ERG S.p.A
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Operator:
Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the ERG First Quarter 2009 Results and Strategic Update Conference Call. After the presentation there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Alessandro Garrone, CEO of ERG. Please go ahead, sir.

Alessandro Garrone:
Okay, thank you. Good afternoon ladies and gentlemen and welcome to the ERG First Quarter 2009 Results and 2009-2012 Business Plan presentation. I am sorry for the late afternoon webcast today.

I am here with Luca Bettonte, our CFO, and Paolo Merli, our Head of Investor Relations. And before handing over to Luca, who will take you through results in detail, I will go briefly through Q1, 2009 highlights, as well as what is becoming our top-priority, which is safety. I will then finish the presentation by giving you a strategic update and guidance for the next 4 years.

Let me start with the key financials for Q1, 2009. Q1 EBITDA at replacement costs came in at €12 million, 93% lower year-on-year, which includes a €28 million of insurance reimbursement for the ISAB Energy incident. This weak set of results was mainly penalized by two factors. First the general shutdown of ISAB Refinery in a time (January and February) of good margins, while March - when the refinery went back on stream - was characterized by a tough scenario with particularly depressed diesel crack spreads.

The second reason is the ISAB Energy incident, that was only partly off-set by insurance reimbursement. The replacement cost net profit was at a loss of €20 million compared to a profit of €39 million in Q1, 2008. Bottom line, the lower operating profits were partly off-set by a good financial performance with positive financial income.

Looking at our balance sheet, it’s now much stronger with a leverage of 14% following the sale of the 49% stake in ISAB Srl to LUKOIL. Net financial position closed at €321 million at March-end, and at €252 million if adjusted for the 51% cash in ISAB balance sheet, which is cash-positive at the moment.

As I said, before handing over to Luca for Q1 results in detail, I would like to spend some time on what is becoming our priority: safety, which means also reliable operations.

Over the past few years we haven’t had a good track records on this side, with the fire at the refinery in 2006 and the incident at ISAB Energy plant in October last year. Well, although the current systems are already compliant with the best practices, something did not work properly over the past few years. So I personally decided to launch what we called “Progetto Sicurezza”, which means safety project, with the aim of building the right knowledge and culture throughout the entire Group on this important topic, with extensive training programs.

In order to reach our target, we are now performing a “gap analysis” supported by DuPont, an external consultant. The analysis is specifically aimed to assess how actual behaviors are consistent with safety procedures and guidelines.

We have also defined a new compensation scheme mechanism which will be introduced as of next year, also correlated to key safety indicators. Our commitment is to create a solid track record on this side in the forthcoming years.

And now over to Luca, with the first quarter details.

Luca Bettonte:
Good afternoon everybody and thanks for coming to this conference call. As usual it’s now time to go through our main important and main significant figures. At consolidated level, replacement cost EBITDA adjusted is at €12 million in the first quarter ’09 versus €66 million in the fourth quarter of the previous year, and €173 million Q1 ‘08. As you see, worse results both compared to Q1 ’08 and Q4 ’08.

Let me say since the beginning that the worst performance of coastal refining and power and gas are mainly due to both the general turnaround of the ISAB Refinery and the consequences of the ISAB Energy accident in October last year.

Integrated downstream and renewables, as I will say, are slightly worse, but pretty in line with the previous quarters. Going through the profit and loss below the EBITDA, adjusted EBIT replacement cost is minus €30 million compared to plus €14 million in the Q4 ’08 and versus €123 million Q1 ’08.

As already mentioned by the Chief Executive, it’s worth making some comments on this chart, mainly on the outcome, on the result stemming from the net income from equity investments and the net financial income expenses.

The €9 million referred to the net income from equity investments, relating to the valuation with the equity method of the result pertaining to ERG Group of ISAB Srl, ISAB Refinery. The performance has been very good from a few financial viewpoints: we had €5 million of positive financial income. This is thanks to the positive exchange rate difference of about €14 million compared to the Q1 last year, and the lower financial charges, including the interests accrued on outstanding amount towards LUKOIL for about €18 million.

And last but not least, we didn’t have any loss from derivatives instruments, while the Q1 last year we suffered €9 million losses. No comment on taxation: as you see, there is a negative result, resulting in no taxes.

Talking about each single business, now coastal refining: we had a negative adjusted replacement cost EBITDA minus €24 million compared to a €14 million positive in Q4 ’08 and €84 million positive result in Q1 ’08.

As I mentioned before, and excluding the change in the scope of consolidation, the results have been penalized by the general shutdown of ISAB Refinery. The general turnaround of South Plant and the slowdown of North Plant are some of the main effects. We had also a worse price scenario: in particular we had lower diesel crack spreads which more than off-set the strength of the US dollars versus Euro and, as a result of the scenario, a decrease in the utility prices. We had also a bad plant performance prior to the general shutdown, so during the first 15 days of January.

