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"Full Year 2017 Financial Results" Conference Call

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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 Full Year 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: Hello everybody. I am Gregory Stergioulis or Grigoris Stergioulis, I am the CEO of Hellenic Petroleum Group and I am glad to invite you to this conference call to present our Fourth Quarter of the Year and the Full Year 2017 Results.

Hellenic Petroleum announces adjusted EBITDA at €834 million, plus 14% compared to last year, the highest level on record, contributed mainly by the opportunities in Med crude oil pricing structure leading to significant additional savings in feedstock costs, benchmark refining margins that maintained its satisfactory levels with a Group system margin increase by $0.5 per barrel while the USD… the US dollar was slightly lower versus the euro, a record high production up to 15 million metric tons, a record high performance versus benchmark margins, a record high sales up to 16.07 million metric tons, 18% reduction of financial costs, positive performance of most business units with increased profitability of the affiliated companies mainly to the best cost performance leading to an improvement of the adjusted net income level which amounted to €372 million at the plus 40% against last year.

In terms of full year 2017 reported results, according to IFRS, the recovery of crude oil prices had a positive impact on inventory valuation leading the IFRS reported net income to €384 million at a plus 17% against last year. Considering financial results as well as the 2018 outlook, the Board of Directors proposed to the General Meeting the distribution of the final dividend of €0.25 per share which corresponds to the full year DPS of €0.4 per share.

Hellenic Petroleum, already amongst the 100 largest world energy companies, stronger than ever, is ready to challenge new opportunities for 2018 according to its five year Business Plan. I'll just report a few of these targets, keep up the refinery performance and utilization, prepare for exploration in Patraikos on Spring 2019, increase its participation to renewables, apply digital transformation projects, optimize its exports and be one of the largest fuel exports in the Mediterranean and supply low fuel bunkering fuels according to IMO specs in 2020.

Thank you and I will pass it to Andreas Shiamishis, our Deputy CEO and CFO of the Company for a more detailed presentation per page as you know.

SHIAMISHIS A: Thank you very much, Grigoris, good afternoon, ladies and gentlemen. Thank you for joining our full year results call for 2017. Probably one of the best, if not the best, set of numbers overall that we have reported at least definitely since Hellenic Petroleum was put together back in 1999.

(The fourth quarter results, strong results, lower EBITDA from last year because of the benchmark margins, but still a strong performance of the €170 million of EBITDA and of an income of €59 million.) The full year numbers, we have a record number of adjusted EBITDA of €834 million as Gregory mentioned earlier or 14% up on last year and now adjusted net income of €372 million, up 40%.

Clearly, we have had a number of reasons behind this very good performance. To start with, we've enjoyed the positive refining environment throughout most of the year. I have to admit that during December, we felt a little bit uneasy with the benchmark margins, but then we've seen them recovering again. We've seen some weakened demand in the domestic market, the auto fuels market and the heating as well market were down compared to last year, but we did experience a very strong aviation and bunkering market particularly during the summer season. We've had record production and sales, we've reached…we've exceeded 15 million tons of production and 16 million tons of product sales.

This is something which should be considered as a big achievement because it does set Hellenic Petroleum apart from smaller refineries and on top of that, we have been able to maintain an improve what we call over performance compared to the benchmarks, which is a result of better crude mix, better utilization of the refinery kit using LP , more optionality, on the feedstock slate and of course better utilization not only meaning capacity, but also the various product yields that we get from our refineries.

We've had consistent positive performance from the non-refining business units from the two main retail segments in Greece and international as well as petrochemicals, which have led to this very strong set of results.

In terms of IFRS, we consider a couple of other points as well on top of the inventory valuation impact, which has not been material for this year, positive but not material. We've had a strong performance, stronger performance from DESFA and this is reflected in the contribution coming from the DEPA Group, and of course, we've had for a series of quarters we've been able to report lower financing costs, were 28% down quarter-on-quarter as of quarter compared to last year and on a full year basis we are at 18% down compared to last year.

Our balancing sheet and operating cash flows are very strong, net debt is within our comfort zone if I would say at €1.8 billion. We've said that we are happy with the current business model and numbers of being between €1.5 billion and €2 billion of net debt. We have almost refinanced all maturities in 2018, and I am being careful almost as in…we have the commitments but not all the loan documents have been completed and finalized. But in short, we have refinanced all of the 2018 maturities, so that is a very positive sign. And on the basis of all this, we are comfortable to double the full year dividend from last year's €0.20 per share to €0.40 per share with the proposal of a €0.25 per share final dividend at the AGM.

