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"First Quarter 2015 Financial Results" Conference Call

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Conductors:

Mr. Grigoris Stergioulis, CEO,
Mr. Andreas Shiamishis, Deputy CEO & CFO,
Mr. George Alexopoulos, General Manager Strategic Planning & Development and BoD member &
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 2015 Financial Results.

At this time, I would like to turn the conference over to Mr. Grigorios Stergioulis, CEO, Mr. Andreas Shiamishis, Deputy CEO & CFO, Mr. George Alexopoulos, General Manager Strategic Planning & Development & BoD Member and Mr. Vasilis Tsaitas, Investor Relations Officer.

Mr. Stergioulis please go ahead.

STERGIOULIS G: Thank you. Let me take this opportunity of the First Quarter of 2015 Results Announcement**,** to introduce myself, and to the investors and analysts' community. My name is, as you very well mentioned, is Gregory Stergioulis, and I am the new CEO.

Hellenic Petroleum reported a positive set of results for this quarter. There are… they were mainly driven by strong benchmark refining margins, increased exports and improved performance of all business units, both in Greece and abroad. I would like at this point to note that business environment both in the Greek and global oil market remains volatile and with significant challenges and risks for the rest of the year. Our aim, as the new management team, is to continue to strengthen the position of HELPE as a regional group of South Eastern Europe, and further enhance the performance and contribution to the Greek economy.

With regards to the recent tragic incident at Aspropyrgos refinery, our management expresses its deep sympathy and full support of the Company to the families of those affected. I would like to stress the importance of safety culture during both operation and maintenance works, and to request both from our personnel, contractors and associates to contribute to this effort the maximum they can.

The BoD of Hellenic Petroleum following the incident of 8th of May stated that it has already taken and will continue implementing all the necessary measures to avoid any similar events, as human life is invaluable and its protection cannot be compromised. Now, let us move to some main points characterized on performance during this period.

First, with respect to the refining environment, I would like to say the global oil products demand has increased, driven by amongst others, low crude oil prices, economic recovery in several countries and colder weather conditions in the Northern Hemisphere. As a result, crude oil price decline slowed, with Brent averaging at 54 barrels during the quarter.

In parallel, US dollar strengthened further versus euro, averaging 1.13 on first quarter of ’15, its highest since 2003. Let me remind you here that the stronger dollar is positive to European refineries.

As a result of increased products demand in emerging markets like China and India, US as well as in Europe, low energy costs due to reduced crude prices, and improved supply conditions of feedstock, benchmark refining margins was stronger during this quarter. More specifically, benchmark Med FCC margins averaged $6.8 per barrel versus $2.2 on the first quarter of 2014, the highest first quarter level of the last two decades, while Hydrocracking margin was at 7.2 barrels versus 3.4 at the first quarter of 2014.

Regarding our domestic market, I would like to mention that weather conditions, lower international price and lower effective taxation of heating oil due to excise duty reduction, and improved subsidization mechanism, led to the doubling of heating gasoil consumption with domestic fuels demand increased by 22% to 1. 9 million tons. Meanwhile auto fuels demand remained stable at last year's level.

Now let's move to the…a few key points concerning our financial performance. Let me start from Group adjusted EBITDA, which as well as you have already are aware of, reflects our operational profitability. This amounting at €205 million compared to €51 million of the first quarter of 2014, mainly on the back of refining performance.

Adjusted net income in turn amounted to €55 million, versus a loss of €19 million last year. Reporting IFRS results also positive despite an inventory loss of €49 million, leading first quarter '15 reported EBITDA to €155 million versus €25 million of last year. And net income, to €18 million versus a loss of €38 million last year. Operating cash flow was affected by increased working capital requirements ahead of the scheduled full turnaround of Aspropyrgos refinery in the first quarter '15, and increased inventory on contango trading.

Net debt came to €2.1 billion, lower than last year that was €2.3 billion, while gearing stood at 54%. Despite the improvement in operating cash flow during the first…the last few quarters, Greek liquidity issues continue to negatively affect the Group's financial position and expenses.