Let me just mention that the impact of the ISAB Energy incident was negligible, as fuel oil crack spreads were very high during the quarter and also thanks to the positive contribution from the take or pay amount paid by ISAB Energy to ISAB Refinery.

Talking about performance, on the next chart: you see that the refinery margin at replacement cost is $1.52 per barrel compared to the 8.48 in the Q1 ’08. Again, the general shutdown of ISAB Energy has been carried out in a time of good margins in the quarter. The shutdown began on the 15th of January and ended during the first week of March, while margins were higher in that period.

In any case let me say that it has been the best cost effective shutdown, compared to the shutdowns we had in 2006 for the South Plant and 2005 for the North Plant. And also we didn’t have any accident, so zero incidents in this shutdown. So excluding the impact related to the timing linked to the scenario, in the end it has been a good job made by people working in the refinery.

As I mentioned before, we had some not very good performances of plants prior to the general shutdown, when the scenario was more favorable, during the first 15 days of January. And in any case the scenario in March was very, very weak.

Let me just give you some figures: diesel/brent crack spreads in the Q1 ’09 dollar-per-barrel was 14.11 versus 23.10, Q1 last year. And diesel/fuel oil differential US dollar-per-ton was 212 Q1 ’09 versus 458 Q1 ’08.

So that is the main reason of our not very good performance. From an industry viewpoint, EMC refining margins were higher versus the first quarter of last year, due to the strength of fuel oil and gasoline, partially off-set by the weakness of gasoil.

Moving to the integrated downstream key figures: performance has been pretty in line with the Q1 last year, so €16 million versus €19 million for Q1 ’08. The marketing EBITDA was practically in line with the first quarter of last year, if we exclude some costs relating to the launch of the ERG Mobile project. Inland refining and logistic EBITDA is slightly worse: we had better price scenario also for a stronger US dollar versus euro, as well as some improvement in the slate (WAF crude oils) at Sarpom, but more than offset by lower volumes for both refineries, and particularly due to the Rome slowdown.

More in detail, integrated downstream/retail: it is important to underline market share at 7.2% in the first quarter ’09, versus 7% in Q1 last year and versus 6.9% in Q4 last year. The performance has been better than in the industry trends.

Some figures: the domestic industry has shown in the Q1 ’09 a significant reduction in consumptions: minus 4% versus the first quarter of last year.

ERG volumes in the Q1 ’09 were in line with the corresponding period of the previous year. As a result, we increased our market share to 7.2%. Margins are slightly worse in Q1 ’09 versus the same period of last year.

A bit towards in the wholesale, the domestic wholesale industry was down 6.1% in the first quarter of this year, in particular for a decrease in the gasoil consumption.

ERG domestic volumes went down to approximately 16% in the first quarter ’09, the main reason being the economic weaknesses which led to much lower consumptions relating particularly to heavy traffic: maybe someone of you has seen some information from the Autostrade about the reduction in heavy traffic during the quarter.

Talking about the inland refining, we had a better performance in terms of refining margins at replacement costs: US dollar per barrel of 2.68 versus 2.39 in Q1 ’09 versus Q1 ’08, due to a better scenario at topping, and thanks also to the stronger US dollar and the improved slate at West African crude oils at Sarpom.

As I mentioned before, we had a slowdown in Rome refinery so the good performance at refining margins level has been offset by the lower production, if we move to the total amount of March.

Moving to the power business - ISAB Energy key figures: first let me underline sales in terms of GWh, 471 in the first quarter this year were up versus 268 in the Q4 last year. Of course we can’t really compare the Q1 ‘08 because we had the incident in October last year, as you remember.

In terms of economic results, replacement cost EBITDA: €25 million versus the negative result of last year Q4 minus €11 million. As already mentioned, here we have to go back to the negative impact following the incident, which also implied a shortfall penalty of €8.7 million paid to ISAB Refinery, that has been in any case partially offset by the reimbursement. I am talking about the business interruption: a section of the reimbursement has been posted in the profit and loss for about €28 million this quarter.

It is just worth mentioning that of course last year we had the CIP6 fixed incentive component, if you look at the price: even so, from a balance sheet and profit and loss viewpoint, the impact is just at Italian GAAP, because from a IFRS viewpoint it has been split over the period and at the end we had a lower GWh power production of minus 61% versus the Q1 ’08, which is lower than 50%: that’s because we had a 10 days stoppage of the train no. 2 in February. That in any case shouldn’t create any problem on a yearly basis.

