Saras

Third Quarter 2019 Results

Welcome

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Saras third quarter 2019 results conference call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing star and zero on their telephone. At this time, I would like to turn the conference over to Miss Francesca Pezzoli, Head of Investor and Media Relations of Saras. Please go ahead, madam.

Francesca Pezzoli
Head of Investor and Media Relations, Saras

Good afternoon ladies and gentlemen and thank you for joining us today for this conference call on Saras First Nine Months and Third Quarter 2019 Results. All the documents, including the press release, the analyst presentation and the interim financial report are available on our website.

I am here with Mr Dario Scaffardi, CEO and General Manager of the Saras Group and Mr. Franco Balsamo, CFO. Our agenda today will be the following: Mr Dario Scaffardi will start with the highlights of the period, followed by a detailed review of the results of each business segment. Afterwards we will provide an update on the most recent developments and on the outlook for Q4.

In the interest of time, we will not present in detail the section on financials, but you have all the data in the slides, and as usual we are available to answer any questions during the Q&A session.

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

Dario Scaffardi
CEO & General Manager, Saras

Highlights

Thank you, Francesca. Good afternoon, ladies and gentlemen. Thank you very much for joining us.

We are very pleased to present a strong quarter, although in a very challenging and interesting market as usual, which is the thing that makes the oil business extremely interesting. I would say that first of all, notwithstanding the attacks in the Middle East and notwithstanding all the reasons that would tend to push prices up, prices have remained by and large around the $60 mark. We view this fact as favourable to us because it means that notwithstanding the absence of Iran and Venezuela and the pledged further cuts from the OPEC+ group, still there is ample supply of crude oil, which is the first thing that we look at.

Secondly, in this quarter, we finally have started to see in a tangible manner the effects of the IMO regulations – so diesel cracks have strengthened and the price of high-sulphur fuel oil has dropped dramatically as we have anticipated for a long time and has failed to materialise before.

So, coming to our results. The Q3 comparable group EBITDA stood at €118 million compared to the €122 million of the previous year. So broadly in line. The refining sector has given a very good performance driven by the favourable market conditions and by very good operational performance, while the power segment has been a little bit more challenging and we'll talk about it later on.

The comparable group net result is €56.8 million versus the €44 million of the previous period. While the net financial position as of the 30th of September is positive by €28.6 million versus €46 million as of 31st December 2018.

If we take a look at the market, we see that the gasoline crack, which started off very, very weak at the beginning of the year, has come back in a very strong manner. It has been in the higher side of the range in our budget, we had anticipated lower numbers. And during the summer it went also above $10 and we feel that that is a positive performance for the gasoline given the overall environment. The diesel has shown some very strong performance all through the year. It started off quite well. It dipped a little bit in the second quarter, only to rebound back strongly, remaining at the top of the range of the highest levels that we have seen in the last four or five years, mainly due to the IMO Marpol VI legislation.

So, I would say, by and large, a very constructive period in terms of absolute prices of diesel, of the discounts of fuel oil. The only area of attention is on the discounts of the various quality of crude oil, which, due to the absence of Iran and Venezuela, have been abnormally strong and also certain sweet grades, which are particularly suitable for the production of the very low sulphur fuel oil for marine use also has shown strength. So, this is one of the reasons why the margins haven't been actually higher. They've been counterbalanced by a very constructive product picture. Also, a very constructive demand situation, more challenging the crude oil supply side.

Although we are starting to see some changes in this respect. It started with Urals in this quarter, which has had a very variable position, in the aftermath of the situation of contamination in the Russian pipelines, but I would say that on certain specific crudes of the heavier types, which are not particularly abundant, we are starting to see some encouraging signs of prices weakening, which is relative price weakening, which is constructive for Saras.

If we look at the margins, the EMC benchmark has touched one of its maximum levels in this past quarter, so it has been at $3 and we've been able to add about $3.1 above this. Our guidance – we'll talk about it a little bit later – our guidance for the fourth quarter is that we should be able to achieve certainly a level above $3 in the quarter due to the very strong beginning of the month of October. So, I would be constructive in this respect.

Segment Reviews

1. Refining

If we look at the segments, our refinery runs in the quarter have been 6% above those of the same quarter of the previous year. And if we look at the nine-month average, they're broadly in line. There is a less use of complementary feedstocks. And when we talk of complementary feedstocks, we mean straight run fuel oil – semi processed material, let's say. That has become extremely expensive due to that many of these materials are used as blending components for the new ultra-low sulphur fuel oil for marine use. So they have become very expensive, making it a bit less economical to run. So, this is the reason why we have basically run less.