Finally, before passing on to Andreas, I would refer to our main business developments. The completion of the full turnaround of Aspropyrgos refinery and the gradual start-up of the units is expected in June. Furthermore, maintenance works, mainly decoking of the flexicoker unit in Elefsis refinery are also carried out. Works are expected to be completed within 5 or 6 weeks while all other refinery units are running according to plan.

Exploration activities in the West Patraikos Gulf area are in progress, with focus being at this stage on geological studies. It should be noted that Hellenic Petroleum acts as operator in the international joint venture.

At this point, I would like to pass you to our Deputy CEO and CFO, Andreas Shiamishis to continue with the analysis of our results. Andreas.

SHIAMISHIS A: Thank you very much, Gregory, well, it is the first quarter that we go through the results, together with Gregory and we have a good set of results as you have already seen. The first quarter of '15 was, I believe the highest quarter in terms of adjusted EBITDA at €205 million, and of course, it's also a quarter which marks our return to positive results, both on an adjusted and reported basis.

Gregory has explained the refinery turnaround process, and the maintenance works that are being carried out there. So I will not expand on that. But during the first quarter, it's important to note that all three refineries operated almost at the full utilization. We took advantage of a very positive refining margin, and the ability and then change of strategy to run all three refineries as a system, particularly the Thessaloniki simpler refinery means that we have been able to take as much advantage of the refining positive environment as possible.

In terms of our key numbers, I will turn to Page 3. As you can see, the sales volume on refining and marketing are up significantly 30% and 24% respectively, refining is clearly driven from the positive benchmark margins, which meant that Thessaloniki was able to run at high utilization, and that of course, translates into increased exports which is approximately 53% of our sales during the quarter.

As you can see, all units reported a positive result better than last year's quarter. Clearly, the biggest number comes from Refining, Supply and Trading, which has gone up by about €150 million. Share profits from associates is down mainly on the back of lower IPP gas demand, which has a negative impact both on Elpedison associate and DEPA results.

Finally, you can see that the finance cost is lower than last year. The number is €50 million, which means that we expect to be around €20 million to €25 million lower than last year on a full year basis. However, it's still affected by, first of all, the prevailing macro environment in Greece. Cost of funding remained significantly higher than the rest of Europe. And of course, our strategy to maintain relatively high cash balance as part of our risk mitigation strategy, which of course, given that today's deposit rates are actually negative has a significant negative carry effect on our numbers.

Moving on to Page 5; we have the industry environment the key metrics, all of you are aware of the background, we are just using these pages to highlight the couple of the points which affected our results. As you can see, the decline of crude oil prices from 110 back in 2Q, '14 to below $50 at the end of '14 has led to a big write-down of our inventory stocks, and in the first quarter of 2015, during January we saw this trend continuing. Clearly since then, we've seen a reversal of that and prices have moved up even higher during the second quarter.

In terms of the differentials between the different types of crude and the transatlantic spread the Brent-WTI, we've seen it going up in the first quarter of '15. However, we are still seeing increased runs from the European Refineries. So we haven't seen an impact as we had seen 18 to 24 months ago with a total shift of the transatlantic trade from the US coming back to Europe.

In terms of margin, as you can see on Page 6, we've had a trebling of FCC margins, which is the Aspropyrgos Refinery and the Hydrocracking which is Elefsina, has gone up by more than twice. So clearly, there is a strong benefit which we see in the first quarter results.

Just to give you a bit of latest information. We are seeing these margins continuing in 2Q, ’15. Clearly, we will see lower impact given that the refineries will not be operating under 100% during the second quarter. So in terms of opportunity loss, clearly we will have an impact, but in terms of actual numbers, in terms of realized numbers, the second quarter will also benefit from a high margin environment.

Moving on to the domestic market, we see a big increase, mainly driven from the heating gasoil demand. As Gregory mentioned, we’ve had the impact of weather, the impact of low price environment, and of course, a lower effective taxation on heating gasoil. And on the aviation and bunkering demand, we see that there is a substitution between fuel oil and gasoil as a result of recent IMO product specification changes.

