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"Third Quarter 2017 Financial Results"

Conference Call

Thursday 9th November 2017

18:00 (GR Time)

Conductors:

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Mr. Andreas Shiamishis, Deputy CEO & CFO

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

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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 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.

Mr. Stergoulis, please go ahead.

STERGIOULIS G: Good afternoon, ladies and gentlemen. I am glad to invite you to this teleconference of announcing the Hellenic Group Results for the Third Quarter and Nine Months Financial Results.

Adjusted EBITDA for third quarter of the year is at €206 million, increase by 8% as compared to last year, continued in a series of strong quarters of the nine-month period, where the adjusted EBITDA reached €663 million, a plus 28% while the third quarter of the year adjusted net income came at €89 million, a plus 19% and the nine months of the year adjusted respectively is at €315 million, a plus 71%.

The key drivers for the results were the good performance of Aspropyrgos and Thessaloniki refineries, which partly offset the negative impact of the Elefsina refinery maintenance shutdown, a strong benchmark refining margins, the lower cost of crude mix and increased sales in the domestic market. Sales in domestic as well as aviation and bunking markets continued to grow by 16% and 14%, respectively.

It is useful to mention that the respective nine-month period of the year we achieved a historic record on production even by 10,000 tons despite the Elefsis refinery shut down for almost two months.

In terms of reported IFRS results, the recovery in crude oil prices had a positive impact on inventory valuation with the third quarter of the year IFRS reported net income at €106 million, at plus 32%. Financing cost continue to drop, the third quarter reported a 22% reduction.

In light of the reported results, the financial position and the full year outlook, the Board of Directors approved the distribution of €0.15 per share as interim dividend for 2017 year.

Thank you. I pass you to Mr. Shiamishis for the detailed analysis as expected for every time.

SHIAMISHIS A: Thank you very much, Grigoris. It's always a pleasure to be communicating to the markets and to you a good set of results. As mentioned, in terms of our performance, we have a number of factors that affected our operating results.

The strong benchmarks that we experienced, the self-help as we call it in terms of changing the crude mix and taking advantage of cheaper crudes in the med which helped our over performance, and of course, we have a… slightly higher domestic market volumes.

The Elefsina refinery started up towards the end of the quarter, so it hasn't been able to participate as much in this process as we would like it to be, but for the fourth quarter, we expect that to be operating properly. And at the end of the day, we have effectively brought forward a shutdown that was going to take place in 2018. So effectively, you could call it a timing difference.

In terms of balance sheet and cash flows, we are still delivering strong cash flows with a relatively stable net debt. We are utilizing the cash flows to improve the balance sheet and to finance a dividend distribution payment. If you recall at the beginning of the quarter, we distributed about €60 million to the shareholders and now we are announcing an interim dividend of €0.15 per share which is expected to take place in December this year.

In terms of our new "business", we have the upstream developments with a lease agreement for Block 2 being signed a few days ago and we also have the DESFA sales process which has moved on to the I wouldn't say the final stage, but the last but one final stage. We expect to get financial offers in December which means that we are gradually coming to the end of the process there as well.

Page 3, we have the Performance in a nutshell, if you will. As you can see, the adjusted EBITDA is quite strong at €206 million. The good thing is that all of the business units have delivered at least as good as last year, marginal differences... and this supports a nine months adjusted EBITDA number which is… if I recall, the highest we have seen for the Group for the nine months. So assuming that we have a decent fourth quarter, 2017 will be even better than 2016, which was already the highest adjusted EBITDA year.

In terms of financing costs, again we have good news. We have a material drop in the quarter that is expected to continue in the fourth quarter, which means that we are delivering on the plan to reduce our financing costs significantly. And, of course, that also supports the distribution of dividend, given that financing cost is cash coming out of operations effectively.

In terms of capital expenditure, we have a slight increase in the quarter with the full year at around €140 million. This is slightly higher than last year and our normal run rate. The reason for this is the acquisition of a plot of land next to Elefsina Refinery, which is I would say, an important piece of property for ensuring that the refinery is able to operate without any problems and consider any further plans as well, and also the shutdown which took place in 2017 compared to 2018.

Other than that, we don't have any major growth CAPEX in this number. Effectively, we have the normal maintenance capital expenditure.

In terms of the Industry Environment, if we move to Page 6, you can see here that we've had a relatively stable crude oil price for the last couple of quarters. However, that has changed. As you know, crude oil price has gone up significantly, more than 15%, 20%, in the last few weeks. And the euro/dollar exchange rate is also moving to a stronger euro.