The operational performance of refinery has been extremely positive. Likewise, the programming and commercial performances of our trading division in Geneva. So, a very, very good quarter from this point of view.

If we look at the next slide, again, we present nine-month results on the qualities of crude oil. The quality of crude oil has become lighter. And the reason is purely economical. Basically, the less availability of heavy crudes or the fact that they are more expensive incentivized the use of certain particular crudes which are neither particularly suitable for the production of very low sulphur fuel oil, nor for other reasons, so they have become more discounted. This is the reason why our average API has gone up by about one point.

In terms of product yields, we've maintained them broadly in line. Of course, the lightening of the crude pool as shown as an increase in the middle distillates, since we try to maintain the fuel output basically constant.

If we look at the fixed and variable cost, these are in line with signs of improvement. We have a strong campaign to reduce overall cost in a market where costs are increasing and we have some significant improvements in the fixed cost, while the variable costs they're basically due to the higher value of chemicals, hydrogen and CO_2.

2. Power Generation

If we look at power generation. Power generation this quarter has been slightly disappointing. This is due mainly to some operational hiccups and where we've had about 5% less production in the quarter compared to the previous quarter and 5% reduction in the full nine months compared to the same period of last year. But, I would say that, more importantly, there is a change in the power tariff where the prices of gas have decreased and also the price of power has been below the €50/MWh mark. I think the average of the quarter has been something like €47 per megawatts hour.

If we look at the fixed and variable cost, again, there is nothing much to add.

3. Marketing

The marketing side has been favourable. In this quarter we have completed the sale of our business unit of the retail segment of our Spanish division to Kuwait Petroleum. So, this has been completed and there has been a total consideration of 35 million. Overall, sales in Italy have been on the increase. In the quarter, we have sold 6% more while logically in Spain, considering the absence of the retail network, we've had a 7% decrease, but with good margins. So, the market overall continues to remain strong.

4. Wind Power

The wind segment has been also positive. Traditionally, the summer months is a weak period for wind. And of course, we've been negatively affected by the power tariff, which is significantly lower than last year. So, there's been almost a 30% change in the power tariff quarter on quarter, while electricity production has actually been higher in this quarter compared to that of the previous year.

Recent Development & Outlook

I would say that one of the items that I would like to highlight is the effect of IMO. This is something that we've talked about for a long time and finally, the effects are manifesting themselves in a clear manner. First of all, there's been a constant and steady rise of the diesel cracks and a decline in high-sulphur fuel oil cracks.

A complex refinery has its economics, which are directly linked to the difference between these two values. So, a higher spread means higher refinery margins for a complex conversion refinery. The opposite is true for a hydroskimming refinery. So, we might have some different effects depending on the configuration. And if you look at the next slide, this I think exemplifies what I've been trying to point out.

The slide here represents the ratio between the value of diesel and the value of high-sulphur fuel oil. And it's a metric which is directly linked to refining margins. So, we've had a period of negative cycle on refining margins, which has been in the period between 2010 and 2014. And you can see that in this ratio. And then this ratio started to rise. And we've had a period of very positive margins. Then it went back down in 2017 and 2018, but for the opposite reasons. It has not been a weakening of diesel, but a strengthening of fuel oil. Fuel oil in the last couple of years has been abnormally strong and notwithstanding a decline in demand. This is what negatively affects this ratio and gives a positive boost to a simple refinery and a negative boost to a complex refining. The situation, as you can see from the last part of the leg, is changing very dramatically. So, I believe we're going to enter into a phase which will be a bullish cycle for the complex refineries.

In this period, we have started our bunkering business, which is the retail business, to selling marine fuels to ships. We have started at the end of April and already in September we've had a very, very positive result. We've been able to sell about 17,000 tonnes of product. We actually budgeted about 10 thousands tons in the first month and this level of service and with the lightering vessel that we have, the maximum over a month would be about 20 to maybe 25. So, if we're able to secure a market above that, we will probably need to consider getting a second lightering vessel to perform the service.

