Saras S.p.A

"Third Quarter 2022 Results Conference Call"

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MODERATORS: DARIO SCAFFARDI, CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER
FRANCO BALSAMO, CHIEF FINANCIAL OFFICER
ILARIA CANDOTTI, HEAD, INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Saras Third Quarter 2022 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 "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Ilaria Candotti, Head of Investor Relations of Saras. Please go ahead, madam.

ILARIA CANDOTTI: Good afternoon, everybody. Thank you for joining us today for this conference call on Saras third quarter 2022 results. You should have received the related press release a few hours ago and the analyst presentation which are available also on our website, directly in the home page and under the investor relations section together with the interim financial report.

Our agenda today will be the usual one. Dario Scaffardi, CEO and General Manager of Saras Group will start with the headlines of the period followed by a review of results of each different segment. Afterwards he will present the outlook for the current quarter and the market perspective for 2023. Finally, together with Franco Balsamo, CFO we will be pleased to take your questions.

At this time, I would like to handover to Dario.

DARIO SCAFFARDI: Good afternoon, Ilaria. Good afternoon, ladies and gentlemen. Thank you very much for joining us. I am quite proud to present what are probably on a 9 months basis Saras's best results ever or second best. I mean it really doesn't matter, I mean they're very comforting results.

The group reported EBITDA in the third quarter was €365.9 million which is a significant increase from the €4.8 million of the same quarter of the previous year. Of course, this change is mainly due to the change oil market scenario and to the very strong diesel and gasoline cracks which has helped most refining margins. Together with this, of course, we must also mention the fact that the strong dollar certainly helps our accounts further since all our revenues are in dollars and the majority of our costs apart from the feedstock's of course from crude oil is on narrow basis.

The reported EBITDA for the third quarter of 2022 reflects also the effect that comes from various government decrees that support companies that have high energy cost. Probably during the Q&A session, Franco will be able to give a little bit more detail on all these tax and incentive aspects that have become extremely important lately.

The net reported profit was €347.2 million versus almost €35 million of loss in the third quarter of '21. So, the main changes here are attributable to the increase of financial expenses, again strictly US dollar and yield back on the results of the hedging derivatives. Also, there is the big element of various extra windfall taxes that have been applied on the national level and on the European level, which again during…I would imagine that during the Q&A, Franco will be able to give you extensive clarifications.

This quarter is a strange quarter. I mean all of this year has been a very strange year for reasons which are apparent. But I would say that after the first and second quarter, there have been quarters in the way of shock with the market trying to reassess itself from the impacts and on the expected impacts from the Ukrainian crisis. I would say that during the third quarter there has been a…the spike in certain effects have been touched, but at the same time we have started to see a phase of normalization. We have touched this, it's well-known to everybody, extraordinary levels of the PSV gas index in Italy and Europe and the other…that the power prices, but at the same time, towards the end of the summer, we have seen signs of normalization from this effect.

And there have also been signs of normalization in the oil markets. Again, we have touched in May, June, July some extremes in terms of premiums for the various crude oils and all and extremes and we'll talk about it a little bit later on in the presentation regarding the structure of the market, particularly the strong backwardation of the crude, but particularly in the diesel segment, the strong decoupling of the future spreads of the ICE Brent from the physical benchmark which is Brent dated. There is an index which is called dated frontline DFL which historically has always been in the range of cents to maybe a dollar sometimes $2 and it has touched $10 which has put a strain on companies who use this as an instrument hedge and it has also has affected up all these effects seem to have started to normalize in the third quarter…towards the end of the third quarter and this trend has been consolidated in October. So, the outlook is more stable now than it was before.

If we look at the price of Brent Dated, I don't think there is much to add to what you know**,** notwithstanding the oil cuts from OPEC, plus the price did not change very much. It does seem to have…to be in a range between $80 and $100. What is not clear if is…if a $100…if one looks at it from a technical point of view, is a floor or a ceiling. I think we'll need to see in the forthcoming weeks what is going to happen. But also from this point of view, and we'll see this in the next slide, talking about crude oil differentials, the market has normalized. Normalized maybe is a big word. It has…it is a little bit more normal than before, certainly not normal compared to what it was maybe a couple of years ago, but more normal than what it has been in the recent past.

