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"Second Quarter 2017 Financial Results"
Conference Call

Thursday 31st August 2017

18:00 (GR Time)

Conductors:

Mr. Grigoris Stergioulis, CEO

Mr. Andreas Shiamishis, Deputy CEO & CFO

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

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

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

At this time I would like to turn the conference over to Mr. Grigoris Stergioulis, CEO, Mr. Andreas Shiamishis, Deputy CEO and CFO, 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 and Mr. Vasilis Tsaitas, Investor Relations Officer.

Gentlemen, please go ahead.

STERGIOULIS G: Good afternoon everybody. I am Gregory Stergioulis, the CEO of Hellenic Petroleum, and I am glad to announce that the Second Quarter and First Half Financial Results. The second quarter of the year, adjusted EBITDA being at €228 million, up by 46%, and adjusted net income at €98 million, significantly up compared to last year, which was one of the best years of our history.

Refining, supply and trading performance was the key driver for the results of the improvement, while fuels marketing also recorded improved performance.

Key factors for the improved results were stronger benchmark margins, increased by a strong overperformance versus benchmark, mainly due to the realization of opportunities in the med crude supply and pricing, as well as improved operations and higher production.

More specifically production and sales increased further with total turnover 4.2 million metric tons, up by 7% against the second quarter of last year, and 8.3 million metric tons in the first half of the year versus 7.4 of the corresponding period of last year. While exports at 4.5 million metric tons, up by 7% against the first quarter of the year, accounted of 55% of the total, domestic market sales to aviation and bunkering were significantly higher, up by 20% and 19% respectively, while sales to industrial customers were also up.

In terms of reported IFRS results, those were negatively affected by the decline of the crude oil and product prices. As a result in the second quarter of the year, reported net income came to €44 million against €74 million of the corresponding period in the second half of last year.

These were the results; it will be followed by a detailed analysis of our Deputy CEO, Mr. Shiamishis. And we welcome any kind of questions and comments.

Thank you and let's have a productive discussion.

SHIAMISHIS A: Thank you, Grigoris. Good afternoon ladies and gentlemen. As Gregory mentioned earlier, this is one of our best performance, at least seasonally adjusted, I think it's probably the best second quarter results that we have announced. With a very strong operating results with EBITDA, adjusted EBITDA at €228 million, and adjusted net income at just under €100 million for the quarter driven by clearly a higher benchmark margin for the system, but we should be highlighting the fact that the fuel oil cracks supporting overall the system, so not only the complex refineries but also the simple refineries, which is, if you will, one of the main benefits of Hellenic Petroleum being able to take advantage of different cracks throughout the periods. An over performance versus the benchmarks which by and large was driven by the various crude supply procurement and planning decisions. As, you know, the med has a number of different crudes now available and the supply team is taking all the steps necessary and making sure that we take advantage of different mis-pricings in the med for our crude supply, higher production, of course, and improved operations, which are adding a significant boost to our operating margin.

Also sales are up, mainly on account of the aviation and bunkering and some industrial customers which is a good sign. However, we will be seeing in a minute, that sales in the transport fuels market is still suffering in Greece. And, of course, we should be highlighting the reduction of financing costs by about 16% year-on-year, which is pretty much in line with what we have announced that we will be doing.

In terms of balance sheet, clearly high operating results lead to strong cash flows. We have a net debt which is pretty much flat. It's within the range that we have expected it to be. So the additional cash flows is being reinvested in working capital and optimizing the, if you will, the various components of that working capital. And, of course, we have taken advantage to improve the structure of the balance sheet by reducing gross debt and idle cash.

In terms of non-operating items which we report on, the work on exploration business in Greece is in progress. And, of course, the DESFA sale process which started… restarted a couple of months ago is well underway.

In terms of numbers, I will not go through Page 3; you have all the numbers there. So I will skip to Page 5, where we have the industry environment. As mentioned earlier, the slight dip of crude oil prices at the end of the second quarter meant that we reported a loss on our inventory and that was combined with a weaker dollar, which affects pretty much all of our inventory stocks, so crude and products.

We do have a decent margin even though it's coming down. The Brent-Urals spread at $1.2 per barrel has come down slightly over the last few quarters. But clearly it's benefiting our operations as a complex refinery system for Hellenic Petroleum.

