



ERG S.p.A.
“First Quarter 2011 Results”
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MODERATORS:

ALESSANDRO GARRONE, GROUP CEO

PAOLO MERLI, CORPORATE FINANCE, CONTROL & INVESTOR RELATIONS

Operator:

Good afternoon. This is the Chorus Call Conference operator. Welcome, and thank you for joining ERG First Quarter 2011 Results 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. Please go ahead, Sir.

Alessandro Garrone:

Thank you, good afternoon ladies and gentlemen. Welcome to ERG's first quarter 2011 results. I am here with Paolo Merli, Head of Corporate Finance Control and Investor Relations.

I remember you that, in line with the past quarters, the adjusted results include the 51% stake in ISAB and 51% of TotalERG, which became effective on October the 1st last year.

Let me start with some key financials for Q1, 2011. The Q1 adjusted EBITDA at replacement cost came in at €48 million, similar to the €50 million over the same period last year. The slight year-on-year reduction was the result of a lower contribution for Refining & Marketing business, mainly offset by stronger results from both power and renewables. As far as Refining & Marketing results are concerned, they were negatively affected by the general scheduled turnaround of ISAB Refinery, in addition to a backdrop of tough trading environment exacerbated by the Libyan crisis.

On the other hand, results from Power, which were still very solid, benefited from the full contribution of the CCGT and ISAB Energy plants, whereas renewables figures were sustained by the contribution of the new asset acquired in July 2010, which offset the poor wind conditions in the remaining parks.

If we look at our balance sheet, the adjusted net financial position closed at €1,226 million at March-end 2011 compared to the €1,082 million at 2010 year-end. The leverage increased from 36% at 2010 year-end to 39% at the end of March. The increase of the net debt during the quarter was mainly driven by a negative dynamic of working capital trend, partly linked to the general shutdown of ISAB Refinery in a period of weak operating cash flow. We will give you more details later on.

Before going into the results, I would like to focus on two items, the Libya crisis and an update on the delisting of ERG Renew. The Libyan crisis is having severe impacts on the refining market in the Mediterranean area, thus affecting our economic results and operations.

Until the recent crisis, about 10% of our crude slate derived from Libya. We have enough flexibility to switch to other crudes, but the replacement grades (in particular for the crude named Buattifel) are less profitable. A higher impact derives from the impossibility to sell products - in particular high sulfur gasoline - to Libya. The Med is long on gasoline and this typically implies selling gasoline to other markets (US, Saudi Arabia *et cetera*). However, the worst effect of the Libyan crisis is the steep increase of

crude oil price, which is no longer governed only by supply/demand balance, but is also heavily impacted by crisis expectations and speculation.

EMC margin in the quarter became negative, to the tune of minus \$0.95 per barrel on average, but on some days it was at minus \$4 per barrel. ERG is further affected by the rapid increase in the crude price, since there is a time lag in feedstock price for ISAB Energy, which enlarges the margin squeeze temporarily.

Last, the 45 days general turnaround from the end of January until mid March greatly enhanced the loss, as fixed costs are typically higher during the turnaround.

As far as the delisting of ERG Renew is concerned, first of all I'll give you a brief update on the recent events and on the results of the tender offer. As you remember, on December 14, 2010 ERG launched a tender offer on ERG Renew at a price of €0.97 per share, corresponding to a premium versus the market price of roughly 35%.

On the 13th of January this year, ERG Renew Board of Directors considered fair the price of the offer. On February 18, the first part of the offer was concluded and ERG reached 94.6% of ERG Renew share capital, for a corresponding amount of €13.5 million.

After the conclusion, we also bought some shares, and the actual ownership is equal to 94.98%. So ERG didn't obtain the relevant threshold, and therefore we couldn't go on with the squeeze out process. Now CONSOB has to decide on the price, and we believe it will do so in the coming weeks, so we can proceed with the delisting that should be completed by the end of the first half of this year.

