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"Third Quarter 2016 Financial Results" Conference Call

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Conductors:

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Mr. Andreas Shiamishis, CFO & BoD member

Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & BoD member

&

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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 Third Quarter 2016 Financial Results.

At this time I would like to turn the conference over to Mr. Grigoris Stergioulis, CEO, Mr. Andreas Shiamishis, CFO & BoD member, Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & BoD member & Mr. Vasilis Tsaitas Investor Relations Officer.

Gentlemen, please go ahead.

STERGIOULIS G: Hello everybody. I am Gregory Stergioulis or Grigoris Stergioulis, the CEO of Hellenic Petroleum. And allow me to initiate this discussion, the presentation of the third quarter of the year results by a small comment.

I can recall three months ago that the bank analyst predicted weak results for third quarter of the year; sorry to disappoint him/ or her, but the strong operational performance, refining, supply and trading which is the Group's main activity, as well as the increased exports led the third quarter of the year Hellenic Petroleum Group adjusted EBITDA at €191 million, despite the considerable decline of benchmark refining margins compared to last year.

Group refining reported 19% production growth at 3.9 million metric tons, the strongest performance ever on record, fully capturing the high mechanical availability of units, recording over performance versus benchmark margins at a record.

Petchems report another quarter of increased sales, while in fuels marketing domestic retail market share growth continued. The Group continued the implementation with its financial strategy; everything is detailed in the detailed presentation. Extending its maturity profile and reducing funding costs.

The third quarter of the year Group net income amounting to €80 million, 110% higher versus the same period of last year, while the 9-month period of the year, the Group net income to €184 million, the highest in the last few years and up to 17% versus last year.

Allow me to pass you to Mr. Shiamishis for a detailed presentation of the results which you would kindly take over.

SHIAMISHIS A: Thank you very much, Grigoris. Good evening ladies and gentlemen on the phone, thank you for participating for the third quarter results. As our CEO already mentioned, it is one of our best quarters, which is driven by very strong operating performance on all units. So when we look at the comparison versus last year, clearly we do have the weaker refining margin environment as a benchmark to deal with but the strong operating performance, mainly in the refineries and the supply and trading, and I will come back to that in a minute, has helped us to record a very strong performance for the third quarter.

In terms of adjusted EBITDA, the number is €191 million which is shown on the highlights of Page 2 and the adjusted net income of €75 million for the quarter. IFRS net income at €80 million for the quarter and €184 million for the 9 months, and very strong cash flow generation throughout the third quarter of just under €160 million, and a net debt of €1.8 billion a normalized net debt which is well within the range that we had communicated during the last few road shows.

As you know, we have completed just after the quarter end a new Eurobond transaction at a very competitive… compared to our latest one, coupon of 4.875%. Clearly, there is some way to go back to the pre-crisis numbers of LIBOR plus 20, plus 25 basis points. But I think, we have started this journey, and even though we don't expect to go to that level, it's clearly going to show us an improvement in the subsequent quarters as well.

Finally, as a key highlight, we need to mention the extension of the long stop dates for the DESFA transaction which is now the end of this month 30th of November 2016.

Moving on to Page 6, I will not go through the detailed numbers. The points that we would like to highlight, the strong operating performance was on a quarterly basis and a full year basis. Clearly it sets us up for a very strong year yet again, despite the weaker benchmark refining margins.

We expect to see a very strong set of results at the end of the year on the back of improved performance on all units, and mainly the refinery business in the supply and trading. Interest and funding costs are gradually coming down, still some way to go, but at least in the right direction. And we also have our cash flow boosted by strong operating results and a contained CAPEX of €82 million for the nine months, €33 million for the quarter. So all the key metrics, all the key financial indicators are looking healthy.

Going to Page 5 on the industry environment, it's one of the few quarters that we didn't have a big change on the Brent prices, on the underlying crude oil prices. And we have seen a strengthening, a slight strengthening of the Euro/Dollar which is good for our business.

