Saras

Fourth Quarter 2020 Results

Welcome

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras full year 2020, and fourth quarter 2020 results and business plan update conference call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions should anyone need assistance during the conference call, they may signal an operator by pressing star and zero on their telephone. At this time, I would like to turn the conference over to Ilaria Candotti, Head of Investor Relations. Please go ahead, madam.

Ilaria Candotti
Head of Investor Relations, Saras

Good morning, everybody. Thank you for joining us today for this conference call and I would like to apologise for this short delays. I would like to draw your attention to the fact that the investor presentation, the press release are available on our website, both one page in the section indicated investor relations relation. As usual, I am here today with Mr. Scaffardi, CEO and General Manager of the Saras group, and Mr Franco Balsamo, CFO. Our agenda today will cover the results and the business plan. We will start with the highlight of the period followed by the results of each business segment and afterwards, we will look at the outlook to and the main strategic lines for the busines plan for the period 2021-2024. In interest of time, we are going to present the financial, but we also realised we did the sale and we are available to take any questions you might have. At the end there will be the usual Q&A session. At this time, I would like to hand over to Dario.

Dario Scaffardi
CEO & General Manager, Saras

Highlights

Ilaria, thank you. Good morning ladies and gentlemen, thank you for being here. Sorry again for the delay. We had some sort of technical glitch. 2020 has been a very complex year. It was supposed to be the year rebounding for refining thanks to the IMO and things went in the opposite direction unfortunately. From a company point of view, we have been able to respond very well to the pandemic. We have given priority to the people health, the safety and guaranteeing operational business continuity. So, we have been able to maintain all our activities. We have continued to provide power to the grid in Sylvania. We have continued to provide oil products to those who are in need of them and we did so in safety with practically, as a matter of fact, I think we had no cases of contagion both in our plants and our offices. Although we do have had people who have contracted the virus. Luckily, none have had the very serious consequences. During 2020 of course, we adjusted runs according to the exceptional market conditions. Again, it's been a year in which everything has happened. We've seen WTI go from 60 to negative values and back to 60. So, from all the market standpoint it's been an extremely interesting and challenging year. There'd be opportunities, but also a lot of obstacles.

We have enacted a plan in the second part of the year to substantially reduce cost in 2021 and going forward. So, we have used this crisis to redefine our technical operations in order to create a leaner, more efficiently refinery model. We have enacted moderate headcount reductions in order to take into account this. As usual, we've been doing this in a very considerate manner. And at the end of last year, we have been able to secure a substantial loan that reinforces our financial position.

So, if we dive into the numbers, clearly, as expected, the EBITDA and net financial position are strongly negative. We'll go through the various reasons for this in the forthcoming slides. Of course, we were all expecting during the fourth quarter to see a rebound in consumption and in overall market during the summer. There was a feeling that the pandemic was over and I think we've been all caught by surprise on the reoccurrence of strong sanitation issues in the last part of the year, which delayed the expectations of a recovery. And particularly, exceptional events have happened in the markets, but I think we can see this in the next slide.

The slides try to explain a little bit what happened between the expectations and the actual conditions. We were expecting in 2020 that due to the IMO regulation and the demand for very low sulphur fuel and an increase in the diesel fuel oil crack spreads, we were expecting sour crude to decrease in value and we were expecting a strong VLSFO crack. VLSFO is the very low sulphur fuel oil, the 0.5 sulphur fuel for marine uses. And strong competitive advantage for refineries such as Saras. Unfortunately, of these things, almost nothing happened, except for a strong VLSFO crack spread, which has been strong throughout the period of the pandemic and is something that we have tried to take as much advantage as possible from the crude differentials in the first slide and the first graph on the left is the most significantly impacted. We have seen extraordinary things happening. At the first life of the pandemic, there was a drop in differentials because of the oversupply of crude and then the surprising rebound in the market due to the OPEC+ agreement strengthen all differentials by subtracting from the marketplace, mainly heavy high sulphur crude, which sometimes have gone to a premium to the sweet grade. So, this has created very exceptional market conditions, which have penalised the deep conversion refinery such as ours in which economics will go against vacation units are deeply predicated on the spread between fuel oil and diesel. So, this was the first negative effect that I would say characterise all the second half of 2020. While on the sweet crudes, everything happened, they went down a little bit compared to historical levels, but marginally so. I would say that this trend is changing right now. We are seeing sour crude slowly declining in value to more normal levels. The US quote for instance is further, if we look at the first three months of the year is basically at the low end of its five-year range. While sweet crudes are again, touching the lowest levels that we have seen in many years. So, there was definitely a reason to look more favourably towards the forward markets.

On ULSD and high sulphur fuel oil cracks, we are coming, we were entering the year of situation with low high sulphur value and robust diesel cracks, and bits and cracks came in, narrowed very significantly. Just now, I would say again and this year, they started winding up back again and this is at least a positive sign. There is still a lot of pressure on diesel cracks due to the oversupply of diesel and the main factor in my opinion is the absence of aviation consumption with all the jet that ends up in the middle distillate pools contributing to the overhang in the diesel jet. Same thing on the differential between ULSD and high sulphur, which is an important driver of economics. Of course, this differential must be looked at in conjunction with the absolute price of crude. We have touched very, very low levels in the second quarter of last year. There are definite and concrete signs of improvement going forward.

If we look at our margins, the situation is poor, the EMC benchmark has been in 2020 only -0.5, extremely low level. But in reality, if we have sort of reconfiguring, taking into account that EMC margin only considers a refinery with a significant production of fuel, where Saras is a very modest production of fuel that basically gives a premium to low conversion refineries. So, if we correct this fact that they can account high conversion refinery that the benchmark should have been about -1.5, and this would have shown a more normal value that Saras adds to the benchmark.