With reference to ERG Power & Gas and NuCe key figures, replacement cost EBITDA is minus 3 versus 1 in the first quarter last year: the main reason is the lower contribution for the Turbogas and other NuCe Sud plants that were sold to the ERG Med and then contributed to ISAB Refinery, during the transaction we had with LUKOIL last year. This negative impact has been partly offset by the increased profitability of some activities in the commercialization of gas.

And last renewables: I’ll go through our figures, in any case I think you had the opportunity yesterday to take part in the conference call held by the Chairman. From an industry viewpoint, the domestic renewable industry production in the Q1 ’09 is up at 32% compared to the Q1 ’08, with the industry domestic wind production plus 26%: as a result of domestic wind production, all renewable is pretty in line on a quarter-on-quarter basis.

With respect to our own numbers, the electricity production in terms of GWh is 85 in Q1 ’09 versus 87 in Q1 ’08, that mainly because of the lower contribution of the French wind farms, due to the lower wind production in the end in that region.

In terms of performance, we had a lower electricity and Green Certificate prices, as well as some operating costs higher than last year, just partly offset by the higher production in Italy (thanks to the Vicari farm), just partly offset by some problems we had in the Puglia region relating to the temporary grid connection issues with the national grid operator.

As a result, the replacement cost EBITDA was €5 million this quarter versus €8 million at Q1 of last year.

In terms of investments, €62 million versus €78 million in the first quarter of last year. In this chart we have included a 51% investment made by ISAB Refinery, so coastal refining is in line: €13 million investments versus €14 million in the Q1 last year. Lower investments for the integrated downstream business, as the restyling project has been mostly completed and this results in lower investments. While for power and gas €36 million versus €37 million: of course we are still talking about repowering of North Site, work in progress is at 82% and we can confirm that we should finalize the project during the second half of 2009. I remind you: 480 MW installed. For ISAB Energy the investments are mainly associated with the reconstruction of the train no. 1, damaged in October.

With reference to the renewables, €3 million are mainly related to Faeto wind farm (commissioning has been completed in April and full operational should be reached by the end of this month) and some enhancement at San Vincenzo plant. With reference to renewables, we expect CapEx to accelerate and particularly in the forthcoming quarters, and so with reference in particular to Fossa del Lupo and Ginestra, that are entering the construction phase.

From an indebtedness viewpoint, we ended last year at €274 million, so with a 9% leverage. Now we are at the end of March at €321 million, with a 14% leverage. If we consider also the 51% of the cash that is at present located at ISAB Refinery, the net debt should go down to €252 million.

We had three main items: a negative result of €35 million relating to the not very good operating performance this quarter, offset by the good performance in particular due to the excise duties trend of €43 million (I am talking about working capital), and a CapEx of about €49 million.

So everything is very solid and stable. And just to give you further information related to our financial structure, in the next chart we have prepared a breakdown of our liquidity and gross indebtedness. As I mentioned before, not adjusted net debt is €321 million. It is composed of €1.5 billion liquidity from the LUKOIL transaction.

Just a couple of information: this liquidity is invested in time deposit with a selected number of primary banks. We have a diversified portfolio, so different duration, but with an average term that is no greater than two months. And all these banks have a CDS by far lower than 200 basis points, and a rating that is up A level. From this liquidity we have received something more than €10 million interests in the quarter.

Talking about our gross debt, as you see we have about €479 million long-term debt that expires in 2009, out of that €240 million is relating to bridge loan that we are about to refinancing (we are talking about NuCe North Plant), and we had some debt at corporate level. We are working also for a refinancing of about €150 million.

Of all the remaining €879 million, we should consider that €290 million are made of project financing relating to renewables and ISAB Energy, and 21% of them expires in 2012. So we are very well positioned.

From a liquidity viewpoint we have a short time indebtedness of over €419 million but we have at the same time an uncommitted line up to about €1.1 billion, so that’s enough headroom for managing the liquidity. So we think we are very well positioned, a stable structure ready for the future and it is not bad in this context, I will say.

And in the end some guidance for 2009, of course compared to 2008.

On coastal refining let me just say: negative impact from the worldwide economic crisis on margins, but for some specific items affecting our performance, so: the turnaround. The main reason for the negative outlook we are seeing here is linked to the general crisis.

For integrated downstream we see lower margins at retail and we think we could increase our market share as we did during the first quarter; we are also including some additional costs associated with the launch of ERG Mobile project, starting in April this quarter.

From a thermoelectric viewpoint, the negative trend of the arrow is mainly linked to the lower production from ISAB Energy - I have to go back again to the October incident - while for renewables we think that the contribution from Vicari, Faeto and San Vincenzo wind farms should allow us to increase the result compared to the last year. This despite a constraint that we may have on our wind farms in Puglia due to the already mentioned maintenance work made by the national grid operator.