The Brent-WTI spread remains at pretty much similar levels, and we also have the Brent Urals or sweet-sour differentials, this is the index that we are quoting just under 1 point…just under $2 per barrel, which is also positive for our business, and it's also part of the reason, why we are delivering strong results i.e. the optimization of the crude slate.

In terms of the benchmark margins, Page 8… Page 6 excuse me; other than diesel which has maintained a similar to the second quarter level, diesel crack, we see a slight weakening of the other main products, Gasoline and Naphtha, and a slight upside on the fuel oil on the HSFO.

However on the two complex refineries we see a drop of benchmark margins which is roughly 2.2 for the hydrocracking, flexicoking which is the Elefsina Refinery and 2.7 per barrel for the Aspropyrgos Refinery.

Page 7 another key driver of our performance; the domestic market environment. As was the case, during last quarter, again Q3 comparison with the last year is distorted by the impact of capital controls in 2015. Taking that out of the equation, we have a pretty much flat domestic market which is, if you will, allowing us to project for the full year a marginally lower Greek market demand for the year.

Aviation and Bunkering is reported up from last year, which is again due to the touristic season, we mentioned that in the second quarter. And this is something that, clearly, benefits our Group given our strong position in that segment.

Moving on to Page 9, a very high level description of a bridge, if you will, from last year's third quarter adjusted EBITDA of €240 million to this year's of just over €190 million. So you can see a very big negative swing coming from the benchmark margins, so roughly about €65 million to €70 million that is effectively the impact of having exactly the same performance as last year but at this year's margins.

So we are starting from a much lower base, effectively we are starting from about 180… 175 to 180 as a company base, and we have the improved performance which is €24 million, and there is a number of factors that affect that. Clearly, we have the refineries utilization which is giving us a small boost. But I would say that the biggest driver has been volume on one hand and the crude selection on the other.

As you will see in a minute crude selection is quite important, because at the end of the day, if we are producing the same or pretty much the same yield of products, it means that if we optimize our crude slate, we can generate a… what we call over performance or an additional realized margin from the same refinery.

So that is something that we have spent a lot of effort improving over the last few quarters, and as you can see it goes some, to some extent to offset the weakness of the refining margins. Clearly, it's impossible to offset all of the impact of the markets, but at least we are doing the best we can in this environment.

In terms of Page 10, we have a brief description of the credit facilities and the maturity profile of the Group. As at the end of September, we didn't have the new bond in the system. So we have, if you will, indicated that a second set of bars which show the impact of the new Eurobond, which is effectively to push back about €375 million of debt maturing 2017 into 2021.

Clearly, a very positive step for the Group; not only because of the maturity profile; but also because of the ability to play the transaction in the markets at a very difficult period, over the last couple of months we have seen a lot of volatility in the markets, a lot of noise coming from political events, the Brexit, the US elections, the Italian referendum coming up, so a lot of volatility in the market. Even so, we have been able to do a very successful transaction, and I am sure that we will see a few more coming in the next few quarters to further improve both the cost of funding and the structure of the balance sheet.

On Page 11, we share with you a brief update on financial strategy which is pretty much the information that we shared as part of the bond issuance process.

In terms of funding, we have set ourselves certain guidelines, I will not call them target per se, but there are indicative guidelines of net debt of €1.5 billion to €2 billion depending on prices, and that is a level that we feel comfortable with. We are maintaining the single covenant gearing ratio. And also, we are setting ourselves an indicative range of having a net debt adjusted EBITDA target of 2 to 2.5 times, excluding the associates, because those do not generate EBITDA.

In terms of maturity, we are targeting to have just over three years. Clearly, there is a cost benefit to that, if we were to go for a longer maturity on average, the cost of funding would go up, which is a key priority for us right now to reduce, and, of course, roughly 50% of our debt to be issued in the capital markets.

Liquidity, unfortunately, we still have to do with a lot of negative carry on cash which we use for LCE issuance and also for optimization of our supply chain models. We are setting an indicative target of roughly 20% of gross debt as cash. So you would expect over time to see a reduction of cash balances and gross debt to come into line with what we are seeing here. And we are continuing to use the international banking system for operating reasons and risk management purposes.