Moving on to Page 6, the specifics of margins by refinery and product cracks; you can easily see the benefits of fuel oil cracks on the Aspropyrgos refinery which is the FCC refining margin proxy, whereas the hydrocracking and flexicoker refinery is somewhat lower compared to last year. This is simply because one of the feedstocks that go into the Elefsina refinery is fuel oil. So by having a higher crack… fuel oil crack, it means that it's sort of taking off some of the increased conversion value that we have in that refinery, still very healthy margins and that is the case for the Thessaloniki refinery as well.

Page 7, shows the domestic market performance for the second quarter where we see the reduction of gasoline by roughly 3%, whereas diesel has been pretty much at the same level as last year. So overall, transport fuel is continuing to show a small decline.

Aviation and bunkers on the other hand is reporting a very strong increase which is a result, not only of increase tourism in Greece, but also of certain structural changes in the supply pattern of some of the liners in between Italy and Greece, which is good news for us.

Page 9, shows a simplistic, if you will, version of how we go from last year's second quarter €156 million of adjusted EBITDA to this quarter's €228 million. As you can see, we have… as we always do the impact of the environment about €25 million, €26 million, and we have the impact of the various operational aspects, which, as we mentioned include the supply benefit… the crude supply benefits, increased volumes and improve the operations as well.

Page 10, an overview of the credit facilities; we have a clear improvement here on the gross debt amount, and that is a function for two things. First of all, we have increased credit capacity which is committed, so it makes us feel a little bit more comfortable to run our debt levels at a lower level and keep a few, a lower amount of cash. And also it reflects our, if you will, improved perspective on the on Greek risk.

We are not as concerned as we had in over the last few years about the ability of Greek companies, especially healthy strong big companies, like Hellenic Petroleum, to be able to grow liquidity, either from the market or from the banking system.

So this allows us to reduce gross debt and cash, and of course, try and save on the negative carry on these balances.

Developments during the last few months, the repayment of the 2017 notes, a re-tap on the 2021 notes, with a very strong improvement on the yields with 3.3% yield, which is even lower nowadays. And that allows us to be optimistic about hitting our medium term target of reducing significantly the financing cost of the Group.

Moving on to Page 12, we have the Summary of the Domestic Refining, Supply and Trading System, with very strong production volumes and very strong sales volumes. The adjusted EBITDA is a very strong 70% increase, reporting a 70% increase versus last year's quarter. And of course, capital expenditure is kept at reasonable levels. We have given guidance in the past of anything between €110 million to €130 million of CAPEX for the Group, about €70 million to €80 million of that relates to the refining system.

In terms of operations, Page 13, you can see the production by… each refinery, where we have, if you will, a close to full capacity on the system. Utilization rate is higher than 100%, which is close to what we can produce. And of course, there are some flexibilities there, depending on the crudes feed and the yield of the system, which might allow us to do a little bit better even.

On the crude supply, we have a very even and balanced sourcing strategy, which allows us to de-risk the supply side of the business. And on the yield side, as you can see we have a very healthy yield structure with less than 15% of our portfolio finding its way into the market as a fuel oil. Clearly, the production of fuel oil as an intermediate product is much higher, but that is taken into account as a feedstock for the Elefsina and the Aspropyrgos refineries.

On the Sales side, Page 14, we have the channel-by-channel sales, where you can see that exports are pretty much flat year-on-year, and the increase in production has been taken up by sales in aviation and bunkering, and of course, increased sales in the domestic market, which going to industrial and power producing companies.

In terms of Financial Performance of the system, Page 15 shows the consistently high over performance versus the benchmarks which is aided by the efforts on optimization of the supply and trading. And of course, the improvements on the yield structure of the units without major investments, of course.

Page 16 shows the petrochemical business which is a vertical value chain addition to the system. We have similar to last year's record performance of €24 million for the second quarter. So we are, if you will, doing very similar to last year's full year performance.

Moving on to Domestic Marketing, on Page 18, we have a stabilization of the business. As you know, the second quarter is usually one of the weakest quarters of the year, if not the weakest, we are out of the heating gas season and not yet into the driving season.

The performance for the year is marginally up compared to 2016 quarter. We do have improved volumes and a positive development on market shares. However, as one would expect, the third quarter of the year is usually the strong quarter for this business unit.

Likewise, we have the international business, which is marginally up on last year. I would say flat, it's a 2% improved EBITDA number with almost identical sales volumes. We are monitoring the performance of the companies in the markets that we operate. Each market faces different challenges, but I believe that in terms of taking this business unit as a stabilizing factor in the system, i.e., having a, what I would call a cost plus business, which is independent of the refining margins, is something which is positive for the de-risking of the performance of the Group.