So, first of all, if you look at Urals, Urals enters the crisis right after the introduction of sanctions, since then it has started to rebound and Russians have been able to find adequate homes for their crude in other parts of the world. So, the discount of Urals is less intense than what it used to be. Still, we are talking $25 compared to zero, that was zero or $0.50, sometimes $1, that it was before.

Same thing happened on sweet crudes: Azeris touched an incredible spike at the beginning of the summer in which also we re-called, we did unfortunately purchase some crude, maybe at the top of the market, but the margins were such that justified even buying crude at that level. Since then it has dropped significantly. From Saras point of view, what we have tried to do is to diversify away from certain crudes of the Mediterranean basin that have been under extreme pressure.

And we've taken advantage of American crudes, which are starting to be marketed on more constant basis in the Mediterranean. We have also been helped in this with our partnership with Trafigura, given that we have commercial partnership with Trafigura on certain oil products and crudes. And we have been showed many American crudes, particularly a new blend of West Texas Midland, which has proved to be more stable in terms of its premium structure, so with less swings to the…Mediterranean crudes which also suffer from the fact that they are based on the Platts mechanism of window of market on close, which is a mechanism that when there is low liquidity in the market, it's prone to manipulation.

At the same time, we have been helped significantly by the fact that surprisingly - this took us a bit by surprise - Sour crudes have become cheaper. We were expecting the opposite when we took into account the fact that Urals would have been taken out of the market. But the net effect has been that Urals has basically displaced Middle Eastern barrels to traditional Middle Eastern customers. So Indian, Chinese, just to name the major ones, were buying Iraq, Iranian barrels. They have started buying, to put it simply, a lot more Russian barrels. This has freed up Iraqi Saudi barrels and has lowered the prices that you can see from the graph. So a very important part of our runs, which is based on the sour crude cycle, has been strongly, strongly benefit from this event.

Distillates remain extremely strong. I think further on the presentation there is a chart…usual chart with storage levels. Storage levels for middle distillates are below the minimum of the 5-year or 6-year average. So stocks are extremely low, which means that the market has increased volatility because every minor disruption negatively affects the price. So we expect the strength in the middle distillate crack to continue. In the meantime, air travel has rebounded in a significant manner.

Gasoline has shown some weakness towards the end of the summer, but this also has rebounded physically. And we see this in…since we have a strong customer base. Sales have been strong. Demand for diesel, even on a contractual basis for 2023 is extremely robust. We have been able to sign contracts for very very high premiums for 2023, because there is a deep worry in the market that the forthcoming months will be extremely challenging.

Let me remind you that starting at the beginning of December, Europe will not be allowed apart…certain specific exemptions to purchase Russian crude, which is still being extensively purchased by many, many operators. So, we have chosen not to, but many others have continued. So, this will certainly create a strain in the refining system, it will further create a strain in the gasoil system. Russian gasoil is still coming to Europe. The ban on Russian diesel will come into effect, I think, at the beginning of February, if you don't remember wrong. So we expect the forthcoming months to be challenging months in terms of diesel supply and of course, rewarding for a dependable supplier like Saras.

During the last quarter, we've been appalled by the gas prices. TTF prices, thanks to all the purchases skyrocketed, and it took it with it the power price in Europe. Luckily, we've seen a sharp decrease, which started in September and has continued consistently in October. Gas storages are fairly full, so this has taken away a lot of the pressure on gas. Power prices are still incredibly high compared to historic levels, but still significantly lower than the spikes, which were really untenable in terms of the economy. Electricity at €600 per megawatt is just not sustainable. At 200 it's a challenge, I'm not saying that it is sustainable, but it's more bearable than what it was.

CO2 has also declined, mainly because there's been a reduction in purchases of certificates, because of reduced industrial activity, since the price has gone down in the last couple of weeks, CO2 price has started to inch back up towards the 80 level. It went down to 65-ish, and today it's around 80 and we sort of expect it to remain in this range in the near future.

So when we look at Saras's performance, the strongest quarter has been Q2 obviously, but also Q3 has been a very strong quarter. And we've actually been able to improve Saras's addition to the EMC benchmark. The EMC benchmark has come down, because various cracks has come down. There was extreme volatility during the summer, even on the diesel cracks, which sort of dipped into the low range around July, but since then have rebounded in a very significant manner.

We've had, in this quarter overall $15.3 per barrel of margin with a premium of 6.7. This premium was about 6 in the comparable quarter of last year.