In terms of the crude market, we report and we track the Brent-WTI spread. That is something which has a macro effect on European refineries rather than our own refineries per se. And what is more relevant is the Brent-Urals spread which is a bit tighter, and also, the availability of various crudes in the Med, which we have taken advantage of to drive this over performance compared to the benchmarks.

Which brings us to Page 6 with the benchmarks; we have a system benchmark at around $6 per barrel. And you can see that the main benefit of this increased market environment has been coming from the Aspropyrgos Refinery, which is the FCC benchmark at $7.1 per barrel, whereas the Elefsina Refinery which is the hydrocracking plus the flexicoker is just under $6. Both…not…probably not the best number that we have seen in the last sort of 10 years, but definitely the best numbers that we have seen in the last 5 years.

In terms of the Domestic Market Environment, we have…what I would call a flat demand. If you go back to our previous quarter presentations, in the first quarter we reported a 3% growth in domestic market demand. The second quarter, we reported a minus 3% movement on domestic market. In the third quarter, we've got minus 1%.

Auto fuels are pretty much at the same level as last year, with a switch being continued between MOGAS and diesel, minus 3% and plus 3%, as you can see on the chart. And what is important to note is that the aviation and bunkering demand has continued to rise compared to last year. Again, if I refer to the previous quarter's numbers, we had an increase of 26% in the first quarter and an increase of 19% in the second quarter which means that we will have one of the stronger years in terms of aviation and bunkering demand for 2017.

On Page 9, we have a summary version of the key drivers of the adjusted EBITDA from the €191 million to €206 million. On the left hand of the page, you have the boost of clean EBITDA due to the benchmark margins and the slightly weaker dollar which takes a little bit out of the shine of the results. And on the right hand side of the page, we have the performance and operations driven variances.

The Elefsina shutdown, as we have reported, is effectively moving from 2018 to 2017. So the loss of two months of production there is captured in this variance.

And the benefit of the crude mix which is shown here that accounts for most of the €30 million of positive variance, it is again something which our supply and trading team have taken, I wouldn't say… full advantage but a sizable advantage of current market conditions. Whether this lasts for the remaining of the year, early days, but definitely, it is something which has helped the results of the Group.

Moving to Page 10, in terms of our Balance Sheet, our balance sheet has been improving over the last two to three years. The gross debt number which effectively is number that drives the financing costs, given that cash at best zero in terms of return. We have been able to reduce our gross debt by about 10% from last year. If you go back to 2015, this is actually even more; it is about 15% to 20%, which translates into lower cost of financing.

In terms of an additional benefit, is the fact that we are experiencing significantly lower financing cost in the past, we have the secondary market for our bonds at around 3%, give or take 25 basis points, and our marginal cost of financing is coming down. In terms of the maturity profile, we have effectively rolled over the 2017 maturity and we are in the process of refinancing the 2018 maturity, the bank facility which will be completed if all goes well towards the end of the year.

Moving on to Page 12, on the Domestic Refining, Supply and Trading Business, the numbers are effectively driven by the events that we described earlier. We have a third quarter which is better than last year, given that the environment, the crude mix and the very strong operations from Asporpyrgos and Thessaloniki have more than offset the Elefsina maintenance turnaround.

In terms of CAPEX, as you can see the two items that we mentioned earlier which account for about €60 million are captured in the refining business unit CAPEX. On a run rate, you should expect that we have around €60 million to €80 million of maintenance CAPEX coming from the refining business, and then you have to add, depending on the specific year, another €30 million to €40 million which has to do with the shutdown… the big shutdown cycles of the refinery.

In terms of our production, you can see the impact on the third quarter of 2017, Asporpyrgos and Thessaloniki is doing very well; Thessaloniki is actually performing at a very, very high rate. Actually, it is probably the highest that we have seen for a number of years, and Asporpyrgos is delivering not only in terms of absolute volume numbers but also in terms of yield very well.

The performance of our refineries is reflected into the Sales Performance on Page 14, whereby we have a slight increase in the domestic market, which is up on account of increased tourism, and of course, some C&I customers, and you have the lower exports number which effectively make sense given that our production has been lower in the quarter as well.