And now I will hand over to Paolo, who will take you through the Q1 results. Thank you, Paolo.

Paolo Merli:

Thanks Alessandro and good afternoon everybody. Let's start with the Group EBITDA, which was €48 million during the quarter, a couple of million euro less compared to the same period last year, and considerably lower than the €92million recorded in the fourth quarter of 2010.

A slight year-on-year decline is the result of a much lower contribution from Refining & Marketing, almost offset by better results from power and renewables. As far as Refining & Marketing is concerned, the negative results are fully attributable to refining operation (both coastal and inland), which closed the period in the red. In particular, coastal operations were negatively impacted by the general turnaround of ISAB Refinery, in a severe trading environment, with our EMC margin indicator in negative territory. Weakness of scenario was further exacerbated by the Libyan crisis, in particular in March when the refinery was back in operation.

Marketing was pretty much in line year-on-year, even though based on a different scope of consolidation, following startup of TotalERG JV on October 1, 2010.

Power kept delivering solid results in the period, confirming a trend seen over recent quarters. Results were strongly up year-on-year, as both ERG Power and ISAB plants were fully up and running, while they were both at mid capacity in the same period last year.

Renewables business benefited from the additions of 102 megawatts acquired in July, which more than offset the poor wind conditions in the remaining parks, both in Italy and France during the period, and the weaker scenario following the approval of the decree.

Let's move to Slide no. 8. Here you have a pro-forma profit and loss statement, which includes - I remind - on a line-by-line basis ERG stakes in our JVs: ISAB with LUKOIL, TotalERG with Total. Despite EBITDA was almost in line year-on-year, replacement costs net profit was negative by €32 million, a two-fold increase on a year-on-year basis.

Looking at results line-by-line, the main year-on-year differences are related to the following items: amortization and depreciation €59 million compared to €49 million (the increase is mainly related to the investments on our CCGT plant in the Power and M&A in renewables), higher net financial income (due to higher average net financial position, and higher interest rates), slightly higher minorities as regard to ISAB Energy, and limited tax shield due to regional tax or IRAP (as it's called here in Italy) and some undeductibles related to the so called Robin tax.

All these items together led to a net profit of minus €32 million versus minus €16 million last year. On a reported basis, which includes gains on inventory for €36 million in the period, reported net profit was still positive: €4 million compared to €6 million last year.

Let's take business-by-business in more detail, starting with coastal refining (I am at Slide no. 10): EBITDA was minus €40 million in the period, considerably worse both year-on-year and quarter-on-quarter. There are three main reasons behind this bad set of results.

First of all, the general shutdown which lasted for about 45 days till mid March, and involved South Plants of ISAB Refinery. Those plants - I remind - are very much gasoil-oriented in a time of relative better complex crack spreads of these products, compared to gasoline and fuel oil. On top of this, fixed costs were higher, as usual during the maintenance period.

Second, scenario was deeply negative with EMC benchmark for Med in negative territory, especially in March when refinery resumed operations after its maintenance. Margins were hit by surging oil price, which turns into higher variable costs, which was almost \$1 more during the period.

Third, lower profitability of feedstock sales from Refinery to ISAB Energy, as a consequence of a time lag in sales price adjustments of feedstock to oil and oil products dynamics.

Moving now to slide no. 11, here you can find some unitary margins of ISAB, compared to EMC benchmark, but the negative figures both in absolute and relative terms are explained by the same business trends I just mentioned: year-on-year and quarter-on-quarter lower volumes are again related to the general shutdown.

Let's now comment on integrated downstream (including – I remind - 51% results of TotalERG and 100% of ERG Oil Sicilia, which born from the carve-out from our ex-ERG Petroli). I would like to remind you that year-on-year comparison is based then on a different scope of consolidation, as TotalERG has been effective since October 1, 2010, and ERG Oil Sicilia since April 1. The latter, ERG Oil Sicilia, was still incorporated in ERG Petroli during the same period last year.