Page 9, gives you the bridge between last year’s and this year’s results. You can see that €90 million are driven from the improved refining environment and the rest are effectively internal to the Company, about €60 million of that is driven from the Company performance.

You can see moving on to Page 10, that over the last few quarters we have managed to realize the benefits of the investments in the transformation efforts over the last few years. And of course, with the benefit, if you like, with the fair wind of the refining margins we have been able to consistently improve our quarterly as well as our trailing 12 month performance, which at the end of Q1 stood at just below €600 million of adjusted EBITDA, and that has a big impact on all the other metrics as well.

In terms of cash flow, we have the main component of our cash flows which is the adjusted EBITDA and the CAPEX. The normalization of CAPEX allows us to take advantage of good performance and generates a material cash flow which clearly is used for improved efficiencies in trading, as well as, deleveraging eventually.

Since the end of the year, we saw an increase in working capital, most of it, or a significant part of it I should say, is driven from the turnaround of Aspropyrgos. We had to stock-up at the end of March, ahead of the April shutdown, and the increase of inventory taking advantage, as a lot of other companies have done during those months of the contango structure in the market, so we put our cash to good use and benefited from that.

The impact of contango trade is not yet reported in our results, given that it will be reported as we sell them, which is going to be during the second quarter and some of it during the third quarter. If I am not mistaken, the best opportunities arose between February and September. So I think that's when we should see the whole thing being unwound and the benefit coming through our results.

In terms of credit facilities; well, we've done as much as we needed if not a bit more in terms of increasing our capacity which now stands at about €3.2 billion following a €200 million three year facility we signed up in January. And the mix between the different funding providers is significantly more balanced than in the past. That is the case for the maturity profile of our loans, which as you can see have started to taking a much more smooth form in terms of the amounts, to be either repaid or refinanced for the next three to four years.

Moving on to the specific business units; the first one is Domestic, Refining, Supply and Trading which has been the star performer mainly on the back of improved mechanical availability and the refining environment. And you can see on Page 15, how that translates into some operational metrics, like the production by refineries. You can clearly see the benefit of the Thessaloniki being on stream compared to last year, and of course, the improvement in the Elefsina Refinery, not just in terms of the absolute numbers of production, but also in terms of a much better yield structure than last year.

In terms of the sales performance, I won’t go through the numbers. The key message here is that, with a relatively positive refining environment, not necessarily at the same high levels as we see now, but with a regionally positive refining environment, we can have our three refineries operating at high utilization, and that effectively gives us the ability to export about 50% of our production into nearby markets. Part of that is going to our own subsidiaries, our end market companies, part of that is going to third parties. So it gives us the ability to de-risk our model and of course, to become a much more significant participant in the East Med market as Gregory mentioned earlier, being part of our strategy going forward.

Page 17 shows the benefit of having not just a more complex refinery system which is translated into the system benchmark, but also the ability to over perform that benchmark based on operating efficiencies and excellence as well as the benefit of having a significant local market and next to our refineries which can help us in generating additional contribution versus what would be a typical sweet refinery next to refinery in a nearby market.

In terms of petrochemicals, we have an improvement in the performance. Now, we report petrochemicals is a different unit for internal management organizational purposes. However, if you look at it from a budget chain point of view, the petrochemicals contribution is mostly attributed to the Aspropyrgos refinery, which effectively allows us to upgrade butane and propane into propylene which has a big value benefit for the Group. And that of course goes onto the Thessaloniki to become Polypropylene and then onto become BOPP or at least part of it.

Moving onto marketing, we have admittedly a low base, but still we are reporting a 125% improvement versus last year. Our marketing business is highly seasonal and which is as a result of the geography of the Greek market and the seasonality of the touristic season. So an improvement versus last year albeit at a low base, a number that we expect in 2Q and 3Q to improve significantly and be able to allow us if you will, to report a better result than the €39 million on a full year basis we reported last year.