Page 15, shows the time series of benchmarks and over-performance. The message here is that even though we had one of our key refineries down for two months, the over-performance is still very strong. Be it supply and trading and feedstock cost, be it the performance of the refineries and yield or the commercial premium, we are still able attract over $10 per barrel as realized margin which is a very healthy number.

Petchems, we have pretty much the same numbers as last year. We have a slightly weaker euro based polypropylene benchmarks which effectively has led to a slightly lower adjusted EBITDA, but still it is on a nine-month basis exactly the same as last year.

Moving on to the Fuels Marketing page, which is Page 18. A small increase on the quarterly performance compared to last year. We have €27 million compared to €26 million, clearly not a material move, but it is in the right direction. We start to a very strong first quarter performance, given that we had a strong heating gasoil season. And we have the fourth quarter which, so far in terms of heating gasoil looks to be a slow start. Temperatures are still quite high, which means that we will have to wait for the end of the year to see how the fourth quarter would perform in terms of retail.

On the International Subsidiaries, again performance is marginally up from last year. The performance from all subsidiaries is strong. There is a decrease of mainly wholesale sales volume in Bulgaria but other than that all companies are reporting a good performance.

Moving on to Power and Gas, Page 21, we have Elpedison. Elpedison is still affected by the delay in establishing the capacity and flexibility mechanism, which was supposed to be put in place in April, May this year.

We don't know whether there is going to be retroactivity here, but clearly, it is something which effectively fails to remunerate a large part of this business which is the capacity and the CAPEX that has been invested. This is something that we are following closely and we expect to see some developments in the next few months.

Coming to Page 22, on Natural Gas, we have a very strong performance coming from the DEPA Group. This is primarily due to increased sales volumes, DEPA sales are the wholesale level, so the power producers demand has been stronger, but also comes from DESFA which given the increase in market sales has been able to report a strong over absorption, if you will, of its regulated asset base. We expect the same performance going into the fourth quarter, so DEPA and DESFA in particular are performing quite well.

The privatization process, as I mentioned earlier, is in process. We have two groups of interested bidders, the due diligence is in process and as things stands and we expect to get an offer before the end of the year.

That brings us to the end of the presentation of what we have and we are more than happy to take any questions you may have. Thank you.

Q&A

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

PATRICOT H: Hi, everyone, thank you for the presentation. Three questions from me, the first one on the domestic marketing, quite a strong increase in volumes. Can you say how much of that is driven by the market development and the much of it is driven by gains in market share?

And then secondly, on the refining you mentioned a good performance on the crude procurement side in the third quarter?

Also, I was wondering what you are seeing in the fourth quarter with lower crude differentials is still a favorable environment for you or should we expect some compression on the crude differentials for the first quarter?

And then, finally, on the interim dividend and, actually the dividend policy, should we think about the total 2017 dividend, are you looking at it in terms of a specific payout ratio just at that level cash flow generation what sort of metric to look out here? Thank you.

SHIAMISHIS A: Thank you very much for the questions, Henri, let me take two of three questions and Yiannis Psychogios can help us a little bit on the on fourth quarter of crude. Now, on the domestic market, I would say that 80% of the increase is down to market share, it's either market share or the petrol station networks or as the commercial and industrial customer base of EKO. So, unfortunately the domestic market is not growing as we showed earlier. So, EKO is effectively gaining market share.

On the interim dividend, we expect to be reverting back to dividend payout that we have seen in the past. I think that if you use a dividend yield of anything between 5% and 7%, we should be in the right direction. Now, on crude mix, Yiannis will try to project and predict what's going to happen and then if he gets it right, then we will all make a lot of money.

PSYCHOGIOS I: We cannot make any…every quarter a lot of money in the last quarter. So, let's hope that we will keep this performance on next quarter. So, about the crude mix, let's say first of all, it's not procurement of crude only; it's the mix of crude we have used in the…operated in the refinery.

So, having this crude optimized, this mix of crudes optimized made us…brought us all this good results.

For the next quarter, what we have seen up till now is that of course, prices are higher, the price, especially the prices of the heavy crudes in the East Mediterranean are more expensive compared to the previous quarter. And also we have seen that again the prices, the balance between Brent's and Ural is,.. I mean this difference is increasing and this brings us in a more, I mean in… I mean usual the numbers we see there as the numbers we usually see before, because the previous quarter we had very small difference between Brent and Urals.

Having said that, we believe that we will have a good I mean performance for the next quarter, and we expect to have all these good results repeated.