Marketing overall, EBITDA €20 million in line with Q1 and Q4 2010 notwithstanding the different scope of consolidation. Results were penalized by a difficult environment, which led to a general decline of volumes sold, notwithstanding that results kept flat, thanks to some of the synergies from TotalERG and positive contribution from specialties and wholesale activity inherited from TOTAL Italia.

Inland refining and logistics closed the period with a negative EBITDA of €4 million, pretty much in line with last year and also with the fourth quarter of 2010.

Let's move now to slide no. 13: here again there are more details on margins and volumes, which are very much related to the same business trend I have already mentioned. Let me just remind you that higher volumes during the period, compared to the fourth quarter of 2010, mainly reflect the upset of Sarpom during the fourth quarter last year, which more than offset the shutdown of Sarpom Refinery, during the period.

Let's move now to Power, starting from ISAB Energy. You can see that production of the plant was almost doubled on a year-on-year basis, as both the trains of the plants were fully up and running, while last year Train 2 was still offline, following the incident in 2008.

EBITDA at replacement cost was €47 million, 21% up compared to the same period of last year. I remind you that Q1 2010 results included €28 million of insurance reimbursements against the accident occurred in October 2008. Italian GAAP EBITDA or cash EBITDA is lower than replacement cost EBITDA, as a consequence of the phase-out of the incentive in 2008.

Moving now to ERG Power (slide no. 15) merchant production was strongly up year-on-year benefiting from the new CCGT, which is in full commercial operations since Q2 2010. The economic consequence is that EBITDA at replacement cost was €19 million in the period, almost doubled compared to the same period last year.

Despite still weak spark spreads for Power Generation in the country, ERG Power results benefited from a robust zonal price premium in Sicily - about €15 per megawatt hour - even though lower than in Q1, 2010, as well as a plant management able to capture margins in a very intraday volatile markets.

Let's move now to Renewable (I am at slide no. 16): renewables closed the period with €14 million of EBITDA, up compared to €11 million over the same period last year, but down quarter-on-quarter. Year-on-year increase reflects the positive contribution of the new assets for 102 megawatts acquired in July 2010; this was partly offset by a decline in production in other Italian wind farms, both in Italy and France. In Italy in particular, we have some technical disruption - now solved - at Vicari wind park. It is to be noted that grid limitations still persist, negatively affecting production and results. We had about 14 gigawatt hour of limitation during the period, of which we recovered just the electricity component of the price.

Prices of power sold declined by about 3% and green certificates by about 6% as a result of the new decree approved by the Government, which establishes that green certificates prices are at 78% of the difference between €180 per megawatt hour and the average national electricity price, what in Italy we call PUN.

Let's move now to slide no. 17: commenting on CapEx over the period, investments were down 65% year-on-year, mainly as a result of the completion of the CCGT and ISAB Energy re-construction plan, as well as lower organic investments in renewables during the period, compared of course to last year.

Giving more details segment-by-segment, starting from Refining & Marketing, as for ISAB Refinery CapEx were €14 million related to some upgrades and maintenance of the plants. As far as integrated downstream is concerned, about €5 million were related to retail development, as well as to some restyling works with the new TotalERG brand.

Power: I would say just ordinary maintenance, while in renewables investments were mainly related to the advancement of Ginestra and Fossa del Lupo wind farms, which will enter into operations during the second part of the year. Ginestra construction is almost finalized: we still have to complete the grid connection and we believe the park will be on stream by the end of June this year. As far as Fossa del Lupo is concerned, construction works will be completed again by June 2011, while capacity will progressively enter into operations before the end of the year.

Now, the cash flow statement during the period: adjusted net debt was up from €1,082 million at year end to €1,226 million at March end, with an increase of €144 million over the period. As it is already clear in the graph, the higher component of this change is related to working capital, whose dynamic is really much related to the general shutdown of the ISAB Refinery.

