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"Third Quarter and Nine Months 2021 Financial Results" Conference Call

Thursday, November 11th 2021

18:00 (GR Time)

Conductors:

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Mr. Georgios Alexopoulos, GM Group Strategic Planning & New Activities

Mr. Christian Thomas, CFO

Mr. Dinos Panas, GM, Oil Supply and Sales

Mr. Georgios Dimogiorgas, GM, Refining

Mr. Vasilis Tsaitas Head of Investor Relations

Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Maria your Chorus Call operator.

Welcome and thank you for joining the Hellenic Petroleum conference call and Live Webcast to present and discuss the Third Quarter & Nine Months 2021 Financial Results.

At this time, I would like to turn the conference over to Mr. Andreas Shiamishis, CEO, Mr. Georgios Alexopoulos, GM Group Strategic Planning & New Activities, Mr. Christian Thomas, CFO. Mr. Dinos Panas, GM, Oil Supply and Sales Mr. Georgios Dimogiorgas, GM, Refining and Mr. Vasilis Tsaitas Head of Investor Relations.

Gentlemen, you may now proceed.

SHIAMISHIS A: Thank you very much. This is one of the best quarters since the beginning of 2020 for us, given that we are gradually coming back to what we consider more normal levels of business activity, and a lot more favorable environment.

So without further ado, going to the executive summary. We have improved profitability across all businesses and pretty much across all metrics of the group. This is against an environment which is clearly a lot more favorable that it has been for the last year and a half. We have higher crude oil prices which will at some point in time impact demand, but at least on a reported basis, it's helping us to recover some of the inventory losses we reported last year.

We have the downside of exceptionally high energy cost, predominantly in the form of nat gas prices, and the ensuring impact on EUAs, which is clearly not an issue to be taken lightly. We are quite concerned about this new environment. But on the other hand, we do have a significant uptick in terms of the refining margins, and the demand for oil products.

As a result, we are almost doubling our adjusted EBITDA to 125 for the quarter, and we have higher sales, improved margins, better market shares and improved operational performance, so the EBITDA has seen improvements on all accounts. A lot of it is due to the environment, some of it is due to the way we run the business, and it’s showing some positive impact. And, of course, it has to do with strategic initiatives which either in the form of performance improvement initiatives like digital transformation or procurement or organizational streamlining, are beginning to deliver some benefit.

In terms of reported numbers, where we have an even more positive story to tell, not due to our own making, of course, in terms of the inventory prices, but it is helping us to report a very strong net income at almost €260 million for the 9 months. It’s more than a €600 million swing compared to last year’s 9 months’ results, clearly driven by the prices…by the crude oil prices and product prices, but we also have improvement in the associates contribution and a further reduction of finance cost, which is expected to be even better going forward, given that we have repaid a relatively expensive bond just a few weeks ago.

On Page 3, in terms of the strategic initiatives, we have communicated to the market the Vision 2025 initiative, which is a holistic plan to transform the group with 5 pillars, very quickly to remind you, we have the ESG commitments in the form of a committed and a developed CO2 abatement curve, so that we reach a target of 50% improvement by 2030.

A new business strategy and a new capital allocation policy which diverts money into **"**greening**"** our existing business, and making it more compatible for the future, and at the same time, more than 50% of our CAPEX is going to go to new energy, which, today is predominantly renewables, but going forward, we will be including the hydrogen, the carbon storage, the bio fuels initiatives as well.

The third pillar had to do with the governance, which we changed in the summer of 2021, so for the first time in its history, the company has the governance that is close to a private listed company rather than a public sector or a government-controlled entity, and that cascades throughout the group in the form of a holistic upgrade of the governance structure at group and subsidiary level.

We have the corporate restructuring which is in process, it's in progress. We expect that by the end of the year we will have completed the restructuring process and come January 2022, there will be a new Group in place with a holding company sitting on top of all of the activities, which is something with a lot of benefits.

And finally, rebranding of the group and some of its activities, which will effectively be more consistent with what we want to do. So in terms of strategy, a lot of things have happened in the last couple of quarters. It has been a busy period for us.

