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"First Quarter 2017 Financial Results"
Conference Call

Wednesday 17th May 2017
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Conductors:

Mr. Grigoris Stergioulis, CEO

Mr. Andreas Shiamishis, CFO - Executive Member of the BoD

Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & Executive Member of the BoD

Mr. George Alexopoulos, General Manager Strategic Planning & Joint Ventures

& Mr. Vasilis Tsaitas Investor Relations Officer

Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Good afternoon ladies and gentlemen, this is the Chorus Call conference operator.

Welcome and thank you for joining Hellenic Petroleum First Quarter 2017 Financial Results.

At this time I would like to turn the conference over to Mr. Grigoris Stergioulis, CEO, Mr. Andreas Shiamishis, CFO - Executive Member of the BoD, Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & Executive Member of the BoD, Mr. George Alexopoulos, General Manager Strategic Planning & Joint Ventures & Mr. Vasilis Tsaitas, Investor Relations Officer.

Gentlemen, please go ahead.

STERGIOULIS G: Hello everybody, good afternoon. Greetings from Athens, Greece, rainy and cloudy but I think our results would brighten your lives up. Being the CEO of the company, I am glad to announce that Hellenic Petroleum Group announced strong financial results for the first quarter of 2017 sorry, with adjusted EBITDA at €229 million, up by 35% and adjusted net income at €126 million, up 80%. Benchmark refining margins remained at high levels and operational performance was improved in all Group activities.

Improved refining operations led to higher production by 11% and sales by 16%, with exports higher by 18% at 2.2 million metric tons and domestic market sales at 1.3 million metric tons, up by 13%, on increased market shares. Furthermore, improved liquidity enabled the realization of opportunities in the med crude prices. All these led to overperformance versus benchmark margins higher compared to previous quarters.

Petrochemicals reported their strongest quarterly operational profitability, despite weaker benchmark margins, while marketing recorded higher volumes and contribution to Group results.

The first quarter of the year reported net income amounted to €124 million versus €32 million of last year, up at 287%, as a reduced oil prices volatility in the first months of the year had a limited impact on inventory valuation compared with inventory losses reported on the first quarter of last year.

Ladies and gentlemen, thank you for this short presentation and I will pass you to Andreas Shiamishis, our CFO on details and I will kindly ask him to go page by page so you can follow through the presentation. Thank you.

SHIAMISHIS A: Thank you, Gregory. Good afternoon, ladies and gentlemen, as our CEO mentioned earlier, a slightly overcast weather in Athens but with a good set of results, things look a bit better. Without further ado, let me turn to Page 2 of the presentation, where we have the key highlights.

In terms of markets, clearly, we are enjoying a strong refining environment for the first quarter continuing for the last few quarters. We have a small increase in benchmark margins and a marginally stronger dollar which supports our core business. Crude oil price remains at relatively lower levels than what we have seen in the past, at slightly higher than the year end prices, which impact our reported gains and marginally affect working capital as well.

Good news from domestic demand mainly driven by heating gasoil which allowed us to report improved volumes in the domestic market, so overall, a very positive refining environment for our operations. However, in order to make sure that we do realize and convert the positive environment into good results, we also need to have steady operations in our refineries, and it's very positive that we have increased production on the back of smooth refinery operations.

In terms of volume, we also have uninterrupted operations in the first quarter. I remind you that in 2015, we had a small loss of production due to a catalyst change. In this quarter, it was a very smooth operation, that allowed us not only to enjoy better volumes but also to improve the, what we call over-performance versus the benchmarks, be it driven by crude procurement, by feedstock selection or by actual improved operations. And of course, given the constraints of the domestic market, we've had to divert even higher volumes to our export markets.

In terms of the financial results, we have a very strong quarter, one of the strongest quarters in the… at least in the recent history, in the last sort of ten to fifteen years; very positive operating results, positive reported results and of course, a good conversion into cash flows at the end of the day.

Page 3 has the key numbers of the quarter. As you can see, all of the segments have reported improved performance. The star of the business unit is refining, supply and trading in terms of numbers with a €190 million out of the €229 million of adjusted EBITDA. And of course, we need to mention our associates in natural gas, and power and electricity trading, which are significantly up compared to last year. So it's not just refining which is doing well, but the overall portfolio, including our associates, is actually delivering good results.

Financing costs are gradually coming down. Over the next three quarters in 2017 you will see a further acceleration of debt reduction, as we have repaid more expensive debt and either utilized cash or refinance it with a lower interest bearing debt in the previous quarters.

In terms of net debt, we are at €1.7 billion… €1.8 billion very close to what we were at the end of the year, and this is a number which is a good indication in terms of the next few months.