In terms of international marketing, we have again an improvement, all markets performed better than last year. We see that the lower price levels are stimulating to some extent consumer demand. Clearly, it's…we are still talking about fragile economies, especially in some of the markets that we operate. But we have been able to take full advantage of supply chain efficiencies between the refinery system and the in market companies and optimize for each market the supply model, which allows us not only to compete in the local market, but also to maximize the benefit of the refineries in terms of supply and value chain.

Moving onto power generation and natural gas, the are two units which are consolidated as associates i.e. through the equity method. As I mentioned, the power generation is going through a transitional period. We have the abolition of the previous capacity certificates and post recovery mechanism which existed until the end of 2014. We still do not have a definite framework. I believe that, and I expect that over the next few weeks, a new framework will be put in place which will allow the units to have better visibility as to the performance going forward.

Now that has a direct impact on DEPA, which is on Page 27. DEPA has one of the three channels being the nat gas energy producers, whether it's PPC or IPPs. During the first quarter, we have seen significantly lower sales from DEPA, about 21%, and that has impact both on trading margins as well as the recovery of the fixed tariff from DESFA.

So I guess in terms of performance, the positive thing about natural gas was the existing, the continuously increasing participation and contribution from the EPAsales which is mainly a consumer, that is if you like, the underlying demand that is less susceptible to significant regulatory frame driven volatility.

Now, on the basis of all the business units that we described, we are in a position to report, as I said earlier, the best performance for some time, €205 million, and of course, the significant transition from a loss-making quarter into a profit making quarter with an adjusted EBITDA of €205 million and adjusted net income of €55 million for the first quarter.

Thank you very much for the participation and we can now move to questions from you.

Q&A

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

PATRICOT H: Yes, hello everyone, thank you for the presentation. Just one question on the…you mentioned turnaround that you are doing at Aspropyrgos, so I was just wondering if there are any improvements in performance or in yield that you expect post turnaround? Thank you.

SHIAMISHIS A: Thank you very much, Henri. Well, the turnaround is also a good opportunity for us to implement certain improvement in the debottlenecking. In terms of spent, I think we are probably spending about not as much, but about 80% of the spent that we have for the turnaround in improvement project. So I guess after the full startup of the refinery, we will be expecting to see some improvements, mainly debottlenecking of units, the FCC splitter in terms of propylene and we expect to see some energy savings as well. So those are the main areas that we would expect to see benefits coming through.

STERGIOULIS G: Can I contribute to this question? First of all, through that the FCC unit has been slightly revamped expecting the stabilization on top of the fractionation column. Second, we have some energy savings as Andreas just mentioned through a program that we expect to complete in the next turnaround. But furthermost important…an important finding on this turnaround was that inspection proved that the refinery was in a better shape than expected.

PATRICOT H: Okay. That is been… for the next turnaround you could take longer before you have to shutdown the refinery?

STERGIOULIS G: Not really, with this maintenance works that we are carrying out we are planning that we do at the moment…we expect to have a better performance from the turnaround from now on.

SHIAMISHIS A: If I can add something, as you probably know, we've had over the last few years setup a very experienced team, and Gregory was also part of that team during the previous years from various positions which looked at improvements in the refinery, it was called DIAS, if you recall one of the transformation projects.

Now, DIAS had one aspect which had to do with maintenance and effectively what we are seeing now is that preventive maintenance, risk-based approach of the maintenance is actually starting to pay out because in the last three or four major turnarounds we always had a material increase to the scope because of the findings we had following the opening up of the units. So what Gregory is saying now is that, following this change of maintenance approach, we have been able to see some of the benefits, because whatever we planned for is effectively what we did during the turnaround. We didn't have a lot of additional works to worry about.

PATRICOT H: Okay, understood. Thank you.

OPERATOR: The next question comes from the line of Rethy Robert of Wood & Co. Please go ahead.

RETHY R: Yes, good afternoon. Thanks for the presentation. And perhaps this has been addressed already I just missed first part of your presentation. Can you quantify the impact of all the turnaround activities, and also I think you mentioned in the presentation that Elefsina will also see a shutdown of the flexicoker. So what does this all mean for second quarter in terms of volumes and perhaps in monitory terms? Thanks very much.