Segment review, of course, is not particularly different from the things that we have said up to now. In the fourth quarter, the throughput has been clearly lower, runs overall in 2020 have been lower. We will see them in the next slide, mainly due to the weak scenario, and the necessity to optimise performance. Our supply chain team has done an excellent job in trying to source the most appropriate crude, and this has been extremely challenging because many crudes were simply missing from the marketplace and targeting specific new products. So, both the supply chain team and supply and trading team have done a great job in trying to navigate through a very, very difficult period. We had in the first part of the year, a turnaround over FCC unit. The FCC unit is a unit which is the main supplier of gasoline refinery. And so since the demand for gasoline in the first part of the year was dismal, the fact that the turnaround occurred in this period was not such a big disadvantage. Also, the cracks of gasoline were extremely low. We restarted the FCC later on during the summer, actually, after the works were completed in conjunction with a certain rebound in the market that happened during the summer when there was expectation of the return to more normal life.

You can see this in crude oil slide, obviously, a strong reduction in 2020 compared to 2019 for two reasons, one, because of the plane plan maintenance, which lasted a lot longer because of the COVID emergency that made everything much more difficult and because of difficult market conditions. So, we kept runs at a minimum level of supply our commitment. So, you see this both in the crude runs and in the feedstock runs, which are in the lowest level of our history. The gasoline, the crude slide has changed. I would say that this photograph is not so significant, because having the FCC and maintenance for such a long period of time, it was basically out of operation for roughly four months, meant that the FCC is a utiliser of low sulphur waxy crude. So, clearly, you see less of those and the percentage tends to false the numbers because you will see that we increased the use of certain crudes, which if you look at out of the tonne basis, you would not see just in a percentage basis because there's a lower use of crude, specifically target for gasoline production. In the product side, what is worthwhile to notice is that we had a high yield of fuel oil and this fuel oil is very low sulphur fuel oil of which we have maximised production to fulfil our bunkering operations at which we will talk about later on in the presentation. So, this is the reason why you see an increase in absolute value. And again, the percentage value maybe is not so significantly considering the abnormal year.

Fixed cost have been basically the same. There was a lot of planned maintenance and work done. So, the variable causes that were reduced mainly because of the drop in power cost. Many variable costs are directly linked to power cost.

Power generation, also declined, both on a year-on-year basis and a quarter-to-quarter basis. This main effect has been on the power tariff, which is strongly linked to gas prices. So, there's been a strong decline in that part. So, an 80% decline on a year-on-year basis of the power segment, which has only been compensated by partially, the decrease of the price of the feedstock to the unit, which is just a component of the various costs. So, electricity production, one on the full year has been just slightly lower than that of 2019. In the fixed cost, again, not much to say here, there's been a reduction in the fixed and a significant reduction of the variable cost, again, due to lower power prices. And also fixed cost reduce the postpone with a certain maintenance schedule for 2020 that has been postponed in 2021 and 2022.

Marketing has shown surprisingly good results. Demand has been significantly down in our two main markets in Italy and Spain. In the first quarter, the drop has been 14%. I don't have the full year number offhand. But on the full year basis, it's been significant, but we have been able to retain more or less the same economic results in Italy. This has been due to a very strong control of the clients and trying to raise margins and strong attention to the fixed cost, which has not increased. While Spain was a little bit more disappointing, but in Spain, we rely on facilities of many other companies. So, the weak performance of Spain is expected.

For wind, we have had more installed capacity in 2020, compared to the previous year. There's been 30 megawatts added to our wind farm. But the very poor wind conditions year-round have led to a power production that notwithstanding the increase in the installed power and the rebleeding of certain units have basically produced the same amount of power. And so the power tariff increased in Q4 and also the incentives.

So how do we view 2021, we view 2021 as a year of transition. We called it bridge to recovery. 2020, the challenging conditions of 2020, we have talked about. We have talked about also, the intense cost reduction activities that we have put in place in the latter part of 2020. And we plan to navigate this year and take advantage of the improvement in margins expected during 2021. Everybody is expecting a rebound by the summer when the pandemic should be under control. We already see in the old market, strong signs of recovery in the US and in China. Those markets that more or less have completely emerged or almost emerge from the emergency. And this will bring us into the following years in which we expect to return to normality back to pre-COVID levels. We will try to make permanent, the OPECs reduction and optimisation programmes and we will explain later on, the activities that we have on Capex reduction. In the meantime, we are discussing with the regulators about the agreement for the power tariff for the forthcoming years. We have a slide on that also going forward, so I won't.

So, the highlights of the crude market, what we see going forward. There are strong changes that are happening in the market right now. First of all, as we mentioned many times, the economics of a complex refinery status depend, of course, on the value of the oil products, but also on the relative value of crudes. And I stress the term relative because the markets on and the discounts of the various crudes compared to the benchmark have a very, very strong influence on our results. And then we mentioned before that the price of sour crude have been incredibly strong in the last part of last year and that has hit us certainly hard. Looking forward, there is an expectation of easing. First of all, we have Iran in which the market is expecting a release of the sanctions. I have no idea if this will take months or years. But it does look like some sort of solution in the forthcoming months will be found. There are already significant signs of an increase in trade. China is becoming the more aggressive buyer of Iranian crude. In one way or the other, even if we are not able to buy that crude, that still has a normalising effect on prices. So, it's something that we view positively, although, we would like to be able to take direct advantage of this. Venezuela, that seemed a dead end. There were many articles regarding the fact that Venezuela would no longer export crude oil. Again, very difficult to make prediction. And there's always a black swan. And Venezuela has surprisingly privatised its oil sector. And so, there's a lot of talk about the IOCs wanting to return to Venezuela to invest and produce crude. And this also, again, is something that we look at in an extremely positive manner, because again, it adds sour crudes to the market. And we expect this to directly or indirectly put pressure on all the differentials, which are so important to us. And likewise, for Iraq and Saudi Arabia. Instead of the sweet crude size, also, we have a lot of positive developments. Libya seems finally to be normalising. And of course, I touchwood because this has been said many times in the past, and hasn't materialised, but it would seem that this time is happening for real. So, it expects to return to almost pre-war levels. I mean, the pre-war levels maximum are about two million barrels. They expect to be able to reach one-and-a-half million barrels by the end of 2021. And we have material seen the effects in the Mediterranean. Mediterranean's long of sweet crudes. So, the re-emergence of Libya has put pressure on all the sweet grades, basically blocking American crudes from coming in and exerting pressure on the former Soviet Union crude. So, mainly, [Assyrian, Kasak crudes. And also, on the price of Libyan crudes, they have been aggressively priced to regain market share. So, this is a very, very positive development and we expect further pressure also to come from the USA, where American producers at this price, we expect them to start coming back. And they too like us, have used 2020 to streamline their operations and be more effective. So, the exceptional period that we experienced through last year seems to be normalised in one way or the other.