Many ships have started to call on our port, not necessarily because they are calling on Saras to provide us with products. So, this is a very positive start for us and we expect to have a very, very interesting 2020 in this respect. Keep in mind that our first sales have been of the old type of fuels, because if you look back at the graph and you look at the difference between the price of high-sulphur fuel oil and the new very low sulphur fuel oil – the very low sulphur fuel oil is sold on the basis of diesel minus. Anything between diesel minus is a very variable price, I would say, anything in the range of diesel minus $50–$100. Fuel oil, high-sulphur fuel oil, is $150/$100 cheaper than that. So of course, we'll try to buy the high-sulphur fuel oil quality until the very last possible day. So, the majority of our sales are in

September; only in October have we started to see a little bit of shift, but still the actual sales of very low sulphur fuel oil at the retail level, have been comparatively modest.

This has been also a very good quarter for our wind farm. I think I mentioned in previous calls that we, at the end of last year, our people in a controlled company, Sardeolica, have obtained the authorization to increase capacity. So, we have built nine new towers, each of about 3 MW. So, we have added roughly 30 MW to our existing windfarm, so an increase of 30%. And this has been completed in a period of seven months. So, by August, the whole project has been basically completed and taking blades which are longer than 117 meters. That's the diameter – the radius is half of that. On mountain roads it's no small feat, which has been performed in an impeccable manner. At the same time, we had received authorization to re-blade our existing farm on the old towers. And this is already underway. We have purchased the blades and we're going to start installing them in the forthcoming weeks. It will not change the installed capacity, but it will increase the possibility of production in lower wind conditions. So, this is a further positive development.

On the outlook for the last quarter. As I mentioned at the beginning, this quarter looks extremely constructive with the effects of the IMO Marpol VI regulation driving a very strong diesel spread and a very strong outlook for very low sulphur fuel oil. So, we expect this to impact significantly on our refining margins and on our bunker activity. So, the premium above the EMC benchmark is similar to the level that we have obtained in Q3, so above $3. There's been a slight misunderstanding in the data that we have presented and where we have presented the premium, which is based on the full year, of course, including the maintenance in the first quarter.

If we go to power. There is maintenance that has been completed. The CIP's tariff is influenced by the lower gas prices and on the wind we have already mentioned. So by and large, we expect a strong Q4 to complete the year and with a positive outlook for next year.

We have decided not to comment specifically on the financial figures; we're waiting for your specific questions in this respect and Franco's right next to me and he will be able to answer any questions you might have. Thank you.

Questions and Answers

Operator

Excuse me, this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch tone telephone. To remove yourself from the question queue, please press star and two. We kindly ask that you use handsets when asking questions. Anyone who has a question may press star and one at this time.

The first question is from Joshua Stone of Barclays. Please go ahead.

Joshua Stone – Barclays

Thank you. Good afternoon. I've got two questions on refining, please. Firstly, just a follow up on the guidance you've given for 4Q. I have to say, in terms of total refining margin if you printed 6.1 in 3Q, did you think it might be up in 4Q or broadly the same? If you could be maybe a little bit more specific, that would be great. And then the second question, we've seen freight rates go very high or extremely high in parts of September. They had come down. I was wondering if you could talk about what impact that's had for Saras, if any, and how that could go from here. Thank you.

Dario Scaffardi

Thank you, Joshua. Well, on our guidance here, we give guidance on the EMC premium – on our premium to the EMC benchmark. So, what we can certainly confirm is that we expect to be above the 3 mark in Q4, if the market continues in this manner. What the absolute value of the EMC benchmark will be is something that we don't usually comment upon. But I will be sort of surprised to see any strong deviation from what we've had from Q3. So, the market at the moment looks constructive and it looks well-balanced.

On the freight rates – thank you, because I think it's an interesting question, on which many people give conflicting views. Now, we are based on an island, so one could assume that high freight rates affect us adversely and, in a way, this is true, but I would say that high freight rates for Saras are actually a relatively positive thing. We have been badly hurt during the period of negative cycle by very low freight rates that were permitting unreasonable arbitrages and we have been affected by the fact that people were importing diesel from China, which is really an anomaly considering the fact that the freight rate to bring crude to China and bring the products back is sort of ridiculous. I mean, it's higher than the refining margin. So, it was a very abnormal situation. So, having freight rates that have risen significantly and have come back down. So again, you know, when things are influenced by political factors like the freight rates with the possible thing with American sanctions is, I think, we need to wait and see. But there is a consensus that the freight market has moved a step higher. Let's remember that it moved a step higher from a very, very, very low level. So, I think this is beneficial also for the ship owners.