This is our outlook. That is of course quite delicate and of course we are working very hard in order to move this arrow up as much as we can. Thanks a lot.

Alessandro Garrone:
Thanks Luca and now we have a strategic update, before proceeding with the Q&A session. Of course the questions will be both on Q1 results and the strategic plan.

So, before going through numbers of 2009-2012 business plan, I would like to summarize ERG strategy which has not changed overall, although I like to update you on some aspects.

We confirm our multi-energy strategy and so we want to grow in all our areas of activity, but in particular we are looking at opportunities in renewables and in the integrated downstream space which are the most stable businesses, and we will do that of course on top of organic investments in all our activities.

As you well know, one of ERG's characteristics is that we strongly believe in partnership, of course in a strong and good partnership, as we have demonstrated with LUKOIL. In our 70-years history we had a lot of partnerships, the last one was with LUKOIL, and that was another milestone on our general strategies.

We are now exploring opportunities both in the integrated downstream and renewables as I said; none of these are beyond the preliminary stage, so we can't comment on, but let's just say that this is a route we are pursuing seriously in order to grow and create value for the shareholders.

Then now, more specifically business-by-business, our strategy is in the thermoelectric business - as Luca said - to complete NuCe Nord repowering and the reconstruction of the ISAB Energy plant. And we have also to setup a "merchant" power platform.

On the gas, the commitment is on Ionio Gas and Rivara, two strategic project investments. We want also to reduce the risks associated with the commodity market also using a 'regas or pay' approach more than a 'merchant' approach on gas.

As far as renewables are concerned, we want to expand our wind capacity both in Italy and France, and also to identify opportunities in other countries.

On coastal refining, we will increase our light products yields, mainly on diesel, through organic upgrades and investment and we want to focus on operational and mainly energy efficiency, we are really seeing some results.

Lastly on the integrated downstream: as I said, we would like to consolidate the market position to become stronger in performance and profitability in our retail business, and of course we are looking also at growth options.

Now looking at some figures: in order to meet the objectives that I have just presented, ERG Group will invest about €1.1 billion, out of which about 47% in the Refining and Marketing business, and the remaining 53% in energy, both in thermoelectric and renewables.

Part of the investment in the thermo area will be dedicated to the reconstruction of ISAB Energy. This amount is covered by the “Property Damage” component of the insurance reimbursement.

And you can see that mainly the investments in renewable and thermoelectric power generation and also in the ISAB Energy reconstruction are concentrated in 2009 and 2010.

As Luca already mentioned, we expect 2009 to be tough both in terms of the overall scenario, the general shutdown of ISAB Refinery as well as the operational constraints we are facing with ISAB Energy after the incident.

Notwithstanding that, we are confident about the future. As a result of our organic investment plan, and based on our view on the scenario going forward, we expect EBITDA to grow of about 11% per year on an average basis, and on an adjusted basis to reach about €650 million in 2012.

And as you can see, in 2012 the EBITDA is - let’s say - well balanced between the EBITDA coming from oil and the EBITDA coming from power generation; consider also that in the power generation EBITDA ISAB Energy is considered 100%, whilst in the oil EBITDA ISAB is considered 51%.

Let me now go through each business individually, starting with the power and gas business. As far as power is concerned, the main targets here are to complete the repowering of NuCe Nord, which is now 82% completed and expected on stream during the second half of the year, and also the reconstruction of course of the ISAB Energy plant. The reconstruction of ISAB Energy plant is expected to end by June 2010, and of course is on track now.

The total reimbursement of about €280 million: as we have announced, 50% of this reimbursement will be cashed in 2009 and the total €208 million will cover a part of the business interruption, and the property damage.

On the ERG NuCe project: again the capacity of the project is 480 MW, the production will be 3.5 TWh of a 360 plus 2.5 million tons of steam, with a total CapEx of €437 million. The IRR that we are foreseeing now is about 9%.

As I said, we are also starting with the sales and trading of electricity with a portfolio of power of 9 TWh in 2012, and we think 1 billion metric cubic of gas also in 2012.

Coming to gas, our main focus here is to proceed with two major infrastructure projects. The Ionio Gas, the 8 billion metric cubic of re-gasification terminal in joint venture with Shell, and Rivara, a storage facility in the Po valley in partnership with Independent Resources. Both of these are still in the authorization phase, and are expected to start commercial operations beyond the plan period.

In line with our strategy to reduce as much as possible risks associated with commodity market, the final investment decision will be subject to:
- as far as Ionio Gas, finding (as I said) “regas or pay” contracts for the quote in excess of our self- consumptions;
- as far as Rivara, allocating all or most of capacity to third parties.