This is also seen on the oil product demand. The forecast by the International Energy Agency for the latter part of 2021 shows that oil demand should go back into the five-year range. And we think this is an incredibly positive development that shows also the resilience of the market. So, demand is picking back up. There is strong demand increase in certain products, mainly our local for fuel oil. The 2021's COVID-19 demand by product of course is a different picture. But if we look at even further on, the future of this is expected to normalise and we can see this in the next slide, which shows utilising the photography on diesel is clearly of a big dip in 2020. But to recover almost fully in 2021 and to further increase going forward, this of course is very diversified by regions. There are regions like parts of ASIA, like the Middle East, like South America and like Africa that are strongly increasing other areas, which are more mature areas like Europe and the US, which of course see a decline. One of the strengths of Saras is that although we are a European company based in Europe, still large geographical location is in the centre of Mediterranean. So, we are ideally placed to target a variety of markets, European markets and non-European markets. And just to give you just a flavour of our, I think these are our diesel sales. Okay, these are old sales, these are old sales. So, this is oil products coming out, a photo only on diesel. Non-European markets today almost 50% of our sales. And I think that means real a lot when you think that geographically of course and the biggest assumption areas are still Southern Europe. So, we thought that these markets also because there are markets that get better integration. The type of products that go the market varies very, very much. We can say that almost 100% of our gasoline goes outside of the European Union, while diesel tends to remain in a larger part in the European Union. Of course, because the European Union is a large importer of these so this makes perfect sense.

The type of action is that have been put in place to change our way of doing business going forward. The shock of 2020 has galvanised the interaction to make a more efficient refinery operation. First of all, our refinery is a very sophisticated and very up-to-date refinery, has been also in the highest ranking of Wood Mackenzie, which is an international consultant we have. All the things that a sophisticated system needs, we have deep conversion. We have an integrated healthcare system. We produce special products. We are integrated with power production. We have very effective and a very aggressive trading desk and a very effective use of the supply chain and we are very flexible in product out with trying to target always the maximum return. So, we plan to continue on our programmes of digitalisation and optimisation, which will increase efficiency. Energy needs to be further streamlined in order to take full advantage of the reduced cost and the reduce CO2 emissions and produce products that the market need. So, we have all the characteristics to do this and in our resilience plans, we plan to set forward a structure that we'll be able to enact all these issues.

Capex plan has been very, very significantly, here, we reported on the left side, the old Capex plan of our previous, which showed basically in the period 2021-2023, a steady state of about 150, 160 million euros per year of Capex. The 2021 budget for Capex has been slashed to 55, which is extremely complex and we have decided to maintain this at more or less the same level, leaving the door open naturally that if we start seeing as we expect a strong improvement to the market in the latter part of 2021 and more consistently in the forthcoming years, you will be able to increase accordingly the Capex plan, but always had levels lower than before. Of course, this Capex plan will be focused on full agency compliance. So, no compromise with safety, with security and with the environment.

Similarly, we have started a programme to reduce fixed cost. We already reduced by almost 22% from the 2019 levels. We have enacted a programme and voluntary retirements. We have used government incentives to furlough on a rotational basis our personnel. We try to keep this at the mainland, but it's been an important tool. We are undergoing a programme of internalisation of many, many services, but before we're given outside and this also has the effect of trying to keep our workforce in operation. All contracts and all maintenance services have been renegotiated and inventory management and overhead have been carefully looked at and there's a strong progress in order to enact this. Of course, this is a very challenging thing to do, because a refinery is complex to manage. And there are a lot of issues and I cannot stress the amount of work that our people in the refinery are doing in order to be able to balance the financial constraints with the obvious technical necessities of performing maintenance, and doing things and keeping the units in in operation.

What's happening on the power side? In 2021, our tariff, the CIP6 tariff will expire. And first of all, the Italian company that manages the grid has recognised that a certain amount of power from our refinery is considered absolutely essential for the stability of the Sardinian grid. We were absolutely convinced of this fact. But we are of course pleased that has been formally recognised. The actual negotiations were supposed to be over weeks ago, but they've been dragging on and on much to our dismay, but we are confident on the output.

What is here? There are two authorities who have been, there is first of all, the grid operator, which is a list of company, and they define the technical needs of the grid. And there's a governmental body, a regulator that decides basically, the economic reimbursement of the cost. Because clearly, being able to provide saying essential needs, but the power or certain amount of power that we provide is necessary 24/7 365 days a year. That means, of course, that even if there's a nameplate power production, the actual power availability needs to be higher, because if you're supposed to guarantee on a 24/7 basis, a certain amount of megawatts means that you need to have some spare capacity in place. Having spare capacity in place means that there are costs associated with this. So, this is the reason why there is this complex mechanism for cost integration and cost reimbursement because there's not only the direct cost of the power that is given to the grid, but also the costs that we need to face in order to keep the planet in operation and ready to supply what is needed. There is ongoing with these various bodies. In Italy, unfortunately, nothing is ever simple. So, we have provided many, many reports and documentation to show this. One of the peculiarities of course, that our unit is a one in a kind unit. And yet there were three gasification plan, integrated power plants built in the late '90s and the other two are out of operation. Well, one is still partially in operation. So, there is a very peculiar scheme, which is not immediately obvious. The feedstock to this plant is a petroleum product. Petroleum product, which today is not linked anymore to gas prices or better, gas prices are not linked to oil prices anymore. So, this makes it a little bit complex for the regulators to understand how this system works because it is strongly dependent basically, on crude prices in the end. And crude markets have been hugely volatile in the last couple of years, while the gas prices have been maybe marginally more stable, although they've had big variations as well.