STERGIOULIS G: That's a very good question. In fact, the cycle of the flexicoker unit was expected to be a bit longer than the 12 or 14 months that we had to de-bottleneck…to clean the co-decocking But you do realize that this was a learning… procedure of the learning curve is not very stable.

All we expect is better performance. All we can expect for next year is better performance. We know more, we can act better, the unit is a complex unit, and the idle time is something that we have to very carefully re-examine. And we expect the influence of the works…the delaying, to be around €50 million, which will really affect the second quarter performance. So all we can promise and we can see is nothing really will affect our economic performance, process wise and economic wise.

SHIAMISHIS A: As I mentioned earlier, the high margin environment that we are going through has a downside because we have a big opportunity loss from the downtime of the refinery which we estimate around €50 million-€60 million. But on the other side…on the other hand, we have a reasonably healthy baseline for our second quarter.

RETHY R: So the flexicoker is going to be down for how long?

STERGIOULIS G: Around 45-days maximum.

RETHY R: Okay. So that's quite long. And Aspropyrgos now, it's also an extended turnaround, right due to the unfortunate events?

STERGIOULIS G: By 10-days, we expect the start-up to continue early next week.

RETHY R: Okay. Thank you very much.

SHIAMISHIS A: Maybe just a clarification, on Elefsina it's only the flexicoker unit which is down all the other units are operating properly.

RETHY R: Right. Okay. Thank you.

OPERATOR: The next question comes from the line of Grigoriou George of Pantelakis Securities. Please go ahead.

GRIGORIOU G: Yes, hello. Can I please ask a few questions? First regarding the domestic marketing operation; what is your target for petrol stations at the end of the year or if you like a target for petrol stations which you regard as the optimum. And the second question regards payables, if you could please explain a bit the fluctuation on a quarter-on-quarter basis, in the fourth quarter 2014 they were very high, now they have come down. That's about it. Thank you.

SHIAMISHIS A: Hello, George. The first point on the target for petrol stations, well, clearly as you know, the market very well, we've seen a big drop over the last few years, which is…expected, Greece is one of the most over pumped markets in Europe. So with average ATPs of 1 to 1.5 thousand cubes, it's very difficult to sustain this number of petrol stations, especially with today's margins.

We have reduced our petrol stations from 2.2 thousand to about 1.7 thousand, if I recall. We do not have a specific target in the sense that we want to close down stations because the stations which have negative contribution are closed down effectively. We do however expect and it's a reasonable question, that a number of these petrol stations either because of profitability or because of credit issues will be dropped out of the network. That number can be anything between 50 and 100 petrol stations by the end of the year, but it is not a target for us to reduce that number.

On payables, we have two main reasons for the swings, for the changes. The first one is, the price impact of course, you can see that in the first quarter of 2015, we had to tie up a significantly bigger cash balance in terms of inventories, and of course, the other side of that is increased creditors? And the second one is, the credit terms that we can enjoy from suppliers.

It's no secret that over the last four years, Greece has not been a favourite exposure for not only banks but for suppliers as well. So we have been working through this process and evaluating whether it makes sense for us to extend credit terms or make use of any cash we have available to attract better prices on the crude procurement.

Clearly, that is something that has a swing from quarter-to-quarter depending on the circumstances. In the first quarter of 2015, for example, we used some of the excess cash to accelerate payments to suppliers, which is why we have a big swing.

At the end of Q2 and Q3, clearly we will have to wait and see how the climate… how the macro environment is going to be with respect to Greece. And we may have to utilize more of our cash resources to maintain the supply chain, if we can get away with increasing our credit facilities from suppliers, clearly and to the extent that it makes sense from a value point of view, clearly we will love to do that. Thank you.

GRIGORIOU G: Excellent. Thank you. Can I please ask two more follow-up questions? One you mentioned Andreas, about the power generation that you have not included any capacity certificate payments, I believe, if I understood well, in the first quarter.

SHIAMISHIS A: You understood very well, yes.