I really like to stress in fact that our final objective is to enter the gas infrastructure market, reducing the risk associated with the commodity market at most, and looking for adequate and stable returns on our invested capital.

Now let’s take a quick look at renewables, as you already know these numbers, having been presented by ERG Renew during the presentation of its 2008 full year results. During the plan for the period, ERG Renew will invest about €300 million, of which €289 - so, more than 95% - in wind. ERG Renew plan is based on projects under construction, visibility and certainty of investments.

The wind installed capacity will reach in 2012 369MW, of which 84 in France and the remaining 284MW in Italy. The EBITDA in the plan period is expected to post a 49% annual growth to be higher than €80 million in 2012. But, as I said, it is really a plan with a high visibility and certainty.

Overall ERG Renew targets have been heavily reduced but really I would like to stress that the commitment to expanding this business remains strong at the moment.

As far as coastal refining investment is concerned, in this area together of course with LUKOIL, we are proceeding with a plan to enhance yields of light products - as I said at the beginning - and also to strengthen the operational efficiency of ISAB Energy, mainly in the energy efficiency side. All in all, as based on our 51% stake, we expect to invest about €262 million in four years, out of which 45% for development. I would like to point out that the extraordinary CapEx at North Plant will be completed in 2012.

As a result of the development investment just seen, here you will find the trend of ISAB refinery yields, with a significant increase of middle distillates. As you can see, in 2012 we will have 55% of middle distillates yields which means diesel mainly with a very low yield in fuel oil: just 5% on the total.

As far as integrated downstream is concerned, and the retail in particular, we have the target to improve the competitiveness of our service station network, trying to have a better portfolio of gas stations.

We have almost completed the restyling of our retail network, with almost 100% of company owned service stations in new colors. And in the next 4 years, investments will be dedicated to building new service stations, to making local acquisitions and JVs as a way of expanding our market share, as well as increasing efficiency index.

We are also continuing to make customer value proposition in order to increase loyalty. In Q1 2009 results, in terms of market share we are positive: we have gained market share compared to the industry mainly, and that enhances our confidence in the direction of our strategy.

We expect this trend to continue in order to reach more than 7.5% market share in 2012, of course through an organic growth.

I like to spend some words on the new project we have launched in April in ERG Petroli, which is ERG Mobile.

As of 15th of April ERG Mobile SIM cards are available at approximately 1,500 sales outlets of the ERG retail fuel distribution network, which have agreed to participate in the project. ERG Petroli is the first oil company to enter this market with a dedicated and personalized SIM card.

As for the economics, the costs associated with the launch of the project - mainly represented by the advertisements of course, because we don't have a CapEx on this project - will be fully expensed, and that's why in 2009 we expect a €14 million negative EBITDA in this project.

We plan to reach breakeven in 2011 and a positive EBITDA of €6 million in 2012, with an objective to activate an average rate of 300,000 SIM per year, and to reach a 3.5% market share by 2012-2013. We really expect a very good return on this project, well above our hurdle rates for this business.

Going to the cash allocation: as showed before, our balance sheet is strong with a net financial position which is the result of short-term and long-term debt, and an amount of about €1.5 billion of liquidity deriving from the LUKOIL deal. A part of the liquidity will be destined to re-balance financial structure breakdown, after the disposal of 49% stake in the refinery.

On top of this, the priority to allocate cash will be as follows. First, CapEx: we want to focus on organic investments and use the liquidity for that. Then we want also - as I said - to capture opportunities through strategic alliances or through acquisitions, of course under a strict financial discipline, that tends to be normal for us.

In terms of dividend, the policy is to maintain current ordinary distribution increasing only if it's sustainable. The ordinary distributions I remember is for instance for 2008 €0.4 per share, because we decided to distribute an extra dividend of €0.5 linked to the LUKOIL deal.

In terms of buyback, we consider the buyback a flexible method just to managing liquidity. So, really the objective at the end is to keep well balanced the financial Group structure in a way which is coherent with business portfolio mix, and considering also that the financial environment at the moment is a little bit tough.

Let me conclude my presentation by summarizing the key message I have already given to you. ERG Group is planning to invest about €1.1 billion in the next four years, well balanced between oil and power, with the aim to grow our adjusted EBITDA at an average pace of 11% throughout the plan period, in order to reach about €650 million of EBITDA adjusted in 2012.

In the power area - both thermo and renewable - main focus will be on executing the projects we have already commenced, in particular

- as far as thermo is concerned, the re-powering of NuCe Nord (almost completed), and the reconstruction of ISAB Energy plant;

- as far as renewables, Ginestra and Fossa del Lupo wind farms, as well as Plogastel and Greneville in France, in order to reach a size of about 370MW in 2012, compared to the current 200MW.