From our point of view, if we look at crude, there are two considerations here: One, that the price of transport on crude is borne basically by the suppliers. The majority of crude quotations like the Ural Med quotation is a CIF Augusta quotation. So, the supplier discounts whatever the transport price, maybe not on the immediate, of course, after the event happened, when things normalize. That is the case.

As a matter of fact, if you look at the Iraqi context, they have a specific provision for freight adjustment. So, freight is basically borne by the crude seller. And this is also very beneficial for us because Saras has access to many crudes in its basin, which, where we have competition from the Far East, if crude prices are higher, it becomes a lot more convenient for the former Soviet Union producer or for North Africa to sell crude to Saras rather than ship it to the Far East. So, this is advantageous.

It is also advantageous in terms of product supplies, because then arbitrages of oil products from the US Gulf, from the Arabian Gulf, the Persian Gulf, from India are less attractive. So, this strengthens our position as a seller. The negative is that, of course, the freight we pay to supply our basins around the Mediterranean becomes effective. But I would say that the other effects by far counterbalance the increase in price that we have in our domestic network.

Joshua Stone – Barclays

That's very clear and thanks for the detailed answer. Just a point of clarification on the first question. Is the idea the additional margin would be, you think, would be above $3 in 4Q?

Dario Scaffardi

I would think so, yes.

Joshua Stone – Barclays

Yes, very clear. Great. Thank you very much.

Operator

The next question is from Alessandro Pozzi of Mediobanca. Please go ahead.

Alessandro Pozzi – Mediobanca

Good morning, all. I have two questions. The first one is on the fuel oil. I do think you have sold an awful lot of very low sulphur fuel oil in Q3, but that's probably going to change in Q4. So, I was wondering, can you help me understand how much very low sulphur fuel oil versus the high-sulphur fuel oil are you planning to produce going into Q4? And then of course, into Q1 in 2020? My second question is on maintenance activities. I was wondering if you can maybe give us an update on the level and the timing of maintenance activities in 2020. Thank you.

Dario Scaffardi

Thanks, Alessandro. On the fuel oil, basically, if you go back to our slide where we have the production, our production of fuel oil in the nine months has been 500,000 tonnes, roughly 5%. This is on – and if we transform this on a yearly basis, that would be something in the range of about 700,000 tonnes a year, which at the moment, is sort of our target and it will be all, or almost all, very low sulphur fuel oil. We have sold relatively small quantities of very low sulphur fuel oil directly to ships because they didn't want it for the time being. But we have sold instead full cargos to other international bunker operators, particularly in northern Europe that were storing up in their tankage system for the future demand. So, we have been producing it and for 2020, we expect to produce 100% of our production or a number which is very close to 100% as very low sulphur fuel oil. And in the range of anything between 600,000 to 800,000 tonnes a year, which is roughly 5% of our production.

Regarding maintenance, we will publish our schedule for 2020, I think later on in the next quarter results. 2020 will be a year in which we will have in between the first and the second quarter, we will complete our six-year maintenance cycle of our core conversion unit. So, we will perform work on our FCC units. And during this period, we will also complete the investments which are switching the accessory units from steam, and so fuel-oil powered, to electric power. So, this will happen between March and May of next year.

Alessandro Pozzi – Mediobanca

Ok, thank you. And going back to the fuel oil. In Q4 are you planning to sell – all the fuel oil that you are planning to sell is going to be the 0.5% compliant fuel oil?

Dario Scaffardi

Well, it depends on the request of the market. We are planning to produce only that. On the level of ship owners calling at the port, there is still demand for the high-sulphur and I think there's going to be until the very last day in which they will be able to purchase it. Although it is declining, of course. I would say that the more sophisticated ship owners are switching and maybe the more aggressive ones are trying to hold on to the lower price as long as they can. And now they've got a boost from the freight rates. So maybe they're going to be a little bit more relaxed paying up. Hopefully

Alessandro Pozzi – Mediobanca

OK. Because I think at the moment you are selling the 0.5% alongside the 1% fuel oil. Is that fair?

Dario Scaffardi

The 1% basically almost doesn't exist anymore. There is a very limited market there. There is a little bit of overland market for 1%, but it is tiny in terms of quantity, it's irrelevant.

Alessandro Pozzi – Mediobanca

Thank you very much.