Once this phase, which we hope in the forthcoming weeks will be finally completed and we are confident we will have conditions that are attractive for Saras. The way of operation will change. First of all, the IGCC will be fully integrated within the refinery system, even from an accounting point. So, we will be presenting only one series of reports so there would not be a refinery output and a power output any longer. There will just be an output from the industrial integrated site first of all. Secondly, the plant will need to be managed from a operational point of view in order to guarantee 24/7 essential power production. This will mean that even if the power actual required from the grid will be possibly lower than the nameplate of the unit, they'll have to keep certain units in standby in order to fulfil the requirements.

Will we produce additional power product? This will be an economic choice and we are integrating the plant in our computer model, in our mathematical model of the refinery that takes into account all the economics of this plant, which is the various fixed cost, the variable cost based on electricity and the value of crude. So, it will really depend very much on mainly, I would say that the main driver will be the crude oil market and the refinery margin market. Unless exceptional things happen on the power market by which the value of power goes to a very high level, which at the moment does not seem likely. Of course, the power of the unit will continue to provide hydrogens steam to the refinery for its operations.

Trying to give a little bit of guideline going forward on profitability by segments. The EMC benchmark is projected at the moment is being -0.4 for 2021. While the market does expect a robust recovery in the years forward. The premium that status will add in 2021 as an integrated side is projected as something between three-and-a-half and four and going forward, four-and-a-half, five. A lot of this will depend also on the agreements reached with the regulator regarding power. We expect to have stability from the marketing segment, which has been shown to be extremely resilient and notwithstanding the decline in volumes, and we expect an increase in our renewable segment where there are, first of all, an increase in what we have concluded, the increasing capacity. We are completing the rebleeding project, which has been delayed due to COVID. We expect to finalise the acquisition of a new wind farm, which is in the final stages, but we are not ready to formally announce it yet. And then there is the ongoing expansion plan to 500 megawatts, which we will talk a little bit more detail in the next slides.

So, clearly, on top of our mind is awful energy transition, which is a very, very important issue for any energy company. And what is Saras doing? Well, first of all, we have the ambition of developing up to 400 megawatts of new renewable capacity, mainly greenfield, with some acquisitions of mainly wind farms, but also on solar, solar installation or solar panels. We want to expand our bio-fuel capacity. Bio-fuel is a tricky area because it's strongly dependent on European regulations and national regulations. We already are big uses of HVO also, that means hydrogenated vegetable oil. That means using vegetable oils in existing units in co-processing with fossil oils, but we have the possibility of transforming existing plants with some investment, but investments that are much lower than the building of the new buildings to use pure vegetable oils and produce pure hydrogenated biodiesel, which is a very interesting opportunity in which we're working actively on in partnership with others. We also have the possibility of using bioethanol in order to produce bio-gasolines. And we are working on ways to fuel process also to fulfil the necessities of local communities.

Green hydrogen, which is hydrogen used, produced with electrolysis from using renewable sources, is something we have just signed an agreement with green power. And we'll talk about that later on. CCS, carbon capture and storage is something that we monitor closely because although it's not particularly popular in Europe, it's something which is much more popular in the US and in the Middle East. Still, it could be a game changer, it can be extremely interesting, particularly if you put it in conjunction with renewable hydrogen. CO2 plus renewable hydrogen can make synthetic fuels. So, it's something of absolutely interest. I think we have to keep on monitoring the market to see if there are breakthroughs namely, in the cost of these projects at the moment. And also, we are monitoring the LNG space. But we would advocate with LGN on building a small-scale LNG terminal, but then the refinery trends, this LNG could have various use. First of all, it can be supplied to local grids for domestic use or for the propulsion of the heavy commercial vehicles or it can be trucked to the many small industries, which are present in Sardinian. In the future, it could also be used as a Peaker power plant. And it has instead, one of the strongest potentials as a marine fuel since we have established ourselves as the bunkering hub, also being able to provide LNG would be of extreme interest.

So, the renewable installation plan is quite aggressive. We have 400 megawatts of new renewable capacity that we plan to be able to install by 2024. Our focus is on greenfields or brownfields. At the moment, these processes mainly concentrated Sardinia are in advanced authorisation procedure, which are still slow. So, we have about 250 to 300 megawatts of wind in the authorisation procedure and 50 to 100 of solar, plus what I mentioned before, the acquisition of two wind farms, for a total of 50 megawatts, which is very close to being finalised. So, also, conversely, the economic world results will be in line with the increase of installed capacity.

This is an interesting development and Saras is ideally positioned to exploit green power potential. First of all, because Saras is the largest user of hydrogen in Italy and we have a vast experience in using a black gas, which is complex and dangerous to manage. So, this is the reason why I think Enel Green Power decide to build the largest electrolyser in Italy with us, because we know how to manage this gas and we can use it. Also, we are ideally placed because an electrolyser by splitting the atom of the water in hydrogen and oxygen produces oxygen as a biproduct, which is a challenge to use, because the only use for oxygen is in medical and certain petrochemical industries. So, all the oxygen which is produced as basically dumped back into the air. And so the atmosphere is an active user as oxygen because we use it in our gasification process and also we use it in our FCC in order to enhance combustion. So, all the oxygen can be produced. So, we will be able to substitute partially, fossil hydrogen with the green hydrogen. The agreement with Enel Green Power is to build a 20-megawatt water electrolyser. This will be able to reduce CO_2 almost 20,000 tonnes per year. It will produce about 4,000 cubic meters per hour of hydrogen and 2,000 of oxygen. It will have a state-of-the-art digital control system that will be able to manage the fact that the electricity provided will be very, very interesting because it will come from the renewable grid. It has been designed as a block in order to be able to expand up to 100 megawatts. 100 megawatts would mean 20,000 cubes of hydrogen, which is a significant quantity able to desulphurise an important quota of middle distillate. So, a significant development.