On top of this, we had poor operating cash flow in the period, coupled with €50 million of investments, which include about €15 million investment expenses, capitalized for the general shutdown of ISAB Refinery. These effects together led to an increase in adjusted net financial position from €1.1 to €1.2 billion, with the leverage up from 36% to 39%.

The reported net debt is €926 million with an implied leverage of 33%. I would like to remind you that net financial position at the end of March does not include the about €250 million cashed in April following the sale of 11% of the ISAB refinery, dated April 1.

Thank you very much for your attention, and now back to Alessandro.

Alessandro Garrone:

Thank you Paolo, now some guidance on CapEx and the economics for 2011. Starting with the CapEx, the 2011 CapEx will be at around €200 million versus the €270 million last year, of which about 50% involved the Refining & Marketing sector and the remaining 50% the energy sector, including both the thermoelectric power and the renewable business.

The year-on-year reduction in CapEx is mainly due to the power business, with the phasing out of the CCGT Plant and the ISAB Energy reconstruction investments. In the Refining & Marketing, we see a slight reduction of CapEx in refining, partly as a result of the sale of the 11% share in ISAB, whilst in the integrated downstream we still have some investments related to the integration and a small portion of re-branding.

As far as renewables are concerned, the main efforts in 2011 will be concentrated, as Paolo said, on completing the Ginestra and Fossa del Lupo wind parks, for a total installed capacity of 130 megawatt. Ginestra wind park should be on stream again within the first half of 2011, whilst construction works at Fossa del Lupo should be completed by the end of the first half of 2011, and the park will enter progressively into operations within the end of the year.

Looking at the economic guidance on slide no. 20, starting with the Refining & Marketing sector, we still see tough refining environment, and also the marketing is penalized by this tough scenario, on the one hand; on the other hand, the marketing sector will benefit from the TotalERG synergies. Compared to last year, we have also lower volumes as for ISAB shutdown in Q1 and of course also for the exercise of the PUT. So, at the end on the Refining & Marketing activities we would see results similar to those we have seen in 2010.

For Power & Gas business, of course we have the full contribution of the CCGT Plant for 2011 but with lower margins, due to the lower prices in the Sicilian area, compared to last year. The ISAB Energy production will be lower, due to the scheduled maintenance shutdown in the second half of this year. So overall, Power & Gas results are a little bit lower compared to last year.

For the renewables, much better results due to the full year contribution of the 102 megawatt new assets, the startup of Ginestra and Fossa del Lupo, even if we still see constraints in the National Grid due to Terna maintenance work. So, at the end overall, we see a 2011 EBITDA similar to the one we had in 2010, of course, considering today's situation, with particular regard to the crisis of the North Africa area.

The last slide is on some strategic items that I have on my agenda, and of course, all the ERG management has on its agenda. For the refining, on February we sold the 11% of ISAB to LUKOIL, exercising part of the PUT right we have: as I said, the rationale of that move was to re-balance the ERG Group portfolio by reducing exposure to the refining sector, but keeping a joint governance with an important industrial role in the ISAB Refinery.

The value for shareholder, as well as the Group balance sheet, was enhanced by the deal. Unfortunately, since then, the scenario has been under a strong pressure due to two reasons: this lower rationalization and closures of low complexity refining capacity, and of course - as we have said - the Libyan crisis, which determined a surge in commodity prices.

As a matter of fact, the scenario turned out to be much weaker than we expected, and uncertainty about margin recovery continues to remain high. We are still confident that scenario should improve soon, but we have also well in mind that we still got a right and we can exercise it from February 2012, to sell the remaining 40% of ISAB at a good price.

This still provide us with the right flexibility to evaluate our best industrial positioning in the sector over the forthcoming months, which has to take into account very carefully both short and long-term prospects of the refining business.

For the marketing sector, TotalERG became effective on October last year, and now is very much focused on completing the integration between the two entities, in order to capture synergies and to define the proper positioning it wanted to target in the sector. We are very confident that TotalERG could become a champion in the Refining & Marketing business in Italy, and play a leading role if consolidation process should start or should continue, because we were the first starter of the consolidation process. We expect solid contribution from it, in terms of economics in the forthcoming years.