Moving to Page 5; briefly covering the crude oil markets and the euro/dollar exchange rates. You can see that the Brent pricing, we are quoting the ICE prices at 55, have generated a bit of positive reported gains. But, of course, have taken their toll in terms of working capital in the form of higher value stocks and higher receivables. Whereas, stronger dollar means that our results are translated into effectively more euro in terms of our reporting.

Moving on to Page 6, margins we see a strong performance for complex refineries. We're still at above $5 per barrel for both our complex refineries; actually the Aspropyrgos refinery proxy the FCC margin at 5.9 is even better than last year. And the system margin which includes the overall performance of the three refineries taking into account inter-refinery, feedstock and processing is up compared to last year.

Page 7, we have our domestic market sales, you can see that the key driver of the increase in volumes is the heating gasoil, it's up 11% year-on-year, whereas auto-fuels is reporting a marginal slowdown in the first quarter. Aviation and bunkers on the other hand is reporting a very sizable increase with bunkering fuel oil at 35% up compared to last year and gasoil at 10% up.

Page 9, we have the very simple view of our performance, sort of giving you a comparison of this year's quarter to last year. The bulk of the improvement comes from our own doing from performance, which is driven by a number of factors. Volume is up, sales is up; the hydrocracker shutdown and the catalyst change in 2016 also helps the comparison. And, of course, crude selection, feedstock optimization and better performance of the refineries helped to generate about 30% higher EBITDA than last year at €229 million.

In terms of financing, you can see our credit facilities breakdown, as at the end of March, '17, and a pro forma report which includes the repayment of the May, '17

Eurobond. So we are at €2.8 billion of gross debt, down from the highs of €3.2 billion, €3.3 billion that we've seen in previous years. And you can see the maturity profile at the right hand of the page which is significantly normalized. One thing to note here is that the bank part of the financing is expected to be largely refinanced and we are quite confident and comfortable that this will be the case with even better terms as we move into the rest of the year and 2018.

Moving on to Page 12; on refining, supply and trading, you can see the very strong performance in terms of most of the metrics. The over performance which is effectively the difference between the realized margin and the indicative of benchmark margins that we got on the page is widening compared to last year's Q1. And as I said, this is the result of a number of factors; repeating myself we have the feedstock and the crude oil selection, we have the technical performance of the refineries, and of course, the optimization of the units.

Page 13, shows the production by refinery. You can see that the utilization rates are actually consistently at a very high level, the last five quarters we have seen utilization rates which are close or above a 100% of the nominal CDU capacities, where they drop below 100% that has to do with the catalyst change that I mentioned earlier. But other than that the units are operating with very satisfactory mechanical availability.

In terms of feedstock, you can see a very diversified slate, in terms of crude and other feedstock. And you can see the impact of the Iranian crude in the first quarter of 2017, given that 2016 was effectively without any Iranian crudes given that sanctions have just been lifted.

Moving on to Page 14, the sales channels; you can see the point about increasing exports. So exports is becoming an important, an even more important sales channel for us which is unfortunately the case, as the Greek market has lost about 40% of its demand in the last few years.

However, there is a benefit to that, in that we have a much more de-risked business model, and of course, it attracts lower working capital requirements, given that payment terms are improved compared to domestic market, and of course, compulsory stock obligations are not required.

Page 15, shows the benchmark and the actual margin per barrel. This is, if you like a simple calculation which demonstrate why Hellenic Petroleum is not, and should not be considered as some of the competitors in the region, as a swing refinery. We can attract significant increased returns on our operations, either as a result of trading premia or as a result of technical over performance, so being able to generate more dollars per barrel than the benchmark margin would suggest.

Petrochemicals which is also part of the refining complex if you will, but they are subjected to different market cycles are also generating increased performance. They look set for another record; we are at 20% higher than last year. Last year was the highest on record for petchems, this year, if everything goes well, looks like we are going to be able to report an even better performance. Again, a business which is driven by refining value chain and the integration into the polypropylene plants in Thessaloniki.

On Page 18, we have the key numbers for domestic marketing which is reporting higher volumes in terms of sales in the domestic market, and a small increase in adjusted EBITDA. The first quarter is traditionally a very weak quarter. It is seasonally low quarter because most of the sales are driven by the very low margin heating gas oil, where as you have the next two quarters 2Q and 3Q being very high as we have the driving season and the tourist season kicking in.

International marketing, again delivering a stable performance, pretty much in line with last year, with a mixed performance from the four main markets. It looks like we will be able to maintain the performance at last year's levels, and if possible deliver a small improvement as well.