To be honest, we thought that the previous quarter over performance that we've succeeded, would not be able to be kept for a very, very long time. But, to our big surprise, it is happening and I can tell you that the first month of the last quarter, I mean October, it is at still in a very high levels.

PATRICOT H: Okay, got it. Thank you.

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

GRIGORIOU G: Yes, good afternoon. Just had a question mainly addressed to Andreas, if he could comment on what we should think as a full year estimate for the tax rate given what it was in the third quarter? Thank you.

SHIAMISHIS A: Good evening, George. For the tax rate, we have effectively an effective rate of around 30% given that 29% is the nominal rate. As you know, unfortunately, not all expenses are allowable, so 30% is the effective rate. That is for the profit and loss charge.

As things stand, and I am saying that with a sort of 90% of certainty and accuracy, 2018 will not have any tax outflows given that we are still utilizing tax losses on the big drop of crude oil a couple of years ago of €600, €700 million. So the Company an effective tax shield coming from those losses. It looks like for 2017, all profit will fall in that area. And 2018, we do not expect to have any material cash outflows and taxes.

GRIGORIOU G: Okay, but if I've got my numbers right, in the third quarter, your tax rate was about 25% to 26% on a Group level.

SHIAMISHIS A: Yes, the reduction comes effectively out of two main reasons. When you sort of...presumably, you've…you need to take into account the DEPA and Elpedison numbers, which are reported post tax. So by definition, that's going to drive your tax rate down. And also, the fact that certain subsidiaries operate in a lower-tax environment, which is Bulgaria and Cyprus, so they will drive profitability down a little bit as well. Other than that, there is no reason to expect a different tax rate, so if you adjust for that you will get the 29%.

GRIGORIOU G: Okay. Fair enough. Thank you.

SHIAMISHIS A: Thanks.

OPERATOR: The next question comes from the line of Mr. Katsenos Nikos with Alpha Finance Investment Services. Please go ahead.

KATSENOS N: Good afternoon. One question from me, please. Could you please give us an indication of what part of the reduction we've seen in the payables number in the third quarter compared with the previous quarter comes from the scheduled repayments towards Iran, if any?

SHIAMISHIS A: As you know, we are not allowed to disclose numbers on the Iranian transaction. What I can say, is that, clearly, there is a repayment coming in the third quarter to old payables. The thing… the data that we can share with you is that by the end of the year, anything which has to do with old payables will be less than 3% or 4% of our capital employed. So effectively, the message is that this issue is gradually being moved out of the radar screen.

KATSENOS N: Thank you.

OPERATOR: The next question comes from the line of Mr. Gkonis Argyrios with Axia Ventures. Please go ahead.

GKONIS A: Good evening, gentlemen. Two questions from my side. First of all, if you could share any further insight on the upcoming IMO Regulations for shipping fuel oil. If you have any indications or any preliminary discussions on how this could play out? And secondly, if you could give us what's the latest status of the sale of the state's stake in the company. Where is this tender standing at this point? Thank you very much.

STERGIOULIS G: Yanni?

PSYCHOGIOS I: For the IMO Regulations, what we know now is that this will be implemented in 2020 and there are…I mean, there are no other indications, not any indications that this will not be in place and this will be not valid in 1st of January of 2020.

As far as, Hellenic Petroleum refineries, we have already been prepared and we know that according to the best of our projections, there will be no…not any, let's say reductions in our margins because of this IMO projection. On the contrary, we expect that we will have small benefits, but benefits because of this implementation. We have some small, let's say, investments to do there, and we will be ready to make this in 2020, not for the IMO Regulations but mainly for the introduction of bioethanol in Greece and in the area, which will be valid for 2020 also.

STERGIOULIS G: George?

ALEXOPOULOS G: Now, regarding the sale of the 35.5% stake of the privatization fund in the company, I don't think there's much we can say. We know as well as you know that it's part of the privatization program, which is currently being implemented. But as to the details and the schedule, I think it's better to ask them directly.

GKONIS A: Okay. Thank you very much for your answers.

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

STERGIOULIS G: Okay. Thank you all for the attention. I think this session was one of the best we ever had, I mean, on questions and answers. And we hope we satisfied your needs regarding the results and the answers to the questions. We think that once again, the management team and the company altogether managed to perform satisfactory, and fulfill the expectations from the shareholders and the society altogether.

The company is stable, and if everything goes as planned, we think that 2017 will be a world record for our Company and ready for even better results. Thank you all and good evening.