Bunkering has been extremely successful. It started at the end of 2019. And of course, it started to be fully on stream and right at the beginning of the pandemic, notwithstanding, we have been able to reach the targets of 500,000 tonnes of fuel to over 1,300 vessels that have anchored at Saras. This is a fantastic result. We have had no issues on quality, the fact that we are able to sell products, which are fully produced in halves that have very stringent quality controls is a big plus and is one of the reasons why I have many returning customers, notwithstanding the fact that we are not as well equipped as other bases to handle. As a matter of fact, we have decided to charter a second lightering vessel called Barges, but they're not barges in reality. They are ships. So, now, we have two lightering vessels fully in operation. And at the same time. We also sell on the market, full particles of very low sulphur fuel oil for other bunkering basis, but we plan to be able to sell 100% of our production locally. We believe that we will be able to go up to about a million tonnes a year. This is particularly interesting because very low sulphur fuel oil chose a positive crack to diesel. So, it gives today, the same sort of contribution almost as diesel. And we are ideally placed to be able to use crudes, which at the same time make gasoline, which seems a promising product, maximise runs on the FCC producing products that then can go into the VLSFO pool.

Other projects, we continue to monitor the oil market to see opportunities. We are continuously expanding our market trading activities because want to be able to cover the market fully. The market is becoming everyday more challenging, which new players are coming into it. And of course, challenging our position. So, we want to be able to exploit all areas of opportunity, particularly in the bio-diesel space, which is a very critical space, because the many regulations that are around this profit. So, being able to leverage between technical capacity and commercial capacity is very important. Our activity extends well beyond the med. We are targeting markets, which we've never targeted before in South America, in the east. We have opened a representative office in Singapore with the person there in order not talking to some of that market, but mainly to gain information and to see if there are opportunities that can be collected. There are also other niche businesses in the oil segment, the more traditional business that we are looking to explore and to exploit. I think I've gone maybe a little bit long, so I would leave some time for your questions. Thank you very much.

Operator

Excuse me, this is the Chorus Call conference operator. We will begin the question-and-answer session. Anyone who wishes to ask a question may press star one on the 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. One moment for the first question, please.

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

Alessandro Pozzi

Hi, good afternoon. And thank you for taking my questions. The first one is on refining runs. I believe the assumption is for 14.2 million tonnes in 2021, which I think if you adjust for the feedstock, again, its sum is quite high, especially when the consensus I think is forecasting an EMC of -0.4. So, I was wondering, can you maybe give us a flavour or an idea of how you see demand in Q1 and maybe increasing throughout the year? And how do you see the 14.2, I guess, is heavily back and loaded. I thought anything about the state of demand for your products at the moment will be appreciated.

Dario Scaffardi

Yes. Thank you, Alessandro, for your question. Yes, I mean, I think your question is appropriate. And things might seem a little bit contradictory. We live in a strange market. We see very low cracks, particularly on the diesel. I mean, the cracks on the gasoline are actually quite strong. The diesel is definitely under pressure. And I would say that the reason for this, as I mentioned before, is jet. And also, a certain amount of pressure from mainly the Saudis, which are aggressively targeting the Mediterranean is an area of output for their refined products from their refining system. So, this is putting pressure on prices. From the physical standpoint, which we follow very closely, the picture is a bit different. We have people approaching us that are willing to buy 100% of our gasoline production throughout the year. So, we view this as being a sign of bullishness, whether the cracks will be good or bad is another matter entirely. But of course, there's somebody who is willing to purchase all of the gasoline production. On the diesel, it's slightly more challenging. We have to be a little bit more creative in order to be able to sell it, but we have a strong marketing position. And again, we have no difficulty in selling our products, and filling the shorts that we have all over the Mediterranean. We are active in [indecipherable 00:54:31]. We are active in the East Med, we are active in North Africa and we are actively in Italy, of course. So, the physical picture is quite different from let me say, the financial picture. The reason for the runs is that again, it's our supply chain manager that manages the economic outlook of the refinery and supply chain is responsibilities is from the commercial. If we see a positive result from our calculations, we run crude. So, although the EMC might be negative, the contribution is that we bring is in any case, positive or better than stopping. So, these are the reason why we have projected these types of runs at the moment. We are ready to change them. It should the mark conditions change, but hopefully they do not.

Alessandro Pozzi

Okay. And if we look Q1, as you see demand in Q1, you upsells in Q1 versus Q4?

Dario Scaffardi

They're the same in terms of demand. What I'm telling you before, there are two pictures here. That demand is coming back in a significant manner. So, even if we look at the projections for 2020, which if I'm not wrong, should be something in the range of 95 million barrels, probably. That was the consumption of the 2011 or 2012. So, overall, notwithstanding a year, that has been incredible, or use whatever adjectives that you believe is appropriate. But oil consumption has been notwithstanding 95% of the pre-COVID level. And I think this is a testimony to the fact that the man is extremely resilient. So, I don't see an issue with demand. I'm more worried about over supply. That is what worries me, not demand. The demand is there, and the demand will come back. Over supply is another matter, it is what is pressuring prices, but it works both ways by help on the crude side. So, it's a double story.

Alessandro Pozzi

Yeah, thank you. My second question is on the integrated refining margin, the $2.5 to $4 per barrel. Can you give us maybe some assumptions behind that? So, I was wondering, are you assuming the essentiality payment already embedded into that number? Are you assuming old failure units are running throughout the year?

Dario Scaffardi

Well, we have imagined that, first of all, we have made some conservative projections on the power plant. And simply, we have added together all the various components that were, for instance, separated. So, are we going to have some sort of payment? I would give that as a fact, certainly. The question is maybe how much and how much quantity that is something that is still up for negotiation? But we will certainly hassle that number, which is a relatively conservative number, takes into effect, certain number of assumptions that have been on the side of caution, rather than that optimism.

Alessandro Pozzi

Okay, thank you. Just a final one on Capex. You mentioned the 55 being more or less flat, assuming no major recovery in a crack spread. By doing that recovery, what would you allocate Capex first in the coming years?