Moving on to Page 21, on Power Generation; the business of power generation has reported weaker results for the quarter, and that is, if you will, the down side of not having the reestablishment of the flexibility or capacity, remuneration mechanism which was ended in May, during the second quarter.

We understand this is in progress, i.e., the framework will be re-established. With the changeovers in terms of year-on-year mechanism, usually we lose out on a few months of remunerations. However, we expect that this will be addressed and put in place over the next few months.

In terms of natural gas, we have a mixed performance. We have a very strong performance from the pipeline business

DESFA. And that is a result of having an improved power generation off-take, especially during the first part of the year. And we have slightly lower sales volumes coming from DEPA. This was expected, it was… if you will part of our original strategic plan for natural gas. The opening up of the natural gas wholesale market is something that was anticipated, and it's reflected in the performance of DEPA trading systems shown here.

That brings us to the end of the discussion for the various business units. And we would be more than happy to take any questions on the performance and the terms of the company. Thank you.

Q&A

OPERATOR: The first question comes from Mr. Patricot Henri from UBS. Please go ahead.

PATRICOT H: Yes. Hello everyone, thank you for the presentation. I have a couple of questions on Elefsina, and a couple of… on your cash flows in the quarter. First on Elefsina, can you give us an idea of the precise timing of the restart and how long it is going to take to get back to the full capacity? And secondly, what kind of additional cost should we expect in the third quarter related to this outage? And then on the cash flows, it's quite as strong EBITDA in the quarter, but the cash flow from operation is somewhere below the EBITDA figure, we didn't have time to go through the details, I think we should, kind of, explain this difference? And secondly, to expand on your comments on the working capital or what have you been doing exactly in terms of reinvesting into the working capital, has there been any acceleration of the repayments to Iran for instance? Thank you.

STERGIOULIS G: Okay, regarding the Elefsis shutdown project I would pass you to Mr. Psychogios, who is the Refinery Manager. What I would like to mention is, first of all we brought our scheduled shut down earlier which means that all the provision of the cash flow and everything have been taken into account. The good thing… the good results is that our turnaround will be less than expected. And Mr. Psychogios, will give you full details on the start-up period which I can announce that as from tomorrow or Monday we are getting into this period but the full details will be given by Mr. Psychogios. Gianni…

PSICHOGIOS I: Okay, for the startup of Elefsis refinery, we start the utilities of the refinery on Monday and the full refinery will be according to… is… I mean the works are going according to the schedule and the schedule is that before the middle of September, the whole refinery will be in operation. We have taken this, let's say, the opportunity after the problem, the problem we had in the hydrogen production unit in 10th of July. We have taken the opportunity to shutdown the whole refinery and make the general turnaround of the refinery, which was planned to be done in October this year and in the first quarter of the next year. So we have done all this, and we are doing all these works now, and according to the schedule we will start as I told before of the middle of the month.

STERGIOULIS G: Allow me to add that our flexicoking units, which I know is your big interest was found in a very good condition, meaning that our process in… the way we process it was good and we expect to have a long running period as for now on. Andreas?

SHIAMISHIS A: Okay. So as you understand, things are progressing well. We sort of accelerated the already scheduled shutdown which would be taking place in the next few months. And if all goes well within September we will have all our units firing at the 100% of capacity which is good news.

Cash flow, you are absolutely right, if I can share some basic numbers, the quarterly EBITDA is about €230, and we have spent for interests financing cost and CAPEX about a €120 million overall plus another €10 million for various taxes. So one would expect to see a reduction of net debt by about €70 – €80 million, that amount has pretty much been used to first of all accelerate a little bit the repayments to NIOC and also to increase the level of stock in the system.

However, I should be, I would be surprised if we have significant changes on net debt from where we are now. In terms of, if you will, a reasonably efficient capital structure would suggest that we do not drop below €1.5 – €1.6 billion of net debt. You have to take into consideration that we have a tax rate of about 30%.., 31% effective tax rate in Greece. So it makes sense to carry a decent amount of debt because of the tax shield.

That, of course, means that as we move to the following quarters, one would expect to see a higher proportion of the free cash flow converted into dividend payouts. Not something that we will comment on now, but it's only reasonable to expect that.

PATRICOT H: Okay. Thank you.

OPERATOR: There are no more questions registered at this time. You may now proceed with your closing statements.

STERGIOULIS G: Having no questions means two things, either we have being very explanatory, so there were no questions or our results has self-proving that we are doing well. Thank you gentlemen, have a nice afternoon.