, I mean, the way we produce this product with not having had to invest very much apart from maybe running more low-sulphur crude than high-sulphur crude, which at the moment is really an opportunity instead of a minus. So, all in all, this whole situation, as we mentioned frequently, works brilliantly for our company and for the way our refinery is configured.

### **Nick Linnane – Sefton**

Do you have any sense for how much volume the industry can supply in that way? Because in a sense, the price of this product should reflect its opportunity cost for the industry. If there's just a few people who can kind of make it with low opportunity cost, some other people have to make with high opportunity costs, then it should have a high price. If, you know, a large number of people can make it the way you've just described, then logically the price is probably going to be lower. Do you have any view on that?



**Dario Scaffardi**

Well, first of all, I mean, there's been extensive research done by IMO and of course by the refining industry that has a certain-- that the industry as a whole is able to produce this product. Otherwise, they would have not implemented it on the 1 January, if we expect to be a block. The value of the price is going to be dependent, I mean, the oil markets are moved by very, very small increments. So, a couple of percentage points more or less on a product is what's going to make the price, it's the incremental barrel that defines the price of the whole barrel. So, I would say that at the moment it is extremely difficult and nobody is going to be able to ascertain this in a definite manner. Otherwise, we wouldn't be able to predict in a very precise manner the way prices go, which is unfortunately or fortunately not the case. So just a couple of hundred thousand barrels a day more or less of a certain product will move the price.

**Nick Linnane – Sefton**

Presumably that's our job. But as you say, it's difficult. Thank you very much.

**Operator**

Once again, if you wish to ask a question, please press star, then one on your telephone. Our next question comes from Monika Rajoria with Société Générale. Please go ahead.

**Monika Rajoria – Société Générale**

Thank you for taking my question. It's kind of a follow up from the last one. I wish to understand if there is the technical capability to produce only the low-sulphur fuel oil and if you can actually do away with high-sulphur ones. Is that possible at Saras? Thank you

**Dario Scaffardi**

Yes, Monika, thank you for the question. Yes, I believe that it is possible. It's totally dependent on the way a refinery is configured and on the type of crudes that you use. So, it's a combination of these two factors. If you have a simple refinery, you would need to use very low-sulphur crude and you would be able to make the low-sulphur fuel oil. Just to give an example, I mean, if you assume that 30% of the yield of an average crude on an average refinery is fuel oil, the crude that you are starting from would have to be something like 0.2 sulphur in order to obtain the 0.5, which you obtain as the straight run fuel



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oil coming from distillation process plus the blending stock that you put into it. So, let's say, that a simple refinery would be more or less able to produce it, assuming it used very low-sulphur crudes. Crudes like Brent, like these types of crudes, certain Libyan crudes that have a very low sulphur content. If you have crudes with a higher sulphur content, you need an increasingly more sophisticated refinery that is able to remove the sulphur along the way in some other manner.

But basically, to produce this fuel, you basically need low-sulphur crudes because it's the way to destroy high-sulphur crudes is through an entirely different process, which is not taking away the sulphur from the fuel oil, but is transforming the fuel oil into light products, so it is an entirely different process. It's slightly technical, so I hope I haven't confused you more. If you want, we can have a session with one of our engineers will be able to explain much better than me.

### **Monika Rajoria – Société Générale**

The reason why I ask this is because I am puzzled why you did not increase your premium guidance, because to me it seems that there could be a higher premium just because of this fact that you can produce only the low-sulphur fuel oil.

### **Dario Scaffardi**

Well, I take your point, which is a very valid point. And we do hope that the premium could be much higher. But there are many, many factors playing into this. So, you have the price of the product. You have to look at the value of diesel gasoline pool. You have to look at the absolute and the relative values of crudes. So, you're talking about the base value like Brent, but then, of course, the various other crudes that you're buying, you're buying it at +\$1 or +\$2 or less. \$1 or \$2 makes a world of difference for somebody like us and it is reflected strongly in the premium on the benchmark. So, it's a very complex puzzle with many, many different moving parts, sometimes moving in different directions, so we tend to be a little bit more prudent. But I am hopeful that the overall situation is extremely encouraging and I hope that the scenario that you point out will develop.

### **Monika Rajoria – Société Générale**

Thank you.





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### **Operator**

For any further questions, please press star, then one on your telephone. Ladies and gentlemen, there are no more questions registered at this time.

### **Francesca Pezzoli**

Thank you very much for being with us this afternoon. And for any follow up questions, we are available. Thank you

### **Dario Scaffardi**

Thank you and enjoy the rest of your summer.

### **Franco Balsamo**

Bye Bye

### **Operator**

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones. Thank you.