CAPEX as I mentioned, we are at €100 million to €150 million projection for the next few years, which means that we will be able to generate a significant cash balance as a result of our performance. And in terms of working capital, we are working to the de-risking our balance sheet, we have done so with payments to some of the overdue supplies that we had, plus strengthening the trade supplies balances and allowing our supply and trading to have more flexibility in terms of the selection of crude and the pricing thereof.

Finally, dividends; no dividends are scheduled for 2016 as a payment. However, we expect that in the next couple of months, maybe before the end of the year, we will be able to determine a strategy going into 2017 and further on, so that we can start making some distributions again as we have done in the past.

Now, moving into the business unit description, Page 13, we have the domestic refining, supply and trading. The key drivers here has been a very high mechanical availability, I believe and maybe Giannis can confirm that, we had one of our best quarter ever in terms of production.

Operations have been relatively smooth, and the selection of crudes and the associated pricing has been such which allowed us to capture a lot of opportunities in the market i.e. drive the realized net margin at a higher level.

You can see that on Page 14, where we have the refinery by quarter by… sorry the production by refinery by quarter. We are just under 4.3 million tons which is a record for our refineries. And you can see that in terms of yield, we have a relatively stable high quality product yield from the system. We have over 80% of premium white products, middle distillates, gasoline and Naphtha, which clearly is reflected in the benchmark margin that we are able to deliver.

In terms of crude sourcing, just to sort of prove the point that we made earlier. We have as main crude sourcing, because there is some feedstock as well, about 15% to 20% of the total feedstock comes on non-crude items, allowing us to maximize the conversion unit's capacity compared to the city use We have four main areas of sourcing, being Iran nowadays, Urals, Iraq and CPC. So we are…if you will able to take advantage of comparable price differentials in the market.

Page 15, we have our sales by channel; record production leads to record export sales. So in terms of risk profile, it's a big improvement. In terms of average realization, clearly the domestic market has more profitability than the export market. However given that domestic market is at a depressed level compared to a few years ago, additional volume is sent in to the expert markets.

Page 16, captures this point; first of all the benchmark margin evolution that you can see on the bottom part of the chart. The dark blue part of the bar includes two types of over performance, the production of refining over performance, which can range between $0.50 to a $1 per barrel on average, and of course, the trading premier that we can attract on the domestic market and the export markets.

As participation of exports in our total sales which increases, you would expect to see a decline of the average over performance number. However, this is not necessarily a bad thing because effectively you have a bigger value overall, it's the product of the two that makes sense for us.

Finally, Page 17, we go to petrochemicals which again sits on top of the refining value chain. We have a very strong performance in the third quarter, record… not record very high volumes, almost 20% up on the nine months to 192,000 tons, and you can see the breakdown by destination.

Again, highlighting that we have a very strong exports orientation which maybe is not as visible given our very large presence in Greece and the sizable market share that we have, it is not obvious to everybody that Hellenic Petroleum is one of the biggest exporters in the East Med, not only for fuel products but also for petrochemicals as well.

Page 18, we go into the marketing business, our ground fuels value chain, where we have a relatively stable performance for the quarter. Even though, we managed to increase our sales in domestic market a little bit, the fact that part of the profitability comes from aviation, and aviation has a slightly peculiar pricing model where you price after the sale in a number of international airliners. We suffered an impact…an adverse impact during the quarter, simply because of the price curve for the aviation fuel.

Moving on to the international marketing, again we have a small decrease as a result of lower wholesale volumes in certain markets, and weaker margins in certain markets, mainly Bulgaria, where we have a lower margin than last year. This offsets the improved retail performance in other markets, delivering again close to €40 million-€42 million for the nine months as EBITDA.

Moving on to Page 22, we have our power generation business, which is clearly at a much better position than last year. The lower NatGas prices have allowed us to generate and sell more energy, and also the implementation of a temporary flexibility remuneration framework, which is roughly speaking for about a year, allows us to cover some of the fixed capacity costs, which are shown in the profitability for this year.