Dario Scaffardi

Well, we are still working. The challenge of our technicians at the moment is to come up with, let's say, a sustainable Capex plan, assuming favourable market conditions, which has to be significantly lower than the number that we had before, but higher than 50. So, something probably in the range in between would seem like some sort of reasonable target. And whether it's 10 or more than less. But something between 90 and 110 would seem like a number that offhand, would seem reasonable as a steady state, if we're able to put in place all the improvements and also organisational type of improvement to attain this number, which would be a number extremely aggressive, and would put Saras in the highest levels of efficiency among similar types of plants.

Alessandro Pozzi

Yeah, but my question was, I mean, you have different projects, green energy, renewables, biofuels, which one do you think has the most attractive economics?

Dario Scaffardi

But actually, both. One of the things that we are pursuing right now is, since we find these projects extremely interesting, is maybe to find partners with which we can exploit them more and more quickly. So, it's better to be able to divide the pie among others rather than not have a pie at all. So, we are looking maybe to partner with somebody who could put in a little bit of financing and from our side, would put our plant and our expectations. I think both are interesting, probably veg oils are sooner, and hydrogen is a bit later. Also, because hydrogen is based on the fact of abundant renewable power, which is not the case at the moment. So, I think hydrogen is a little bit farther down the road, while bio-oils are sooner. So, it will be a matter of making certain technical adjustments and then one could start almost immediately. The challenge for hydrogen is the economics at the moment. Today, green hydrogen is not competitive with fossil hydrogen. So, the costs are going down and I think that the idea of building this electrolyser is also an experiment to test the technology and to test the operational system for something which probably is a little farther out in the future.

Alessandro Pozzi

That was clear. Thank you. I'll turn it back.

Operator

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

Niccolò Storer

Yes, good afternoon, I have three questions. Sorry if I'm asking something that is already in the presentation, but I do not have it in front of me. The first one is on Capex, coming back to Alessandro's question. In 2022, should we assume something higher than the new normal that you mention of 90, 110 or the transition will be directly from 50 to the new normal? And the second question is on the effect that you had on net debt from lower oil prices in 2020, which I guess is a proxy of the difference between your comparable and reported EBITDA. So, what have you assumed as a reversal effect in 2021 on your guidance on net debt? And the last question is on power generation. I was wondering what could happen if the essentiality status is granted just to one or two of the three parties of your plan? So, what are you doing with the remaining, which are not granted the status? Thank you.

Dario Scaffardi

Thank you, Niccolò. So, Franco...

Franco Balsamo

I want to say on the first question relating to the Capex after the year 2022 at the time being, the minimum level investment is set at 55 million euro but, provided that more Capex would be needed is very likely that the total amount of Capex would increase. But in line of principle, due also to the huge amount of investment we have executed in the last three years, we do believe that more or less, the amount of Capex would be in the region of 90 million. That is more or less the Capex that we could reach in case there is an improvement in margins. That is for the end of the business plan, but at the time being, all the commitments are set at 55 million zero for the '21 and '22.

I go ahead with your second question if you agree as related to the assumptions in terms of net debt for the 2021. As you have correctly said that the year 2020 was deeply impacted by the working capital sector, more than these that the negative effects in our business due to the scenario factor. In the year 2021, provided that the model we have set in place is properly the representation of the market, in line of principle the working capital should generate a positive cash flow, because the oil prices in the first part of the year went higher than the year ended. And in the case, the oil prices remain stable during the year, that will be a positive cash contribution. And this global amount of cash-flow generated by the commodities prices would be good enough in order to support the cash need of the company. Because in the year 2021, our main scope is to stay at the minimum level of cash burns in order to keep the debt under control. And if possible, to take some advantages due to the working capital in order to reduce the indebtedness.

Dario Scaffardi

Regarding the power generation, yes, I think it's a good question. But first of all, the power requirements would certainly be at least for two full trains. Now, in order to guarantee security of supply and availability of power, since the way our units works cannot have an immediate restart, it has to be kept in hot standby. So, all three turbines would be kept in function more or less all the time in order that in case one fails, or there's a demand increase in power, the other, can supplement, together with gasification. So, what change is the variable cost clearly, but the amount of fixed costs tends to remain the same.

Niccolò Storer

Thank you.

Operator

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

Henri Patricot

Yeah, so I want to thank you for the presentation. I have two questions, please. The first one is coming back to the Capex to make sure I understood the guidance. So, 55 million euros, that's just the base of the Capex, sustaining Capex for the corporations and then you need to spend in addition to bring down the additional renewable capacity. And so, if it's sufficient to be spending of 90 million euros in 2022 to bring on that additional 400 megawatts or do you need to spend more than that? And then secondly…

Dario Scaffardi

That's a good question. Capex is Capex regarding to the refinery. We are planning to separate entirely, the renewable business, possibly partnering with somebody. And it will have its own independent financing in order to finance the expansion projects once they become operational, but it's not included in that number.

Henri Patricot

Okay, awesome. And your second question is around the cost saving that's applied for 2021 and some of that being technically capped on from 2020. I guess, some of the savings in 2021 come from special schemes, like the furlough. So, I just wondered if you could give us a sense of what is temporary cost savings in 2021, and what is permanent.

Dario Scaffardi

Well, what we would like to do is make the temporary saving permanent. As I mentioned, we are reducing personnel, slowly, in a responsible manner, because we know the responsibility that we have in the territory where we operate. So, that is the first effect we have taken advantage and we'll continue to take advantage on the furlough schemes managed by the government to reduce cost. But from a point of view, it is a little bit more structural what we are doing: we are trying to streamline the organisation. So, make the levels of decision smaller. So, revisiting the organisation, we realised that we had too many layers of command, decisions were slow, these make increase in cost by purchasing unnecessary equipment or performing unnecessary things. So, the organisation will be a big part of it. Increase digitalisation and we've already seen improvements in this area by being able to collect signals on when and how to perform maintenance, or much more careful management of external companies, all those companies that are performing the bulk of maintenance work with our systems. So, that is also an important source. Technical services, which means all the things that were given out, engineering or other things, which now we try to do internally. As a matter of fact, we still have a technical service company, Sartec, this company has been brought inside the fence of the refinery, in order that all the people that are working mainly for projects related to the refinery could be better optimised in order to reduce supply chains, basically. So, these are the areas on which we are, we are focusing.