As far as the thermoelectric power business is concerned, in 2010 we completed our cycle of investments, and now our asset base is up and running with solid contribution to Group results. We are now focusing on consolidating operational management of the new plants completing the optimization of our sales activities, as well as further reduce fixed costs. Our location, as well as our quality assets, are giving us a competitive advantage: we expect the results here to remain solid.

Last, the renewable business: ERG Renew delisting is in progress, and we expect to be completed - as I said - within the first half of this year. After the addition of the 102

megawatt of very high quality assets in July 2010 through an acquisition, we expect to bring further 130 megawatt on stream during the second half 2011, with Ginestra and Fossa del Lupo wind Farms. On top of that, we keep evaluating opportunities to strengthen our positioning in Italy and expanding abroad, trying to find a right mix between merger & acquisitions and organic growth.

Myself and all ERG management team are working hard on defining the right strategy for the Group future in a time of still very complex and difficult scenarios, as the international crisis is not over yet. We still see 2011 as a transition year, where we have to complete and define our strategic Business Plan.

Thank you very much for your attention, now we are ready to take your questions.

Questions & Answers

Operator:

This is the Chorus Call conference operator. We will now begin the questions and answers session. The first question is from Ms. Lydia Rainforth, of Barclays Capital. Please go ahead, Madam.

Lydia Rainforth:

Thank you, and good afternoon, gentlemen. Two questions, if I could, please. Firstly, on the TotalERG joint venture: what has been the most positive surprise for you and what has been the most disappointing one, within the short time that it has been operational? And then secondly, on the refining business: could you just walk us through how you see CO2 legislation developing over the next couple of years? Thank you.

Alessandro Garrone:

Yes, good afternoon. With regard to the TotalERG joint venture, I think we had not really negative points at the start of the joint venture. The plan is going ahead as we were expecting, and so last year TotalERG made provisions for a total amount of about €37 million in Q4, for the integration of the company. At the moment we confirm that we expect about €40 million of synergies in term of EBITDA on the 100% of the company, which means €20 million will be on our side. The positive item is that the integration is going ahead in the best way, and the management integration is good: we have a very good relation with our partners. Therefore, I really see no negative impact at the moment; of course, at the beginning we had some difficulties on integrating the system of the two companies, but that was all expected and taken into our account, so no problem at all. With regard to the CO2 impact on the refinery, Paolo will answer to you.

Paolo Merli:

Hi Lydia, Paolo speaking. So, about CO2, till 2012 the legislation and the rules are very well defined. I suppose you want to know about our view going forward.

Lydia Rainforth:

Yes, please.

Paolo Merli:

With regard to 2013, we are still studying the matter. Of course, the feeling is that there will be a further reduction in allocations on the European plan which will then translate it into national allocation plans, but really, we cannot say more than that, as we are still studying the matter, and I think everybody is trying to understand exactly where we are going.

Lydia Rainforth:

Okay, that's great. Thank you very much.

Paolo Merli:

Thank you.

Operator:

The next question is from Matthew Lofting, of Morgan Stanley. Please go ahead.

Matthew Lofting:

Hi, good afternoon. Two questions, please. Firstly, I was just wondering, on Libya, if you could talk a little bit about whether you still have inventory left that you can use in Q2, or whether you are now fully sourcing the feedstock that you usually take from Libya from alternative sources. And secondly, I wonder if you could talk a little bit about the future of the two inland refineries in the current refining environment in Europe: would you consider sort of converting or closing one or both of those assets in the future? Thank you.

Alessandro Garrone:

Yeah, I'll start with the second one. Of course, we have an interest in the two inland refineries, one is Trecate with the roughly 25%, and the second one is Rome Refinery with at the moment 100% of ownership, through of course the TotalERG joint venture. The Trecate Refinery is a good refinery in a very good position in the centre of Northwestern Italy. So, it's an area where there is a high consumption, and is close to the Cremona Refinery that has been shut down. So, I think the situation of Trecate Refinery is a good situation also in the future. It just depends also on the main shareholders' decisions: we see it as a refinery that can continue to have good results, it's a good and modern refinery, also in terms of assets.