In terms of the business development strategy, we have committed to grow in new energy and the Kozani project is pretty much on track, despite the delays and the complications by COVID. We have completed the sale of DEPA infrastructure in the sense of having a preferred bidder, and we expect that by the end of the year, we will be signing the SPA with the preferred bidder Italgas. And we are looking to see what's going to be the next step for DEPA Commercial.

And on upstream, we have committed to become a company with a better environmental footprint, and in that respect we have relinquished the onshore blocks. They've been returned to the Greek state, and we have notified the Greek state that we intend to relinquish, to return the West Patraikos block as well.

In terms of numbers, I won't go through these detailed numbers, but effectively at volume sales level, gross margin, EBITDA, EBIT, net income, we have improvements across the board. And as I said by and largely, this is driven by the improvement in the industry economics, but it is also a factor to a lesser extent of operational excellence initiatives.

So that brings us to the industry environment, which I will ask Dinos Panas to walk us through the environment.

PANAS D: Thank you, Andreas. Good evening to everybody. Coming to the industry environment, some numbers you already know. On Slide #6, with the crude strengthening throughout the quarter and actually it moved above $80 a barrel in the beginning of October to stay above $80 per barrel until today. And of course, you have a stronger dollar, which is very helpful to our overall result, since our margin is dollar-based margin and when converting it into Euro, you always want a stronger U.S. dollar.

Now, coming on Page 7, we had improved cracks in all white products and the wider Brent-Urals spread, which actually led the margins to the strongest level since the COVID crisis had began, especially for refineries like Aspropyrgos and Thessaloniki that produce gasoline and to a lesser extent for hydro-cracking and coking refineries like Elefsis. That was the good news for the quarter.

On Page 8, you can see some of the difficulties we are facing due to higher cost both in natural gas and electricity prices, but also in the EUAs.

Now, on Page 9, you can see the domestic market. We are back to levels that we had in 2019 in our transportation fuels, maybe a little bit higher after the third quarter. So overall, we can say that diesel was at the same levels of 2019 and gasoline minus 1% down.

We are going to Page #10, we are still lagging the 2029 demand both in aviation and bunkers. In aviation we have a huge increase versus the third quarter of the previous year plus 120% but still we are lagging 2029 by 20%. And in bunkers, we are lagging 2029 by 27%. While in the quarter versus the quarter of last year were up around 30%...28%.

And with this, I will pass you to Christian Thomas for the group results and review.

THOMAS C: Thank you Dino. Good afternoon. We are on Page 12, where we present to you the causal track and obviously you can see between 3 quarter '21 and 3 quarter '20, the doubling of the adjusted EBITDA with a very strong performance. Now the stronger results significantly affected by the margins like Andreas mentioned before. Pretty much unaffected by FX, whilst we had headwinds in terms of the higher operating costs for electricity, natural gas and the EUA prices, which we also mentioned at last quarter.

On the positive effect for the environment, the local market normalization helped us significantly. Now, on the performance side last year, we had the benefit of €29 million from Contango trades, which we didn't have this year, while at the same time, we also have the good performance on this quarter in terms of the refinery availability, but also our own operations and the strong petchems improvements.

Now, on Page 13, you can see the credit facilities and the liquidity information. On 14th October, so after the 30th of September, we repaid the €200 million outstanding 2021 Eurobond. This is going to give us a further positive impact on our finance costs, which we will be able to see after the next quarter.

The consent solicitation for the '24 notes is underway as part of the vision 2025 project. Like in previous quarters, you can see the 60% of our gross debt committed, well-spaced out, you know, maturity profile and we will be looking as part of Vision 2025 in terms of what we want to be doing for future refinancing's.

Finance costs, again low and to be seen lower going forward. Whilst this is also interesting to see our bond now showing a yield, which is just under 2, which shows also the perception of the market in terms of what we're doing.

So on that, I'm going to pass on to Vasilis**,** who is going to give you an overview of the performance of the business units.

TSAITAS V: Thank you, Christian. Good afternoon to all of you attending and thank you very much. We'll now move on to discuss the individual performance of our business units starting from refining, supply and trading on Page 16.