Henry Patricot

Okay, thank you.

Operator

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

Joshua Stone

Thank you and good afternoon. I've got three questions, please. Firstly, interest on the jet fuel market. If society does reopen the second half of this year, how quickly do you think Saras could increase its exposure back into jet fuel? Are there any bottlenecks there? My second question on the power generation business today: on the negotiations, can you just talk about what the sticky points have been? Maybe also just how long is this new essential tariff structure likely to last for? Are we talking about a number of years or just any sort of details on that? And then my third question is a very small one on the Suez Canal disruption that we saw, was there any impact to Saras at that time? Thank you.

Dario Scaffardi

Okay. Well, on the jet fuel market, the answer is overnight. So, we can switch back to producing jet immediately. But for us, the question is not so much the capability of producing jet. We have been over the years, relatively modest producers of jet, just because it made more sense for us to optimise the lighter parts of the middle distillate streams and mainly the diesel, just for an economic decision. We are pretty active in jet trading, we used to purchase jet from other suppliers, which don't have the type of flexibility that we have. So, we were purchasing jet, and our jet streams were blended into our diesel pool, and we'll be able to extract more value. But if the price of jet suddenly jumped up, we will of course, immediately segregate the jet and produce it. It's really a question of overnight. But the effect on jet is the fact that it drains the little distillate pool. So, it has in any case, an undirect effect on middle distillate prices. So, even if we didn't produce one drop of jet for whatever reason, and the price of jet skyrocketed, this would still be a positive development for us. Although, maybe, possibly, we had to take direct advantage of that, but we take indirect advantage.

On the Suez Canal, we had no effect. All crude has become more short-haul crude. And since we are not relying too much on the Middle East anymore, we do have contracts there. But with Iran blocked out, we don't have much crude coming from the Arabian Gulf. So, it hasn't had a material effect to us. It has had effect. It has skyrocketed the freight rates with ships. So, freight rates have gone haywire over the month, in the last week, and this will take another week or two before things will have normalised back to where they were. And I would ask maybe, Franco, to answer on the other question.

Franco Balsamo

You're not mistaken, the second question was the timeframe for the essentiality. The contract is set on annual basis and there is an assumption to take into considerations, that this plant is essential for the Sardinian system until there is a change, a change in the balance of the electric system in Sardinia. This change event is strictly related to the interconnections, the new sea cable between Sicily and Sardinia that is planned for the 2028 - '27, so that is the physical assumptions strictly related to the essentiality of this plant over the years. In terms of economics, the contract is set year-by-year, that means that in line of principles, should be renewed year-by-year and we cannot exclude that from one year to another one, some conditions might be changed. But is well regulated by a very precise directive.

Joshua Stone

Thank you.

Operator

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

Massimo Bonisoli

Good afternoon, Dario, Franco and Ilaria. I have a bad line connection, so I apologise if you already tackled my question over the presentation. The first question is considering the new divisional reporting in refining, the lower fixed cost over 2021 and the different level of runs, could you translate your margins out in an EBITDA range for your refining division in 2021? And the second question is more and more on a strategic basis. Do you think it would be reasonable to discuss the introduction of the incentives for the survival of the most efficient refineries across the European Union with the regulator, the government for the European Union as well in the sense that we saw a few regions across the globe like Oceania that are losing capacity, and so it may be strategic to have a decent level of the refining production in the region? So, any discussion with your competitors or with regulators on this matter?

Dario Scaffardi

So, I think Franco can answer the first part, which is a difficult one. On incentives, well, as much as I would love to have incentives, I only hate incentives when they are for others. For me, I liked him very much. I don't think realistically that is likely. There is so much bad press in Europe on oil and the oil sector in general. So, much so that they seem oblivious and blind to the fact that oil is still a very essential commodity. So, I can easily subscribe to the fact that oil in the long run, but in the immediate and the forthcoming years, there are in Europe, hundreds of million people that have a diesel or gasoline car that wants to drive. So, bashing on this sector does not seem such a good idea, but the European regulators do seem to have a history of doing exactly that. Maybe regulations that have been enacted in the sector have been penalising, strongly penalising for the consumers, very strong with no benefits at all for environment or for other considerations that notwithstanding for ecological reasons, we have adapted certain standards, which has no visible benefit. So, yes, you probably are referring to the fact that in Australia shut down all of the refineries, and in China to send them products. And I think they might be slightly worried about that because it works as long as China does decide to go, Southern China or any other place products, what happens if they don't? What happens if the supply chains become disrupted? These are strategic considerations that maybe our politicians should address. Having said all that, I don't think that this will be very likely. Why not hope for it?

Franco Balsamo

Okay. Your first question that was strictly related to what the level of EBITDA range might be. And, of course, these are projections strictly related to the evolution of the markets. In the first part of this year, we had an EMC margin that was negative between $1 and $1.5. And based on the projections provided for the second part of the year, margin will arise. Having said that, the EMC for 2021 is expected in a negative area by four cents of a dollar. So, our industrial margin that includes power and refining will be between 3.4 and 4$/bl. And the fixed and operating cost, as we have described before, will be in the region between 280 and 300 million euro. Having said that, the EBITDA at the year-end would be close to breakeven. It could be slightly positive, if everything goes well and the margins at the yearend are recovered.

Otherwise, it will be slightly negative, but we will operate, or better, the market condition will oblige us to operate very close to the breakeven.

Massimo Bonisoli

Very helpful, thank you very much.

Operator

The next question is from Thomas Adolf of Credit Suisse. Please go ahead.