Clearly, we are not happy with the overall position of this business. We do have a €400 million-€450 million invested capital in power generation. So we would expect to do better than that, but at least, we are back into production and generating enough cash to maintain the business on the standalone basis.

Page 23 shows the upstream part of the value chain, if you will, the NatGas sales we have an improved performance by the DEPA Group, which is driven by increased volumes. DEPA is a business which has a very high volume gearing, if you will; volume leverage. Costs are relevantly fixed, so the more volume that you pump through the system, the higher the performance is going to be. So, sales to power generators and an increase in the EPA sale, has led to a better performance.

That brings me to the end of the business description. I will not go into the financial results appendixes as we always do. And we will open the floor for any questions you may have for the quarter.

Q&A

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

PATRICOT H: Yes, hello everyone. Thank you for the presentation. First question on refining, good to see a very high utilization rate this quarter; I know you are planning to do some maintenance in the fourth quarter at Thessaloniki. Just want to know how that has been going, and if you can give us an outlook for 2017, in terms of the overall maintenance levels and the overall utilization rate? And secondly, just on this dividend return for 2016 potentially, how should we think about that? Are you targeting a certain payout ratio, are you more looking at cash flows? What kind of guidelines can you give us on the likely level of this dividend? Thank you.

STERGIOULIS G: Okay, yes Giannis, do you want to the take the maintenance…?

PSICHOGIOS I: Okay, this is Giannis Psichogios From refinery, from refining. As far… about Thessaloniki refinery turnaround, we have already started the turnaround which was scheduled for this month, for November. We are going according to the schedule, and we expect the refinery to be in operation, the first days of December if everything goes well.

About the next year, we do not have any major turnarounds in the three refineries, except a turnaround in Elefsis refinery, which is scheduled for the second quarter of the year, and we expect them to have a turnaround in our flexicoker year after two years run, which will be our best record for the cycle of the flexicoker unit.

PATRICOT H: Okay.

STERGIOULIS G: Andreas, what about the dividends?

SHIAMISHIS A: Okay. Well, as far as the dividends Henri, we are clearly going to gradually start making the payments. We are not going to go overboard given the good performance, because there are a number of considerations taken into account. We have set ourselves a target to deleverage the Group, and that is a priority for us. We are beginning to feel comfortable that we have enough capacity and enough cash flows to start making some dividends. I would not expect to go to the levels that we have seen as a peak number in the last, sort of five years. I would probably see something which will be based on a combination of a minimum dividend yield and a percentage of the free cash flows of the group. I would like to reserve any quantitative comments on this, probably for another month or so, and we can have another discussion closer to that time.

PATRICOT H: Okay, thank you. So just a follow-up on that, is the… also the transaction on DESFA, does that have an implication for the dividend?

SHIAMISHIS H: Well, the decision by the EGM is that the proceeds from the DESFA sale will be used to reduce debt, and it still stands. However, you can appreciate that if you have €200 million of inflows, it will have an impact on our plans of… for distribution out of operating cash flows. The general guideline is that, we don't sell assets to distribute dividends. We distribute dividends from our profitability. But it does leave us in a better position, there is no question about it.

PATRICOT H: Okay, understood. Thank you.

OPERATOR: Excuse me gentlemen, there are no more questions registered at this time. You may now proceed with your closing statements.

STERGIOULIS G: Okay. Thank you for the interesting conversation, the opportunity to present us the results. Let me a small catch-up on what we have been detailing to you. The nine month of 2016 results announced today by Hellenic Petroleum Group improved the outlook for the year, creating expectations and urging for even better performance.

With respect to third quarter results, we achieved strong operational performance in all our activities, all our business units. Consistent refine of our performance at high levels counterbalanced lower benchmark margins, while sustained export orientation enabled the full disposal of our production with an emphasis on international sales. Our refining operates at full capacity, reporting record quarterly production from the third quarter of the year. The Company's strong position allowed a significant oversubscription of the demand for the new bond issued, as well as lower interest cost leading to lower financial expenses.

From this position, I would like to thanks the personnel of all business units for their commitment and team work. Have a good night. Thank you so much.