As far as the Rome refinery is concerned, of course together with the partner Total, we are working on the future plan of the refinery in order to find the best solution on that asset, which is very well placed also geographically, very well located in the Rome area, which is a high consumption area. But it's an old plant, with not a high conversion capacity. So, together with Total, we are looking as to which will be the plans on that refinery. No decision at the moment, we are working on that, it's not an easy decision at

the moment, also because I think the current scenario of the refinery is not a normal scenario due to the North African crisis. We also need to have a stabilized scenario, before taking a decision.

Paolo Merli:

And about the second question, let's make a difference between coastal and inland operations, in the sense that ISAB refinery - as said in more than one occasion - uses about 10% of crudes coming from Libya. The asset didn't use very much Buattifel during the first quarter. So, it still got some stock of Buattifel, but really minor: we are talking about 20,000/30,000 tons, nothing really, really material. TotalERG - Sarpom in particular - is much more skewed towards utilization and slate of Buattifel. They had the general maintenance during the period: I don't know exactly the figure, but it should be much higher if compared to the one I said for ISAB.

Matthew Lofting:

Okay, thanks.

Alessandro Garrone:

Thank you.

Operator:

We have for the next question from Paolo Citi, of Intermonte. Please go ahead, Sir.

Paolo Citi:

Good afternoon everyone: just two very quick questions. The first one is related to the refinery runs: is it possible to have an update regarding full-year guidance after the maintenance managed in Q1? And the second question is on the guidance on the debt: is it possible to have also on this point a potential guidance for year-end, to take into account also the cash-in-book in the beginning of April on the 11% PUT option exercise? Thanks.

Alessandro Garrone:

First on the second question: the guidance for the debt considering the cash-in from the PUT of 11% will be around €1 billion, a little bit below €1 billion, at the end of the year.

Paolo Merli:

And above the runs, Paolo: about 6 million tons for the year, something like that.

Paolo Citi:

Thank you.

Alessandro Garrone:

Thank you, Paolo.

Operator:

The next question is from Domenico Ghilotti, of Equita SIM. Please go ahead, Sir.

Domenico Ghilotti:

Good afternoon, I have just one question: it is not clear to me if you have already been affected by the shortage in the Libyan crude or not, if you were able to offset this with inventories.

Alessandro Garrone:

Yes, we are almost using all the Libyan crude inventory, but of course, we have replaced the inventory with other crudes. So, we normally have a minimum operative inventory that is a mix of crudes coming from different sources. So, our situation is not critical in terms of having the crudes in our stocks of course, so we don't have Buattifel but we try to mix with other crudes.

Domenico Ghilotti:

So you have already changed the mix in Q1, and you will continue so going forward. Could you give us some flavor on what could be the disadvantages of running different crudes compared to your optimal slate?

Alessandro Garrone:

We have a disadvantage with not having Buattifel because with the specific role Buattifel is particularly good also for the products we have to supply to the petrochemical plants. But, again it's not a big loss compared with the loss in margins we are having due to the high price of crude in general. So the loss related to the mix of crude is not a big loss. Moreover, we have a loss not higher than the one we have with the high price of crudes, we have a loss related to the sales of the gasoline to clients other than Libya, because of course the Libyan client was a very good client for us: he is closer and the gasoline is a high sulfur gasoline. But again: the main problem is margins due to high prices in the crude oil in general.

Domenico Ghilotti:

Okay. Thank you.

Alessandro Garrone:

Thank you.

Operator:

Gentlemen, there are no more questions registered at the moment.

Alessandro Garrone:

Thank you everybody, the next webcast will be for the first half of the year, have a nice weekend. Bye-bye.

Paolo Merli:

Bye-bye.