On this, you know, the negative impact for Saras have been the very high premiums paid for light crude oils in Q3, which certainly negatively affected us. The high backwardation, as I mentioned before, that penalized the hedging strategies, creating a existential cost in carrying forward the inventory, instead from a positive point to view clearly high oil prices, very high premiums on the sales of all oil products in general, particularly diesel and gasoline, but also vlsfo and other products have been in significant demand. Also the fact that there has been an easing on the differentials between the dated and the front line has created a lot of strain on hedging policies for crude.

Going to the various segments from an industrial point of view we had a good quarter, a refinery has performed quite well. Crude oil runs at 3.48 million tonnes, or which is slightly more than 25 million barrels at 18% higher than same quarter of the previous year. This is mainly due to the positive scenario and to less maintenance compared to the same quarter of the previous year, comparable EBITDA was almost €300 million, with a margin of $15.3 per barrel, which incorporates a Marketing margin for about €0.60 per barrel. And this compares with a negative €2.5 million of EBITDA in the same quarter of the previous year.

Oil scenario was the main reason for the improvement this accounted for about €280 million. Overall, operating performance was quite good, runs were limited in a way they could have been slightly more, but they were limited by constraints on emissions in the atmosphere that have become, the new regulations are extremely severe. So in order to be able to comply fully with the regulations, which sometimes are interpreted in a very stringent manner by the authorities beyond what the law prescribes, we have been forced sometimes to reduce runs.

The planning has gone extremely well, and the variable costs were fully high at €7 million higher than in Q3 of '21. Mainly due to power and CO2 costs. Then of course there have been some positive effects due to tax, but again, I will leave later on Franco to give you a more comprehensive explanation. The marketing channel has done quite well contributing €12.2 million.

Sales in Italy have been high extremely robust. And our market share has grown in this period from about 4% to 4.5% in the diesel market, which is our main marketing product in Mainland, Italy. Also Spain has done quite well and showing an area of more robust margins compared to the recent past.

In the next slide, I think that we have a detail, which goes through the 9 months, but I don't have really very much more to add. I think the slide is self-explanatory.

If we go and look at a usual crude oil and slate production. I think that the main thing to note here is the fact that the average API and again - we look at 9 months because the quarter is absolutely not significant - the average API has gone down by almost a point, which is significant: one API point is significant in the market. And what does is this due? This is due to the extreme polarization of crude oil supplies.

So with the exit of Russian barrels from the market, one of the typical alternative crudes to Russian barrels was more the Iraqi barrels, which is sort of out of the market for a variety of reasons. We have been forced to buy sweeter, I mean lighter light crudes and heavier heavy crudes, but the net result has been that the average is heavier than before. This has not affected production in reality, because we've been able to take full advantage of the high conversion capacity of our train that produces power, which is the deep conversion unit of the refinery. We have sort of a family of crudes, which was the medium crudes, which are less or less available than before and more light crudes…like for instance the American crudes and American have a lot of crudes: we were mainly concentrated on what is called WTI Midland, which is a crude, which is in the range of 39, 40 API and, but has good overall properties.

When we look at the production. Clearly during this year, we have tried to maximize middle distillate production, which went up by almost 4 points, if we compare the 9 months of last year to 9 months of this year, and this is directly reflected in what happens to gasoline and naphtha part.

VLSFO production has been in percentage slightly different, in absolute terms sort of similar. We have maximized production of VLSFO which is the marine fuel, which we are marketing actively in other areas besides the Port of Cagliari. We have tried to expand our activities in areas, which the ship-owners like more than Cagliari which were areas which do not continue to occur a stopover cost for the ship owners. So we are sending our ships there and marketing there locally with extremely encouraging results.

Renewable segments: our projects are on track even if power production has been lower in Q3 compared to Q3 of '21. This is due mainly to the very mild weather that we've had. The comparison is now consistent because also in Q3 of last year, we had the new Macchiareddu wind farm, so the comparison is from one quarter to the other is meaningful. But weather conditions with the speed has been significantly lower.

In terms of prices, we have about 65% of our production, which has a price cap. The price cap in Italy is €61 per megawatt, and that applies to all units, which were commissioned prior to 2010. So, a large part of our Ulassai wind farm was commissioned before that. The towers that were commissioned after that year are not part of this price cap, and also the activities performed like reblading are not part of the price cap.