Thomas Adolf

Thank you and good afternoon. I just wanted to ask you about the renewable business and the structure you're looking for. You've mentioned it will be a separate part of the business as a partner in its own financing. Can you provide a bit more detail shareholding structure as the all off balance sheet from Saras and the 400 megawatts you're talking about? Is it gross capacity and not a net capacity to Saras? And the second question is on the point you made on not worried about demand for oil, but you're worried about supply. Presumably, you're referring to refining supply and if it's refining supply, I mean, obviously supply of oil is good for crude spreads, but refining supply, how much more permanent refinery closures are needed for in the market to kind of rebalance to normalise in your view? Thank you.

Dario Scaffardi

So, on the market rebalancing, that's a difficult question. Yes, I am worried about for instance the Saudi refiners, which is the conundrum of all refiners. We operate by strict financial and economic considerations. Much of the refining world operates in a regulated space. So, they are oblivious to economic considerations, they have other considerations. So, Saudi refineries probably don’t look at the margin, it just looks as pushing out as much product as it can because it's a way of pushing out crude whether it's as or not a lot of value. I think it's at least, secondary. So, there is a need for refining capacity to be rebalanced. I would say in order to have a more stability in the market at the moment, we would require something between three and four million barrels of refinery capacity going off stream globally, which is a serious number. And also, there's the wildcard, the Chinese refineries have had a lot of capacity while not needing this capacity. Just solely, maybe our administrators think about it after the scam that the Chinese had in the first part of the millennium and between 2000 and 2010 in which they did not have enough oil products. They vowed never to be dependent on refined product and to become net exporters strictly on strategic reasons, not for economic reasons. So, there is a bit of overcapacity in the refinery space that sits undoubtable. And I think that many of the oil plants around the world will slowly start thinking of being shut down.

Franco Balsamo

On the first question related to the capital employed into the renewables, taking into considerations that the capital employed in fixed assets in the Saras group is roughly close to €1.3 billion, and the capital employed in the renewable is about €100 million. So, these are the money of the two different assets. In order to develop the additional 400 megawatts of capacity, we don't need capital now due to the fact that we are investing in the authorisations. In the year 2021 we are, as Dario said before, we are also negotiating a potential acquisition of wind asset and the capital invested will be modest in any case, and that will be invested directly by Sardeolica because the company has got the liquidity and the equity in order to develop the investment. In order to switch from authorisation to EPC contract the company will need additional Capex, and for this reason we are ready to open the capital and involve in the development of the new capacity a financial partner in order to support the investment. We start from the assumptions that the equity or better the value of the existing renewable asset are good enough to support our part of the development, also whether it will be needed additional capital. So, we will use our money in order to progress to the development of the additional capacity.

Thomas Adolf

So, just to clarify, you're just talking about project funding and not actually selling a shareholding in the 400 megawatts you're planning to do?

Franco Balsamo

Yeah. It is project financing in order to find a new partner, but the scope of these partnerships is to develop the capacity, not to sell the existing one.

Thomas Adolf

Okay. So, the 400 megawatts may be not 100% Saras, it could be 50-50. Okay.

Franco Balsamo

It will be defined on the base of the conditions of the plants and also the evolution of our financial capabilities.

Thomas Adolf

And from a reporting standpoint, how is that going to affect? Is it just normal equity accounting then?

Franco Balsamo

Yeah, yeah. There will be a separate segment. So, we will segment s P&L and capital employed.

Thomas Adolf

Perfect. Thank you very much.

Operator

The next question is from Igor Kuzmin of Morgan Stanley. Please go ahead.

Igor Kuzmin

Good afternoon, everybody. I have two questions, please. First question is in regards to capital commitments or possible capital spend in 2021, '22, '23. '23 is too far away, maybe just '21, '22. And if possible, maybe if it can lead the expected capital commitments into the power generation, wind, and anything else, for example, TCF solutions or any other environmentally-friendly technologies. So, some granularity of a year-by-year would be much appreciated. And the second question I have is in regards to dividends. So, I just want to understand how shall I think about the dividends now? I mean, given that that's not the top here, and 2021, the beginning of it, is proven to be… I mean, we are on the path to recovery hopefully. But obviously, the dividend policy is linked to the earnings. And I just want to understand what… basically, as long as the earnings are negative factor with no dividends or that there is some other consideration that the company has on this subject? Thank you.

Dario Scaffardi

I will Franco answer this.

Franco Balsamo

In terms of Capex commitment, the refinery is operating in order to keep the total amount of Capex, for the year '21 and '22 at €55 million level, okay? For the year '23 and '24, if there are, and we do believe that margins will be higher, and the company will be in a better position, we will have room to increase the investment, I would say in order to recover the backlog of the previous years. So, in that case, only in that case, the total amount of investment could be in the region of €90 million, only if there will be the conditions. This amount is related to the investment into the refinery and power. The investment in the power are not material.

Igor Kuzmin

Okay. But in terms of wind?

Franco Balsamo

In terms of wind, as I said before, for the time being, we are just developing the authorisations that don't need investment. In the year 2021, we are planning small acquisitions, but the amount would be not significant.

Igor Kuzmin

Okay. Thank you.

Franco Balsamo

The dividend there, just to answer to your question related to the dividends, in the business model that we have elaborated, and the board approved today that plan and the mechanics of the plant is constructed to ensure the operation of the refinery, and the cashflow generated by the business will be allocated in order to reduce indebtedness. And the reduction of indebtedness is forecasted mainly at the end of the period, '22, '24, let's say between 2023 and 2024. Because I would say the year 2021 will be more or less at breakeven, and in order to repay €500 million indebtedness we will need the full three years of positive cashflow. So, for the time being dividend are not within the model, and not in the management of the company the dividend policy. At the time being, we are operating in order to reduce indebtedness.

Igor Kuzmin

Understood, thank you.

Operator

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

Ilaria Candotti

Thank you very much for listening, for staying with us this afternoon. And as usual, we are available for any follow-up questions. Thank you very much.

Dario Scaffardi

Thank you very much. Goodbye to all. Enjoy your Easter.