GRIGORIOU G: Okay. And given…let's assume that the proposal by RAE actually follows through when the government actually signs if off as it is today without any changes. What would you think the number would be? What would you actually record as EBITDA. What would you think would be the number, could you give us roughly any indication I mean, if you can?

SHIAMISHIS A: Well, there are two drivers to that number. The first one is retroactivity, I don't know how far this going to go. And the second is, what's the final capacity certificate numbers going to look like. We could have a range of anything between 15 and 30 million for the year, which is a wide range, but this is pretty much what we would expect to see for 2015 assuming that we proceed with the resetting of the environment.

And as I said, it will depend on retroactivity and going forward how much of that number, the capacity certificate number is going to be included in the framework.

GRIGORIOU G: Understood, understood, I mean it's a bit tricky. And sorry, one last question, I know I am taking your time and it's late now as well. Regarding the Iran, I know it's a bit tricky and you haven't commented officially in the past.

Should the market open up again and allegedly at least in the press there was some rumors, it was leaked press reports out there perhaps Iran, the Government of Iran has some claims on Hellenic Petroleum regarding previous past… few years ago supplies. I don't know if you have any comment on that?

STERGIOULIS G: Let me answer to this question. We have been in contact with the Iranian Government and please do allow us not to make any announcement yet, but I think we are in a very good road.

GRIGORIOU G: Okay, fair enough. Thank you.

SHIAMISHIS A: George, if you go through our accounts, we do have a disclosure with respect to the payables. So it's not a rumor, it's a fact which is stated in the accounts. We just did not disclose the amount because that is clearly between us and the supplier. And as you know, we are not alone in this process.

All of the Med refiners have similar issues and as Gregory said, Iran is a very longstanding supplier of ours. We have had very good relationship with them, but we both understand that we have to comply with whichever framework is applicable at any point in time.

GRIGORIOU G: Fair enough. Thank you. Thank you very much.

OPERATOR: The next question comes from the line of Rajoria Monika of Société Générale. Please go ahead.

RAJORIA M: Hi, I just have one question, please. Do you have any updates regarding the DESFA sale, and do you expect to complete it this year? Thank you.

ALEXOPOULOS G: Yes, thank you for the question. As you probably know, the transaction is currently going through the regulatory approvals process which is a rather long and tedious process. The final step in this process is the competition approval, which is underway and what we can say is that the sellers, the buyer and the DG Comp are in constant dialog in order to ensure that the concerns of DG Comp can be addressed and we can come later in the year to a completion of the transaction. Thank you.

RAJORIA M: And is it anyway being affected by the political situation in Greece?

SHIAMISHIS A: You refer to the DESFA sale or overall?

RAJORIA M: Yes, DESFA sale only.

SHIAMISHIS A: No, we don't expect that to play a role. I think the whole case is that it's with DG Comp right now. We have seen the first steps of that process. Clearly, they are in discussion with the government as a regulatory authority, and with the government being…so by definition they are in discussion with them, but it's mostly with the DG Comp responsibility.

RAJORIA M: Alright, okay. Thank you. That's clear. Thank you.

OPERATOR: Mr. Shiamishis, there are no more questions registered at this time. You may now proceed with your closing statements. Thank you.

SHIAMISHIS A: Thank you very much for attending this call. As I also mentioned from the beginning, it is a very positive set of results. It has been a good quarter. Unfortunately, this performance was overshadowed by the unfortunate accident which led to the tragic loss of life and clearly that is something that has affected all of us.

However, Hellenic Petroleum is one of the largest companies and groups in South Eastern Europe, in the Balkans, and we will make sure that we put every processes in place, and every effort will be made so that we improve the already high standards of safety. But clearly, the incident shows that we do have room for improvement.

On the performance side of things, the second quarter will be a bit testing given the turnaround of Aspropyrgos, the extension of the turnaround by a couple of weeks and the flexicoker unit. However, the positive environment that continues throughout Q2 up until today should allow us to feel a smaller pain as a result of that. Now, we don't know whether the rest of the year will continue with the same refining environment. We sincerely hope it does, but in any case, this is something that remains to be seen.

Thank you very much for attending the call and we look forward to having you with us for the second quarter results.