So, to make a long story short, 65% is capped at €61 megawatt. The rest is priced at market price…in the areas Sardinian local market price has been in the range of €360 per megawatt, which is around €40 to €50 lower than the national price, the Italian national price: low costs is due to a market that is extremely difficult, it's different because of all the peculiarities it has and the fact that it's linked to the Mainland through a cable which has undergone significant maintenance. So, there's been a little bit of an excess of power production on the island then has not been able to be exported freely to the Mainland has accounted for the reason for lower prices. So now 35% instead goes in market and of this 35% about half which has even incentive tariff on it. So, all in all, the average price has been €170 per megawatt.

On the 9 months basis, the situation is similar. We are on track in purchasing for our new solar farm, which is called the Helianto which is located between the city of Cagliari and where our refinery is, midway more or less. We are buying the barrels, hopefully, construction will start before the end of the year. And, again, we expected by the end of next year, to be fully in place.

And in operation. At the same time, the regulations for giving permission for new wind farms, which are in the pipeline seem to have taken a little bit of an acceleration. So this is a positive outlook. And let's keep our fingers crossed and if this trend with the new government continuous.

So, all in all, to sum up what we've been saying in the outlook, I don't have too much to say on the outlook. And I think I already talked about it basically in the previous slides, we expect crude prices to remain relatively high, strong demand for diesel. There are some risks on the horizons of further closures or reductions of refineries in Italy due to regulations on the use of Russian crude. We don't know what sort of determinations will be made by the various companies involved and/or the governmental authorities.

OPEX is close to €400 million, CAPEX is expected to close to around €100 million in 4Q, because there are certain amount of maintenance activities that will be delayed into 2023. So the guidance that we are giving on the premium on the EMC benchmark is in the range of $7 to $8 of which about $0.5 per barrel comes from the markets itself.

On the renewables, I think I've already mentioned before: things are on track and the targets are 500 megawatts by 2025 is definitely on track.

At the same time, I would like to mention that I have decided to leave the company for entirely personal reasons. I have reached retirement age and I think that this is a good moment to do this. The results are strong, the company is in a good position. There is a strong management team that is able to take things over. A new CEO has been identified, which has a strong background in power which will increasingly become a key element of any energy company. Renewables also is a very important part and I think we will receive further impulse from this change. So, I wish to thank everybody for the support that I've received over the years. So, if there are questions.

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." We kindly ask to use handsets while asking questions. Anyone who has a question may press "*" and "1."

At this time the first question is from Alessandro Pozzi of Mediobanca. Please go ahead.

ALESSANDRO POZZI: Thank you for taking my questions. Let me start by saying farewell to Dario. It's been a pleasure. And I hope your retirement will go well. So going back to the questions, I think you mentioned in your opening remarks that you signed a number of cargos for 2023 at very high premiums, as you refer to the oil products. And now I was wondering whether usually you don't hedge that much. And I was wondering whether this is the right time to maybe enter into more longer term hedges for the…for next year. And whether you're already able to lock-in a part of the refining margins by doing that?

The second question is on the tax incentives. We know about the windfall tax, if you can give us maybe more color on them and on the amount of tax incentives that you're seeing from the government? And I was wondering also in terms of energy cost, how much of your revenues are in this, this is a key parameter for being classified as an intensive energy user?

Final question, Q3, I think the runs were 3.5 million tons, a bit higher than expected, could you also give us the bit more color on that as well?

DARIO SCAFFARDI: Franco will talk about the taxes.

FRANCO BALSAMO: Okay. Grazie Alessandro for your questions. In this period between the first 6 months and Q3, we received benefit as a tax credit on the electricity cost consumptions in 9 months for €83 million, that is a positive effect that is accounted as lower cost, so it's within the EBITDA. The cost on the renewables, wind , is €23 million of lower benefits, but this is not accounted, it's a loss of margin due to these regulations.

On the other side, the extra profit, you know, there are 2 parallel ones. One is the Italian one that we have explained in the last quarter, and there is EU regulation: the EU regulation is taking the previous 4 years of earnings before taxes, and we have to calculate the average of those 4 years plus 20% of threshold: the difference between the earnings before tax on 2022 and this amount, is subject to a minimum rate of 33%. So, we have underwritten in our account as a provision about €223 million that is calculated on earnings before taxes …at any single company level at the end of September.