Operator

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

Henri Patricot – UBS

Thank you for the presentation. Two questions from me. The first one on the refining and your crude slate. You mentioned a challenging environment for crude and differentials. I was just wondering if we should expect any change in your crude slate in the coming months in particular, given the changes we're seeing on the product side of things. And secondly, I was wondering if you can give us some indication of your latest expectations in terms of CapEx for next year, particularly in light of the major turnaround that is going to take place. Thank you.

Dario Scaffardi

In terms of crude slate, looking forward, we continue to capitalise on our flexibility. We monitor the market very, very closely and we look for opportunities. We are starting to see some signs that particularly the heavier grades are starting to be a little bit more discounted. So, there is some positive sign. This has not been felt yet by the more standard crudes like Urals and the standard Iraqi and Saudi Arabian productions. But I would say that there are some encouraging signs. We, of course, tend to exploit the market as much as we can. Of course, it's not our policy to give any specific details to exactly what and from whom we buy. But there are some interesting developments.

I would say that on the sweet crudes there's a two-tier market: one for the crudes that are particularly suitable to produce the very low sulphur fuel oil. And these are increasing in terms of price and which is correct since the very low sulphur fuel oil is almost at the same level as diesel. So, there's a very strong incentive to produce it, also as a straight run product. So, also, a simple refinery might be able, with certain crude, to produce the low sulphur with good economic results. Instead, those sweet crudes that are not particularly suitable for this are coming under pressure.

So, these become automatically opportunity crudes for us, which we try to maximise in our slate.

On the CapEx maybe – that's a more difficult question. I will let Franco.

Franco Balsamo

In terms of Capex, as we have also evaluated in the last conference call, we have anticipated roughly €30 million of investment, expecting the year 2020 for technical reason, they were anticipated in this year.

So, we are forecasting to close more or less in that region, 30 million more. On top of it, of course, we need to consider the investment in the wind side. That in any case, were not included in the previous.

As far as the investment in the year 2020, at the time being we can confirm what has been already approved in the existing business plan. So, the yield on the investment will be kept at the same level.

Henri Patricot – UBS

OK. Thank you.

Operator

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

Massimo Bonisoli – Equita

Good afternoon. Three questions, if I may. Back to the question on the tanker rates. Could you be more specific on the magnitude of the positive effects of the higher tanker rates in terms of additional premium or margins per barrel that you have seen so far in the month of October? The second, if you can give us an indication of margin premium in October. I would assume it would have increased versus third quarter. nd the third, if you can provide an update on the guidance for power generation division. Thank you.

Dario Scaffardi

Massimo, thank you. On the tanker rates, I would say, I was trying to give a more qualitative view on the market and with a long-term view. I mean, because if I look at the short term, crazy things have happened. The freight rates where VLCC – by the way, we don't use any VLCCs, but they went from a rate of, if remember correctly, of about $30,000 a day, which is the rate in which you can time charter at VLCC to 300,000. And that, I think, is back to 160,000; 170,000.

So, to give an impact on actual numbers for us is, I would say, difficult and probably also inappropriate. Or what I would stress from a qualitative point of view, that high tanker rates are not necessarily a negative. We don't view high tanker rates for crude carriers as a negative for Saras actually being very, very close to important production areas such as Libya, Algeria, Egypt, Ceyhan in Turkey which is the collection point. This is actually, we are the first refinery on the line from these routes. So, this is actually a positive effect. How positive? Whether it has been a positive effect in October. No, I don't think it has been a positive effect in October, because in October we had to bear the brunt of a sudden change in the market. So, the effect has probably not been too positive, but over time, I think it could improve our crude supply by the fact that it disincentivises long-haul voyagers.

Regarding the premium. Well, it would be inappropriate to provide a guidance on the October number. But as we mentioned before, Q4 looks very similar to Q3.

Excuse me, you had one more question?

Massimo Bonisoli – Equita

The power gen.

Franco Balsamo

As far of the power gen, at existing electricity price, we are forecasting €160 - €165 million for the full year.

Massimo Bonisoli – Equita

Very clear. Thank you.

Operator

The next question is from Christopher Kuplent of Bank of America. Please go ahead.