As it was mentioned before, we saw the improvement in the environment with benchmark margins, picking up from the all-time lows of the previous few quarters. Refining availability was higher, given the fact that last year we had the full turnaround of Aspropyrgos and that is reflected in our production sales volume and enabled us to capture the improved environment, that was partially offset by the higher OPEX, mainly due to the EUA pricing and electricity, which exceeded $1 per barrel over the same period last year. Another important thing to note is the normalization of CAPEX back to maintenance levels both for the quarter and 9 months versus the full turnaround of last year.

On Page 17. Again, production levels, as well as, crude sourcing and yields reflect the availability levels and the operation mode of our Aspropyrgos refinery.

On Page 18, sales are higher again due to the higher production. The key takeaway here is the rebalancing of our sales with the recovery of domestic market, both in ground fuels and aviation and bunkering, that had also a positive impact on our realized margin.

On Page 19, which despite the absence of the positive benefit of Contango trade last year. Our over-performance was kept at high levels leading to the highest realized margin over the last 2 years.

We now move on to Petrochemicals on Page 21. Effectively, we were able to capture the improved margins of polypropylene that corrected versus the extremes…the positive extremes that we saw in the first half but still at very good levels with 9 months already exceeding €100 million adjusted EBITDA which is the highest performance on a full year basis that we have seen so far.

In Fuels Marketing business on Page 23, again recovery across the board with all market channels improving in terms of demand and sales. If you combine with the market share gains, especially in aviation, the improved penetration of our differentiated fuels in our retail network and overall increase in tourism and mobility led to our adjusted EBITDA close to €30 million, at par more or less with pre-crisis levels.

On Page 24, International Marketing, again, the recovery of the retail business in terms of higher sales and despite the pick-up in OPEX due to electricity prices in our company operated network, drove profitability close to an all-time high of €20 million.

On that note, I will pass you on to George Alexopoulos that will discuss our renewables and power and gas businesses.

ALEXOPOULOS G: Thank you, Vasilis. Good afternoon everybody. On Page 26, renewables, we are accelerating the development of our portfolio. As you can see the Kozani 204 megawatt project is getting close to completion with that 75% completion we have 14 out of 18 parks complete, and we are still targeting mechanical completion for the entire project by year-end and commercial operation in the first quarter of 2022.

Our pipeline continues to grow. We currently have about 1.7 gigawatts at various stages of development including, of course, the Kozani project and almost 700 megawatts in advance permitting stages. We have an additional gigawatt in early stages, and we have developed a number of storage projects at various sites of the group with a current capacity at 300 megawatts in terms of applications.

Turning to Page 28, Power, it's been a good quarter for Elpedison, EBITDA at €20 million increased electricity demand

and as a result higher operation by gas fired plants over 1 TWh of net production this quarter.

Page 29, DEPA, a positive quarter for DEPA**,** improved results for DEPA commercial and the sale of DEPA infrastructure on track following the clearance by Court of Audit, we expect the SPA to be signed this year and closing should follow in the first few months of next year. The DEPA commercial tender remains suspended for the time being.

And this concludes the presentation. So we will be happy to take any questions you may have.

Q&A

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

PATRICOT H: Yes, everyone thank you for the presentation. I have 2 questions please on the outlook for the first quarter. The first one is around the Refining business and to what extent this higher energy cost that we are seeing for natural gas, electricity offset the benefit of the higher cracks. If you can perhaps give some idea where you see the OPEX moving and whether you've been able to mitigate some of that negative impact from higher energy prices? And then secondly, still around the topic of higher energy prices, are you seeing much of an impact from this on fuel demand yet in Greece and in your other markets? Thank you.

TSAITAS V: Hi, Henri many thanks for the question. It is true that energy prices have been escalating further during the course of October especially and November with some correction perhaps on nat gas prices. However, we saw margins increasing further in October especially, I guess the difference versus of the third quarter is that product cracks reflect the additional production costs for complex refineries. So the differentiation is that you have high hydrocracking margins who are more energy intensive versus the FCC. So yes, I would say that the market trend does follow the increasing energy cost in terms of refining margins.

In terms of demand, I guess the main driver is still being you know the total lifting of mobility restriction and the return to normalization. So, we still see traffic in the streets and I would say that demand trends have not varied versus the previous weeks.

PATRICOT H: Okay. Thank you.

OPERATOR: The next question comes from the line of Vo Kevin with AlphaValue. Please go ahead.