ALESSANDRO POZZI: And €223 million is the provision that you've taken for the sort of windfall tax?

FRANCO BALSAMO: Yes.

ALESSANDRO POZZI: Okay.

FRANCO BALSAMO: For 9 months of business, provided that the rate is at 33% , that we have done the proper calculation and so on.

ALESSANDRO POZZI: Okay.

DARIO SCAFFARDI: Yes. Alessandro, you were also asking me about consequences of premiums on the crack. Now, the physical oil markets move sort of separately in the sense that you have the reference price which is what is called the Platts quotations, which in turn depend on the futures quotation, and then there is premiums added to this. Historically, these premiums have been relatively small amounts of money. So just to give a little bit of flavor to what I'm saying, we used to decide in this part of the year. So in October whether we want to privilege, more term sales or more spot sales, and we will start exploring the market to see if term buyers are willing to pay above the reference price, which is the best price $2, $2.5, $3, $1. But this is what we have been talking for 30 years…for 40 years, in the period I've been in the oil market, it has always been this. In bad years it has been maybe minus 1, okay? And in good years, it was plus 2, plus 2.5.

Now we are in a different ballgame entirely. We are talking $40, $45, $50, people are willing to significantly pay up in order to be able to secure supplies next year. I think that this is not something which is sustainable in the long-term. But in the meantime, we are trying to take advantage. So, we have been signing contracts for relatively small volumes for some niche players that were absolutely desperate to be able to secure particular types of supplies in terms of sizes and qualities. But this does not have a direct correlation with the cracks in my opinion.

In terms of hedging, I think it's a good question. We have…we knew something that we follow constantly; we have done some accurate analysis. We were about maybe to hedge some quantities during the summer at maybe a range of about $30. And then luckily, we decided to hold back a moment and the market went to $60. So in this moment, it's a very risky decision. But I think that certainly my colleagues will look at it carefully. And maybe it might be worthwhile for certain amounts to secure some high level cracks for maybe the first quarter and second quarter of next year.

ALESSANDRO POZZI: And if you do that how much would it be the volumes that you find to hedge potentially, if you decide to go down that road?

DARIO SCAFFARDI: I would imagine that they would look at something like maybe 10%, 20%… being in a range of 10% to 30% of the diesel production, can be in this sort of range.. I mean,however,30% would be risky. Anything below 10% will be a bit ridiculous. So a number between 10% and 30% sounds like sort of reasonable.

ALESSANDRO POZZI: Alright, that's fine. And maybe a last one, and then I'll turn it back. About your announcement, just wondering, why did you decided to announce your departure now instead of…

DARIO SCAFFARDI: Right now just…the decision has been taken quite a long time ago. And there's just been a little bit of acceleration, we decided to do everything together in this moment, particularly in a moment in which results are positive. So there is no particular significance. This is entirely a personal decision and it has nothing to do with the company or otherwise. So it's entirely my decision. Somebody has said that maybe I'm sick, no (laughing) I'm doing what Italians do in these circumstances and and probably, anglosaxon and France are not familiar with this custom, but no, I am okay. I am enjoying life.

ALESSANDRO POZZI: Okay. So, something that was…something you planned well before. Thank you very much.

DARIO SCAFFARDI: You're welcome.

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

JOSHUA STONE: Thanks and good afternoon. And Dario I also would like to express my personal for your] retirement, and also for providing clarity through this very difficult market, competitive market. And Franco I think this is also your last conference call, if I am not mistaken, [and so I also want to express my best wishes to you. On my note, in terms of question, where are we in terms of announcing a successor for the CFO, I think that's slated for the end of the year. And then secondly, there is a lot of bullishness around diesel prices in the market and diesel cracks in the market today. Could you maybe, and now I understand why. Could you maybe just talk about what do you think some of the key risks are out there? Thank you.

DARIO SCAFFARDI: I will leave Franco to think about his answer on the CFO. In the meantime, the diesel cracks are certainly strong. I personally don't see, you know, I think that you've known me over the year, I tend to be prudent. I don't see at the moment too many risks in the sense that if Europe confirms and at the moment there is no indication that it should not confirm the ban on Russian crude and Russian diesel, Europe will have a definite problem on the supply of diesel.

So from the point of view of us, to consumers of diesel when we go and fill up our car, this is not a good thing from the point of view of a producer of diesel this is certainly a good thing. There will definitely be a shortage which the alternative producers at the moment which are basically the Middle East will not be able to fill in the short term.