In the Refining and Marketing area, the main focus is on operational efficiency and asset improvement. As for both integrated downstream/retail and renewables, we are exploring any potential growth opportunities, on top of organic investments. In this context and coherently with our 70-year history, partnerships and alliances are a potential option to pursue these objectives, even though nothing is beyond an initial phase at the moment.

Thanks very much for the attention, now we are ready to take your questions.

Questions & Answers

Operator:
Excuse me. This is a Chorus call conference operator. We will now begin the questions and answers session. The first question is from Anish Kapadia of UBS. Please go ahead.

Anish Kapadia:
Hi, it's Anish Kapadia here from UBS. I have got a couple of questions. Firstly, can you give the split of the coastal refining and integrated downstream EBITDA in your target of €250 million for 2012? And secondly, on then NuCe Nord: I was wondering if you could give more precise stock update and your guidance in terms of the EBITDA generation from that plant.

Paolo Merli:
Anish hi, Paolo Merli speaking. As far as your first question is concerned, let's say that 60% of the oil EBITDA seen in 2012 is from the coastal refining business, while about 40% from integrated downstream.

Alessandro Garrone:
On the NuCe Nord, we expect to have one train up and running in Q3, and the second one in Q4 2009. In terms of the contribution, in terms of EBITDA of NuCe Nord, we estimate around €70 million of EBITDA on an annual basis.

Anish Kapadia:
Can I just follow up just on the stated EBITDA, if you are looking at the put option you've got in the ISAB Energy refinery, you take the bottom end of that - which is about a €1 billion - plus your 2011 and 2012 CapEx of another €120 million versus the EBITDA from ISAB is about €160 million. That would imply to me an EBITDA multiple of 7 times in 2012 with that business. In that case, now is there any reason why you would not exercise the put option, but it looks to me like it would be much better to exercise the put option and stay without that business?

Alessandro Garrone:
We always hope that the scenario might be better even though today we expect a weak scenario in 2009. Having said that, in our long-term view, we still see the refining business as a good business to be in. So again…the idea also today is that we will exercise the put option just if there are some problems on the joint venture with our partner, otherwise we still see the refining business as a good long-term business to be in. Okay Anish?

Operator:
Mr. Kapadia, your line is still open sir.

Anish Kapadia:
Yeah, I finished my questions.

Operator:
The next question is from Lydia Rainforth of Barclays Capital. Please go ahead, madam.

Lydia Rainforth:
Hi gentlemen, good afternoon. I have a couple of questions as well, please. The first one in terms of the coastal business and so on this LUKOIL: have you seen any impact operationally from LUKOIL being a partner, and anything like that. And then secondly, you brought up safety as sort of a safety barrier for you. Can you talk about why you think the reliability hasn't been there historically, and how much you are looking at spending to improve that safety, in the light of what you expect? Thank you.

Alessandro Garrone:
Yeah, on the new partner, we didn't see any big impact, we just had to start with programming together the refinery, we had minor impact on that, considering that we just started on the first of December on our complex refinery, but no negative impact at the moment. We of course are trying to optimize also - as far as we can - the supply of crude, and I think the relation with LUKOIL is very good also in that case, and I am sure we will have much more opportunities. No negative impact, the relation is very good and we are working very well together. The second one was on safety: as I said, in general our procedures on safety in our plants are good. We have a lot of procedures, very close to the best performance of the industry. We have changed in fact our organization also, our parameter of business, and as such it is more a question of culture and behavior. We always need to improve the behavior of our people and the culture, and everybody has to know very well the procedures. So of course we have also changed people, a lot of people have retired. So we just need to form and to continue to form people in the best way on this item, and that's it: we have to work a lot on and to continue to work on it. It is not a spot project, it will be a permanent project for the company.

Lydia Rainforth:
I take it, and just how much do you think that will actually cost you in terms of .. would that be a sort of an additional expense or would that cost you something extra though?

Alessandro Garrone:
It's really not a big question of costs, and I think that the budget for this project in two years is roughly €1 million, or between €1 million and €2 million…it is not really a big cost compared to the benefits I'm sure we will have.

Lydia Rainforth:
Okay great, thanks very much.

Alessandro Garrone:
Thank you.

Operator:
The next question is from Mr. Reza Amanath of Dow Jones. Please go ahead, sir.

Reza Amanat:
Hi good afternoon gentlemen. I was just wondering if you could provide any details on planned maintenance coming up at both sites of plants in the coming quarters. How long will that be for? How much of the plants will be affected, and which units in particular might be going under maintenance? Thanks.

Alessandro Garrone:
For the rest of the year we have no maintenance shutdowns in our plants, neither in our refinery nor in ISAB Energy nor in the power plants.

Reza Amanat:
Okay, thank you.