VO K: Hi. Yes, thanks for the question. Yes, approximately the follow up from this question on power prices. Just going back to Slide 12, where we see the OPEX up by €10 million year-on-year on the higher electricity prices, and in fact I find it rather low when we see power prices, which have more than doubled year-on-year. Could you tell if you have hedges in place or what the company exposure to spot prices? Thank you.

SHIAMISHIS A: Hello, there. We are…in terms of energy, we are one of the biggest consumers of energy in Greece if not the biggest. However, our energy comes from 3 sources it comes from our own product that we use in the refining process, it comes from natural gas and it comes from electricity to the extent that we do not have cogeneration which is a case in at least one of our refineries in terms of material contribution that is. We have cogeneration in other parts but it is much smaller. So the net electricity cost is not that high in the third quarter. It is not a question of hedging, effectively it's a question of changing the source of energy and trying to minimize electricity in the refineries.

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

GRIGORIOU G: Yes, hello couple of quick questions. Regarding DEPA first of all, DEPA infrastructure. Do you still plan on distributing about half, 50% of the proceeds back to shareholders when you see that happening. And what do you think will actually happen in the end to DEPA Commercial? Will the tender ever go ahead, and if not what is your position as we speak today obviously with all the regions in place. Thank you.

SHIAMISHIS A: Good evening, George. The point which is a very valid on DEPA infrastructure is that we have…I wouldn't say committed but we have indicated that roughly 50% of that process will go back to the shareholders, which is something that we did with DESFA as well if you recall. So, assuming that this is something which materializes next year then roughly 50% of that, plus a much more significant dividend that the one we announced for this year, the 10 cents is going to be distributed. So, one should expect a relatively healthy dividend payment from the company in 2022, the reason we did not announced an interim dividend now is because it is still, a difficult year, if you take into consideration the first half of the year, plus we are in the middle of the restructuring, so we like to keep things simple. But, the dividend out of 2021, which is going to be distributed in 2022 is going to be a material number.

Now, the other part of your question which has to do with DEPA commercial, again unfortunately it is a very relevant point that you are raising, the sales process has been pushed back again and in all honesty we need to establish our next steps in the next few months. I am not in a position to communicate anything more specific other than the fact that we need to sort out conflicts of interest within our group, because if that company is not sold and the idea was to be sold within 2021 which is not the case we need to focus on one of our investments or activities in the power and gas sector, we cannot be running 2 companies in the same portfolio.

GRIGORIOU G: Okay. Thanks. Can I ask one last question, regarding CAPEX? Would you see the final number for the group as a whole for 2021? What would your guidance be today for next year, please? Thank you.

THOMAS C: Hi, George, this is Christian. Well, the original CAPEX plan for this year was just above €300 million, and we are estimating that it's going to end up being closer to the 260-270 figure. For next year it's going to depend on various things mostly, mostly refining. However, I would expect it to be again around €250 million figure, of course, it's going also depend on what we are going to do in terms of the big chunk of renewables and the potential CAPEX there as well.

GRIGORIOU G: Yes, I understand that. Thank you, thank you.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. You may proceed with your closing statements. Thank you.

SHIAMISHIS A: Thank you very much for attending this call. It is one of our better quarters definitely in the last few years. We see the market coming back, which is good and the demand will gradually lead to the margin improvement as well. We are seeing the maintenance of relatively high crude oil prices, which is not helping our demand, but at the end of the day the situation is much better than what we had.

What concerns us is that, we experienced a very high Nat Gas and energy prices environment and that we do not expect to be going away anytime soon. So, that is something which is going to take some of the shine of a good performance and I expect that Q4 is also going to be a good if not better performance in terms of industry and demand.

That’s the traditional side of the business, we are doing a lot of things to develop a second pillar, and as George mentioned by the end of the year, we expect to have a material portfolio in renewables. If I may remind you, we were nowhere a couple of years ago in terms of operating assets and in terms of pipeline.

So, that is something which is being addressed and also a number of strategic initiatives, being under the Vision 2025 umbrella or as performance improvement initiatives which were launched 2 years are beginning to pay dividends. And I believe that as management it is something which we have to do, and we will strive to deliver increased value to our shareholders. Thank you very much.