What are the threats to this? One of the threats is recession. Everybody is extremely worried about the possible recession or maybe a recession that is ready, already…coming already here. I don't think that this recession will hit middle distillate demand worldwide that much. There is a strong demand for diesel in all developing countries and Africa and South America, and of course in Europe. There is also one aspect which I think is not accounted for entirely, which is the purchases of heating oil in Germany. Germany still has a significant use of heating oil for heating purposes. We had very, very mild period up to now. So there has not been a huge amount of purchases. Purchases historically tempted to be concentrated during the summer when middle distillate prices were a little bit lower, during summer they was very high. So they didn't buy. So sooner or later, we will need to buy. At the same time with high gas prices, many houses still have their old gasoline burners, so they were switch to diesel. Now, there might be a switch back, because gas has come down a bit. This I don't know. I mean, there are too many moving parts but all in all, there is reason to be in the medium term relatively optimistic.

Again, I know this might come from China. I don't think this is a huge threat, our Chinese friends with which we have contact - we have a representative office in Singapore - have acknowledged, probably there will be about a 100,000 dials a day of middle distillate sales from China in the fourth coming months, but that is not really enough at the moment to overcome the shortage. So even that should not be too much of a threat.

OPERATOR: The next question is from James Winchester.

DARIO SCAFFARDI: No, sorry Franco needs to answer.

FRANCO BALSAMO: As you know I have announced the intentions to leave the company months ago as there isn't any correlations with the current Dario DECISION, but in anyway, I am not in a hurry and if it is necessary, I am available to support the company in this period. So will see.

JOSHUA STONE: Got it very clear. Thank you very much.

OPERATOR: The next question is from James Winchester of Bank of America. Please go ahead.

JAMES WINCHESTER: Good evening, everyone. I just want to ask about Saras's plan going forward. I guess first of all do you think Saras would be one better in a portfolio of assets or keep as a single asset refinery, and the reason I ask it, because you enough cash on the balance sheet to really buy out your minority than you've seen Trafigura recently buy more shares in the company. And so basically, are you kind of putting up the 4 [ph] sales lines?

ILARIA CANDOTTI: We didn't get your last question.

JAMES WINCHESTER: I was just asking basically are you kind of putting up the 4 sales line, you know, what's the relationship with Trafigura at the moment?

DARIO SCAFFARDI: Trafigura is an important shareholder of Saras. They have entered last year maybe. With 3%, they have showed their commitment to the company by further increasing by another 2%. We have started since the beginning of the year a stronger commercial agreement with Trafigura, operating particularly on areas which are beneficial to both companies. So we are concentrated on 2 things, crude supply: Trafigura has been able to show us a lot of American crudes to which we have difficulty in accessing easily, readily because we don't have an office in Huston, which is absolutely necessary to be able to follow the American market, not ruled out but maybe the company could decide in the future to do so. So Trafigura has been beneficial showing us arrows and providing us with crude that has been less hysterical in its price structure compared to the old Azeris and so forth. We have also cooperated strongly on another area where we have been able to create a win-win situation by adding benefit for both which has been in gasoline. The strength of Saras is the possibility of storing and producing many different quality of gasoline's, the strongest gasoline market in the world is on the other side of the Atlantic, where there is a very strong fragmentation based on qualities. So there are certain areas in the US that are able to import European quality gasoline, gasoline's that have oxygenated, gasoline that don't have oxygenated for a lot of different qualities and also South America, where, Trafigura has an office of more than 400 people in Montevideo. So, they are able to cover that market with boots on the ground very, very closely. And they offered us windows of opportunity and we have cooperated on, on many things and splitting the profits. So this has been beneficial. I expect this might continue or not. I think that negotiation in this respect will start in the forthcoming weeks, but Trafigura is a qualified shareholder of Saras. And hopefully will remain and continue to contribute with its insights. And in terms of for sales, I would say cool, like the opposite. But you know, you should not ask this question to me, but the indication from the controlling shareholders is long-term commitment to the refining, to the refining industry…

JAMES WINCHESTER: Okay, thank you.

DARIO SCAFFARDI: …industry and to the energy industry in general.