Moving on to power and gas, in terms of Elpedison, we see an increase in the performance, in the financial performance of the unit. This is driven by… from two factors, the first one is, the lower price of NatGas has made gas-fired plants a lot more competitive, and we assume that, if you will, utilization of the units coming through, and we also have the regulatory framework which has been put in place, which allows us to, if you will, get a minimum remuneration on the capacity and the flexibility of the units.

The increased utilization of gas for electricity production and weather driven demand has meant that DEPA on Page 32 has reported higher sales as well, 34% increase compared to last year, and of course, an improved profitability.

As you can appreciate DEPA, which includes DESFA, and in the past in this consolidated performance is a setup with a high operating leverage which means that when volumes increase, performance is improved disproportionate to the actual volume increase.

Finally, as you probably know, the privatization process for DESFA under the previous structure, under the previous tender, has stopped and the privatization fund, TAIPED has launched a new tender process to appoint a sales advisor for the sale of a similar structure in DESFA. Early days for us to comment on that, we are still in the process… the privatization fund is still in the process of appointing an advisor, so there is not much that we can comment or disclose on that.

The remaining pages of the presentation show the profit and loss, balance sheet and some key numbers, I will not go into that. And at this point in time, I will ask for the conference call organizers to take any questions that the listeners might have. Thank you very much.

Q&A

OPERATOR: The first question comes from the line of Patricot Henri with UBS. Please go ahead.

PATRICOT H: Yes, hello, everyone and thank you for the presentation. And three questions from me. Two on the DEPA, just wondering to what extend the very good performance in the first quarter is replicable throughout the rest of the year? And the second point on DEPA, any idea on the timing of the privatization of DESFA, I mean what is the aspect you could announce something around that? And finally, just wondering given the very strong operational performance in refining in the first quarter, is there any plant maintenance some point later this year, which could reduce the availability of personal units or do you expect to keep running at pretty close to 100%? Thank you.

SHIAMISHIS A: Okay. Well, thank you very much, Henri. The questions on DEPA and the privatization, I can try to give you our reading and refining operations, I think we have the best person in the room talk to you about that, being Giannis Psychogios.

Now, first quarter performance for DEPA is driven mainly by the volume increase, there is no substantial change on the commercial agreements for DEPA. So the margin element, one would consider to be fairly projectable, we don't see a re-pricing of contracts, we don't see any changes in take or pay. So the only driver would be volume. If prices continued at this level, it means that Nat gas fired plants will be able to run at the higher utilization level. So the performance from that sector should be expected to be repeated.

Performance, however, on the retail sector will be driven by weather, and it's very difficult to project anything on that.

Privatization of DESFA; as you know, last week it was the deadline for the submission of tenders for the sales advisor for DESFA, I believe there is a selection which has been made, but it hasn't been announced formally at least not to my knowledge. So unless, we actually started the project it is very difficult to say anything. We can only refer you to whatever is in the press which suggests that there will be an acceleration of the process aiming to have a conclusion in the next 6 to 12 months. And that's unfortunately, as much as, we can share with you because that's as much as we know.

Giannis, do you want to discuss a little bit about the maintenance schedules?

PSYCHOGIOS I: Yes, thank you, Andrea. Good afternoon from my side also, about the plant maintenance, as we have said also three months ago, when we were discussing the results of 2016. Yes, we do have plant maintenance in September in Elefsis refinery. We as, you know, we have there flexicocker unit, which is working… will be working around 24, about 24 months in August. So the cycle up to now was smaller, now we have planned to have a cycle of 25 months in September. And we hope that maybe we have some positive, I mean findings and we can postpone this turnaround for later in early 2018. But anyhow we are ready and our plan is to have the turnaround next September.

PATRICOT H: Okay. Thank you.

OPERATOR: The next question comes from the line of Kukhtanych Yuriy of Berenberg Bank. Please go ahead.

KUKHTANYCH Y: Hi, good afternoon, gentlemen. Thank you very much for the presentation and congratulations on the great results. I have two questions, please. The first question is on your increased exports. Could you please elaborate a bit more on the structure of these exports, what products categories you are exporting and on what markets? And, you know, who sustainable these increased exports are going forward into the future? And the second question is on the feedstock, and if you could elaborate as well on your increased Libyan supplies. What impact it has on your product slate and, you know, how beneficial this Libyan supplies are for your margins? Thank you.

PSYCHOGIOS I: Okay, let me start from the shorter answer which is about the Libyan supplies. Yes, we after the Libyan, I mean crudes are available again in the Mediterranean. We have starting the… we have starting being supplied from Libya for the low-sulfur crudes that we need in order to cover our crude needs. And we have more or less 50% of our low-sulfur crudes now are coming from Libya, while the rest is coming from Egypt compared to last year when 100% of this crude was supplied from… was let's say from Egyptian origin. The benefit we have depends on the market prices of these two types of crudes. And, yes, the Libyan crudes are more attractive from the cost point of view.