Alessandro Garrone
Thank you.

Operator:
As a reminder, if you wish to register for a question please press "*" and "1" on your touchtone telephone. The next question is from Mr. Domenico Ghilotti of Equita. Please go ahead, sir.

Domenico Ghilotti:
Good afternoon. I have a question on the CIP6 tariffs accounted for in Q1: I would like to understand if you have already assumed in Q1 a tariff that is sustainable for the full year, because it seems to me that the CEC components dropped probably too much, compared to the smoother trend in the oil prices. The second question is on the net financial position: I would like to understand if you have already included €140 million cash reimbursement in Q1, or if you will account it pro quota during the year. The last question is on LNG projects: let us assume that you will receive all the required authorizations, I would like to understand what is the time lag between the authorization and the final investment decision.

Paolo Merli:
Hello Domenico, Paolo speaking. About the net financial position at the end of March, of course it doesn't include any reimbursement: the first installment was paid in April, and it was €57 million. We expect to cash in about half of the total amount - which is €280 million - by the end of the year. I can't remember your first question.

Domenico Ghilotti:
Well, it was related to the CIP6 tariff.

Paolo Merli:
That is exactly CIP6 tariff.

Domenico Ghilotti:
In particular the CEC component: it seems to me that around €60 euro is a level that is sustainable for the full year, so I would like to understand if we can assume that the CIP6 tariff can be sustainable during the year.

Paolo Merli:
You know very well Domenico how the formula mechanism works. Right now the Brent went considerably up compared to the low touched in the middle of Q1, so it depends really much on the scenario. If the Brent is going to stay at this level or even more up, of course the CEC component could be higher than the one we forecasted in Q1 for the full year.

Domenico Ghilotti:
Okay good, probably so, you and Saras have different accounting in the CEC components, so that's why I was wondering how we can project the trend evolution, okay.

Alessandro Garrone:
Sorry, the third question, if you can repeat it.

Domenico Ghilotti:
Yes, it's for LNG, so I would like to understand: let's assume that you receive all the required authorizations, so after having received all the required authorizations what is the time lag to take the final investment decision?

Alessandro Garrone:
Yeah, it will be by the end of first half next year, beginning of the second half or roughly around mid-year.

Domenico Ghilotti:
Okay.

Alessandro Garrone:
In the middle of next year.

Operator:
The next question is from Ms. Nidaa Bakhsh from Bloomberg News. Please go ahead, madam.

Nida Bakhsh:
Good evening, Buona sera. I just have a question on the operating rates at your refineries at the moment in this quarter. I noticed that Trecate and Rome were running at low rates: presumably that's because of lower demand in Italy. I was just wondering if that's the same situation for the second quarter and through the year and also for the ISAB Refineries, I mean are you running at reduced rates?

Alessandro Garrone:
Nidaa, with Rome and Trecate we had just some minor upset in the plants, so … the lower throughput was not related to the lower demand but just to minor upset. But we don't foresee any other reduction of throughput for the remain of the year.

Nida Bakhsh:
And in the main refinery?

Alessandro Garrone:
The same, the same, you know.

Nida Bakhsh:
The same, so there is no reduction in…

Alessandro Garrone:
No reduction.

Nida Bakhsh:
Operating rates.

Alessandro Garrone:
No reductions, no, no.

Nida Bakhsh:
Okay, that's great. Thank you.

Alessandro Garrone:
Thank you.

Operator:
The next question is from Mr. Paolo Citi of Intermonte. Please go ahead, sir.

Paolo Citi:
Hello, good afternoon everyone. Just a follow up regarding the ISAB Refinery alliance, is it possible to have forward guidance for this year and also for 2010, when we won't have any sort of turnaround? The second question is related to your 2012 EBITDA target, looking at Slide 24, it seems to me that you are expecting roughly €400 million from power generation, and this figure seems very similar to the one you gave last year. But this year will have for sure lower contribution from the renewables, as the new target is just €80 million versus last year of €140 million. So I was wondering if you are expecting slightly higher contribution from the thermoelectric side. And then a final question regarding the reimbursement, if it's possible to have a further detail or clarification regarding the way you are booking these reimbursements on your P&L, how much are you going to book at EBITDA level and if there is a proportion below EBITDA in this quarter and also in the coming quarters. Thanks.

Paolo Merli:
Yeah, Paolo on the first question: the volume we are expecting for ISAB Refinery in ’09 is less than 7 million tonnes because of the general shutdown in Q1, while on a normal year - which could be 2010 - is more or less 7.5 million tonnes, which is 51% on the total capacity of the plant.