JAMES WINCHESTER: Now that makes sense. I just wanted to ask about the forward sales as well, and how much margin you've hedged. So can you provide the detail on the volumes, if you go forward and again can you remind me on the market itself on the cracks? Thanks.

DARIO SCAFFARDI: No, no. Well, there's a little bit of misunderstanding on this, James, these are not forward sales in the financial sense. These are term contracts in the old markets. These are term contracts based on future prices, future prices meaning not the price of the future, but what prices that will be published by the agencies in the forthcoming months. So just to give you an example, if we are selling to some operator in the northern Adriatic 20,000 tons of special types of diesel per month, it would be priced on the average of the month of the Platts publication for January, February, and so forth, plus a premium. What has changed compared to the previous years is the amount of this premium, this premium used to be a relatively small amount of money in absolute terms, but has become a very significant amount of money in absolute terms. So in previous years, we would sign a 1 million contract, 1 million is a big number, but let's say 500, 600,000 ton contract per year, divided in 12 months. So roughly 50 or 60,000 per month at Plats plus 2, and now it's plus, plus 40.

JAMES WINCHESTER: Okay. And then…

DARIO SCAFFARDI: How much we have committed? So not forward sales. So it's not a hedge, how much have we committed in selling on a term basis rather than a spot basis? This is something that we do not disclose. But at the moment, since we expect a strong market, the amount of term sales is still relatively small because we are bullish on our use of the market. So apart from specific opportunities in, which we see something which is extremely interesting and extremely exciting, we will probably prefer to play the market where we see a lot of opportunities at least in the first half of the year.

JAMES WINCHESTER: Okay, thank you. And then, one final one from me, if that's okay. And I guess given it's optically, quite difficult to pay dividends at the moment, what you've planned? What are you going to do with this surplus cash flow? And I guess in kind of parallel to that, why you are buying back shares today?

DARIO SCAFFARDI: Well, we were not buying back shares, because to buy back shares we need the authorization from the shareholders which in the last shareholder meeting, we did not ask for because the rules for the loan that we got from the Italian government backed from SACE provided that no buybacks and no dividends would be paid. So, possibly, a mistake has been made in not providing for this. I would not rule out that the Chairman might convene a meeting and get authorization to do this, a lot of companies are buying back shares and this could be a possibility, I mean, which will be discussed with the future management.

JAMES WINCHESTER: Okay, thank you. That's very clear, and I hope you enjoy the retirement.

DARIO SCAFFARDI: Thank you.

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

MASSIMO BONISOLI: Good afternoon, Dario, Franco and Ilaria. Let me start by saying all the best to Dario for your future projects. And thank you for everything. I have 2 questions, one is on capital deployment. I remember, we discussed it in…over the second quarter call. But I will rephrase a bit the question in the sense that if I remember correctly, your windfall tax is not part of the adjusted earnings, but only included in reported earnings. So considering the proposal of the windfall tax from the European Union, do you expect your dividend payout policy to be based now on reported earnings rather than adjusted earnings.

And the second question is for Franco on the net financial position, let's say we are already at the end of October, and considering the current, the current diesel cracks and the current premiums, would you expect a further improvement in net financial position by year end?

FRANCO BALSAMO: Okay, thank you, Massimo. In terms of the net financial position, I can confirm that the month of October has been very profitable in term of margins and we are generating cash flow. So in line with the guidelines that we released, I think that at the year end the net financial position would be at a higher level compared to the net financial position at the end of September, net of tax payments and some CO_2 effects, because we receive the reimbursement of costs within the Essentiality Tariff, but we are late in term of CO_2 certificate purchases. So, the net financial position will grow in the fourth quarter.

As far as the allocation of windfall tax, because the scope of the comparable is to provide the profitability of the industrial activity, this tax is an extraordinary tax and for this reason it's not included into the comparable. So, that's the technical answer. What will be the dividend, in the line of principle now the dividend policy is in place and the Board will decide, as you can see at the end of the day the difference - apart the windfall tax - between the comparable and reported will be related to the evolution of the trends of the oil prices in the last part of the year, which is difficult to forecast in advance.

OPERATOR: Mr. Scaffardi, Mr. Balsamo, there are no more questions registered at this time.

DARIO SCAFFARDI: Okay.

FRANCO BALSAMO: Okay. Thank you very much. Goodbye to all.

ILARIA CANDOTTI: Thank you very much.

DARIO SCAFFARDI: Thank you.