Christopher Kuplent – Bank of America

Thank you very much. I think I'm going to try and ask another question that will sound peculiarly like a question you've tried to answer many times. But any indication you can give us how you think your crude slate will change into 4Q and beyond and perhaps give you the opportunity to reiterate your 2020 guidance. That's been out there for a while. And as a second, perhaps add-on Dario, you've been always quite outspoken that the market will find its weird and wonderful ways to deal with a disruption that, I guess, the IMO represents. What is your early assessment so far, given the charts you've presented to us today and the evidence you now have of the IMO impacting the market, whether it's compliance, whether it's your competition, switching, blending and coming up with, if you like, market-driven solutions that perhaps we didn't think of a few quarters ago. Thank you.

Dario Scaffardi

Well, Christopher, I think it's, you know, it's a question which is definitely to the point. I think we are in a situation where the market is going to find some sort of equilibrium. Right now, we have a very high value of this very low sulphur fuel oil and a very low value of high-sulphur fuel oil. So, this is an area, in my opinion, which is in stable equilibrium, which on the one hand incentivizes strongly the ship owner to install scrubbers, to cheat, to do anything, because there is a huge, at the moment, financial incentive. So, I think this gap in a way will close a little bit. I don't think it will close that much because the majority of the big ship owners – and we see this from our bunker activity – have looked very, very favourably. To be honest, when we started our bunkering activity in our port in August, I was recommending our guys to go slowly and to be cooperative with the ship owners, thinking that the ship owners would be reluctant to buy from a new player. Instead, you know, quite the opposite has happened. They were very pleased to be able to buy directly from a refinery.

So, where they had a guarantee on the quality and costs of results and the willingness to participate in any fine tuning that might be necessary. So, we had a very easy start, to be honest, which I was surprised. And we've been able to subtract a certain amount of volume from other bunkering bases. So, this from the point of view, the micro point of view, of our activity is extremely constructive.

From a more global point of view, I would say that again, these high VLSFO prices promote running of certain type of crudes. But at the same time, the prices of these crudes have become rather high. So, if you're not able to exploit them properly, particularly in their middle distillate cuts and in their— The other point, you are paying a lot to make fuel oil. So, this again will find some sort of equilibrium.

One of the recent things that I've been reading is that certain countries are thinking of trying to put waivers and this might happen. I mean, I would not rule it out, but I think that by and large, the picture is constructive and there will be more opportunities, particularly for refiners such as us. And I look forward to the possibility of buying more high-sulphur fuel oil, which we could use as a complementary feedstock in the refinery. And this is something that we would be easily able to do compared to others that instead would not be able to treat this stuff. So, I think we're going to see some very interesting times in the next couple of months. And of course, the market will maybe find some sort of equilibrium, maybe next summer, in my opinion. It will take at least six months to find some sort of stability.

Christopher Kuplent – Bank of America

Okay. Thank you very much, Dario. And just a quick one on your 2020 guidance. What's embedded there in terms of expected changes to your crude slate?

Dario Scaffardi

Well, the only thing that, as you know, that is not really going according to our plans is the crude differentials. That is an area that still is challenging. The prices of heavy crudes are abnormally high. I'm waiting to see the effects of IMO 2020 on these crudes. I don't think we have seen the full effects yet. That's all. I think there is room for improvement there. If that materialises, again, a dollar decrease or one or two dollar decrease in high-sulphur crude differential equates back into $100 million, basically.

Christopher Kuplent – Bank of America

Great. Thank you. OK.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. The next question is a follow up from Joshua Stone of Barclays. Please go ahead.

Joshua Stone - Barclays

Hi, thanks. Just a follow up on the crude differentials, I noticed the Russian Urals price has gone up quite substantially versus Brent in the last month. I don't know if you have a view on what's driving that; if it's being replicated in any other crude differentials? Thanks.

Dario Scaffardi

Basically, it is a question of demand and supply. The programme for October/November has been a tighter programme, both from the North, from Ust-Luga and Primorsk and from the Black Sea. So, less availability. The quotation of Urals is a quotation which, of course, is the most liquid market, so it immediately reflects availability. On the other hand, there are other crudes that we purchase, always on the heavy high-sulphur crudes that have shown an opposite trend. So, with increased discounts in the latter part of the year. So, I'm cautiously optimistic. Generally, we don't buy Urals. Urals is a benchmark, but we very rarely buy Urals.

Joshua Stone - Barclays

That's great. Thank you.

Operator

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

Dario Scaffardi

Thank you very much.

Francesca Pezzoli

Thank you very much for listening. And we are available for any follow up questions you might have. Thank you.