About our exports, as described, as Mr. Shiamishis said, we are exporting more than 55% of our products, and the destination of these export are either our affiliate companies in the Balkans in Cyprus and/or other Mediterranean clients and destinations. And for these, let's say, for these clients we have some 10 contracts mainly in Turkey and Lebanon, the biggest of them and the rest in the other destinations in the Mediterranean basin. We are exporting high quantities of low sulfur diesel; we are exporting some gasoline, one or two cargos of naphtha we produced in Elefsis refinery and some quantities of cracked fuel oil. These are the main products that we do export mainly in the Mediterranean basin.

KUKHTANYCH Y: Okay. Thank you very much.

OPERATOR: We have a follow-up question from Mr. Kukhtanych Yuriy with Berenberg Bank. Please go ahead.

KUKHTANYCH Y: Yes, gentlemen. Well, in the event there are no further questions. I would also like to ask about Iranian repayments, my traditional question and whether there were any repayments to Iran in the first quarter of this year? Thank you.

STERGIOULIS G: Yuriy, we hardly heard the question. You said something about Iranian and then the rest of the question went blur.

KUKHTANYCH Y: Oh, Sure. The question was whether there were any repayments to Iran for the past liability in the first quarter of 2017? Thank you.

STERGIOULIS G: Yes, there have been payments, as you know, we are under a confidentiality agreement with NIOC and cannot disclose the numbers, but there has been a sizable payment in the first quarter, yes.

KUKHTANYCH Y: Okay. Thank you very much.

STERGIOULIS G: Just to, Yuriy, just to… sort of put everybody's minds at ease, I think we are beyond the point of concern for the Iranian payables. They have started being repaid, it is the second year that we are actually making payments and we believe that the whole relationship has been handled very well, and it's not an issue for the balance sheet any longer. Things are improving a lot. So no reason to worry about it.

KUKHTANYCH Y: Okay. Thank you.

OPERATOR: The next question comes from the line of Mr. Lamb Jonathan with Wood & Co. Please go ahead.

LAMB J: Hi and congratulations for the great set of results. I was wondering the net debt level has not changed because there has been some increases in working capital, and net debt level has been fairly steady over the last few quarters. How do we expect to see that changing over the coming quarters; because you have great EBITDA, but there has been no reduction in net debt?

SHIAMISHIS A: Yes, I mean just to sort of share the same set of numbers, out of the €229 million EBITDA, one needs to take out roughly €50 million of financing cost and about €20 million of CAPEX. So we have, what one would call, an adjusted cash flow availability to reduce debt of €150 million for the quarter. Now out of the €150 million, we have some tax payments, so maybe it's another €10 million or so, and then the rest you can see that the actual inventories plus receivables, minus trade creditors actually have consumed this €130 million to €140 million of free cash.

Now in terms of working capital movement, clearly, these are driven largely by the increase in prices, you can see that in inventory, but also because from time-to-time, we see opportunities in increasing our stocks, so that we can make better use of the refineries.

Over performance and efficiencies sometimes means that you need to have the flexibility of the extra cargo or the extra crude selection. On the accounts payable or the trade payables, of course, as Yuriy mentioned earlier, we have made a payment to Iran, which by and large explains the swing on the accounts payable. I think it's a coincidence rather than anything else. It explains the largest part of that swing in accounts payable.

Moving forward on the net debt level, I think one would expect assuming prices remain at the same level, one would expect to see net debt levels coming down gradually over the next few quarters, whether it's going to be €50 million a quarter, whether it's going to be €100 million, whether it's going to be flat, I don't know, it depends on the swings, but one would expect to see at least a €100 million by the end of the year.

LAMB J: Okay. Thank you very much.

OPERATOR: Excuse me; we have no more questions registered at this time. You may now proceed with your closing statements.

STERGIOULIS G: Okay, it's me again, Grigorios Stergioulis, CEO of the Company. Helpe Group continues its improved performance steadily. Today, we announced strong financial results for another quarter, higher than the one expected by the analysts, but in accordance with our strategic targets to gradually transform Helpe Group into a major energy flagship in Southeast Europe. We are taking full advantage of the benchmark margins, the feedstock supply agreements, the crude slate optimization opportunities leading to an increased participation of refining in the overall Group performance. At the same time, we managed to increase our share in the local market.

Overall, to our opinion, we managed to respond to the trust of the market and the stakeholders. The uninterrupted and the safe operations of all our facilities and the full utilization of our human capital are our key advantages for this success. Gentlemen, thank you so much and we expect you on the next, after three months, with even better results. Thank you.