The second question was about the breakdown of EBITDA in 2012. Let’s say that the EBITDA we are expecting from ISAB Energy and from NuCe is more or less the same in the longer term than the amount we said last year. The renewables: you are right, the contribution is lower because it’s €80-85 million compared to (if I remember well) €160 million last year, but part of this is going to be offset by higher contribution from commercial and the merchant energy we are expecting in 2011 and 2012. So more contribution from commercial operations in the power and gas business.

Paolo Citi:
And about the insurance reimbursement?

Luca Bettonte:
We are talking about €280 million as an amount for the reimbursement, out of which about €140 million relating to business interruption and €140 million relating to the property damage. With reference to profit and loss on replacement cost basis, we are going to charge the amount relating to the business interruption lag, the reimbursement and regardless of the amount we are cashing. As Paolo told you before, we are going to cash half of the amount at year-end, but we are going to charge a bit more than the cash amounts relating to the business interruption. Just for instance in the first quarter of this year, we post €28 million of profit and loss, and of course the portion we are going to charge each quarter going forward is related to the costs that is going to cover.

Paolo Citi:
Okay. Thank you.

Alessandro Garrone:
Thank you.

Operator:
Once again, if you wish to ask a question please press “*” and “1” on your touchtone telephone. The next question is from Ms. Kim Fustier of JP Morgan. Please go ahead, madam.

Kim Fustier:
Yeah, hi good evening gentlemen. Just two questions please. Firstly, you haven’t really talked about costs cutting initiatives and many of peers are focusing on this increasingly, I was just wondering if you are doing anything in this respect? And then secondly, I was just wondering what is the refining margin assumption behind your guidance on R&M EBITDA for 2012. Thank you.

Alessandro Garrone:
Yes, the first one was on cost cutting: of course we have a plan, we have also presented last year and also this year, a plan to reduce costs in refinery both on the fixed costs and also trying to have a better energy management. On the fixed costs, already in 2008 the costs were €237 million, compared to €256 million the previous year, which means 7% less than before. Of course, this is with ISAB Refinery at 100%. So, we really had some postponement of course, but mainly these numbers represent the beginning of the results we had on the cost cutting on the refinery side, which is the main area where we can reduce costs.

Then of course our plan on cost cutting was also including - and we are also going ahead on that - cost cutting on the Holding level. Of course it depends on the restructuring of the total Group, also in terms of the situation of companies and of course - having a joint venture in ISAB - we have now to reduce overhead costs, which is normal and we are doing that.

On the refining margins we expect on 2012, of course it is not easy to forecast those margins, and we have to plan and of course to look at margins. And we see margins in terms of contribution margins at roughly €6 per barrel by 2012.

Kim Fustier:
That's great. Thank you very much.

Operator:
As a reminder, if you wish to register for a question please press "*" and "1" on your touchtone telephone. The next question is from Sergio Molisani of Unicredit. Please go ahead, sir.

Sergio Molisani:
Hi, good afternoon to everybody. Just a question on the refining margin in the first quarter of 2009. Obviously your refining margin was very poor due to a large series of factors affecting the quarter, the shutdown and so on: can you elaborate a bit on what has been the impact of the shutdown in your conversion capacity in terms of US dollar per barrel? And the second question is does the $1.52 US per barrel include the penalty that ISAB Energy is paying to the refinery? And then going forward, how are you going to treat the asphalt which is not addressed to the ISAB Energy power plant? And then if you can give us a guideline of the premium you expect on the EMC benchmark, depending on your scenario going forward. Thank you.

Alessandro Garrone:
Yeah, the impact on EBITDA in the first quarter from the coastal refining due to the general turnaround of the Isab refinery could be estimated at roughly $4 per barrel in terms of unit margins. This is the impact we had for the turnaround in the refinery. Of course we are producing less asphalt and we are selling fuel oil instead of selling asphalt to ISAB Energy and of course depend on the price of fuel oil and the differential

between fuel oil and diesel, and I can say that in the first Q 2009, this was not a big impact for our refining margin.

Sergio Molisani:
Yeah, but if I understand well, ISAB Energy is paying €7 to €8 million of penalty per quarter: is this included in the $1.52 US per barrel you achieved in the first quarter?

Alessandro Garrone:
Yeah, it is included.

Paolo Merli:
Sergio?

Sergio Molisani:
Yes, thank you. Included. Okay, and can you give us guidelines on the premium you expect to achieve on the notional EMC refining margins going forward, obviously based on your own current scenario?

Alessandro Garrone:
…I mean it's the guidelines that we normally don't give in our results, I am sorry.

Paolo Merli:
Okay. Thank you

Operator:
Gentlemen, there are no more questions registered at this time

Alessandro Garrone:
Okay, so thank you everybody for your attention. The next webcast will be - I am sorry for that - on the 12 of August. Bye-bye, thank you.