In terms of strategic developments, moving on to Page 3, we have the DESFA sales process. This is probably one of the record holders internationally as a process, because it started back in 2012 I think, we are approaching the sixth year since the first day that we started working on this process. And we are quite confident and optimistic that this is going to be the last year for this process. We expect to have the evaluation of the two bidders taking place in the next few weeks which means that a closing is in sight for 2Q or 3Q even.

In terms of our exploration activities, we have the ratification of three areas in Greece which are either individually as operated or with some joint ventures…through some joint ventures. This is in process and we expect exploration work to start immediately after that.

Finally, a last point, this is in the spirit of sort of tightening up and consolidating our position in some of our key markets. We've completed the acquisition of a minority stake in ELPET; ELPET is the company which owns the OKTA industrial facilities in fuel. And also the VARDAX pipeline which takes crude and products from Thessaloniki into the OKTA refinery.

I will not comment on the numbers on Page 4, you can read them. And I will go straight to the industry environment. Page 6, we can see that crude oil prices are moving up we averaged $62 per barrel like-for-like with $52 in the third quarter of this year. So that is something which we are following carefully. And at the same time, we saw a spike in the widening of the Brent-WTI pricing that has come down since then which is good news as it sort of prohibits a transatlantic train in terms of products and the consequences on the European refineries.

In terms of refining margins, on Page 7; we have a good story, the FCC which is the Aspropyrgos Refinery margin is up on a full year basis compared to last year. You can see the fourth quarter average being lower because of the December performance in market. And at the bottom of the page you can see the Elefsina benchmark margin the approach for the Elefsina Refinery which is also very strong.

In terms of domestic market, you can see the evolution on Page 8. The domestic tax market is down by 2%, you can see that auto-fuels overall are down, diesel is clearly higher than gasoline. We've witnessed this switching trend over the last three or four years, and now we have Greece being a diesel majority markets compared to gasoline for auto-fuels.

Heating gasoil affected by poor weather as in good weather in other terms at the end of the year. Aviation and bunkers, I mentioned we witness a rebasing as a result of changing supply patterns of some of the shipping companies in the Ionian and Adriatic routes.

Page 10, shows the performance in terms of adjusted EBITDA for the quarter. Lower performance mainly driven as you can see by the environment, benchmark margins and a weaker dollar compared to euro.

And if we go to Page 11, you can see the full year picture. We have a different story here, even though the environment in terms of benchmark margins net of the exchange rate impact is positive, the big driver is coming from operations, and within operations I will include the feedstock optimization the optionality on the crude supply which means that you can switch at relatively short notice depending on international pricing that is something which is actually reflected in the balance sheet as well. We've increased our stock levels considerably over the last couple of years and that is being paid back by having this improved performance and optimization of the supply slate.

As I mentioned, operations from the refinery, not only in terms of capacity and utilization have given us a positive impact which is the yield of the various refineries. And, of course, we had to give some of that back because of the heavier than scheduled refining maintenance. All in all, however, we have €100 million which is predominantly driven delta year-on-year, which is predominantly driven by the operational improvements.

Moving onto the balance sheet and financing cost, as you can see on Page 12, we also have a case of continuous improvements. Since 2015 you can see that gross debt has come down. We do monitor our balance sheet on a net debt basis, however, increased sovereign risks, risk experienced in the period between 2012 to 2015, 2016, and the weakness of the domestic banking system combined with the ability and the uncertainties around accessing international capital markets have led us to being extra conservative and maintaining a relatively high gross debt, i.e. having all of our lines drawn 100%, that has a negative carry cost which…as you reduce your gross debt, if that doesn't move you still get the benefits coming through the financing costs.

At the same time, you can see that the market is reflecting that in the secondary trading levels of our euro bonds. We expect that this is going to be even better, had it not been not for the last couple of weeks of noise on the sovereign side, we would probably be a little bit better below 3% and that is something which is if you will for 2018 a target ceiling for our refinancing.

As I mentioned earlier, you can see on Page 13, the impact of the refinancing campaign that we had on the last quarter of the year. We are effectively shifting about €1 billion of debt maturing in 2018 into 2021 and 2023 at significantly better terms as well. So you should expect to see a further improvement in the financing cost and of course, we are closely monitoring the capital markets for a possible euro bond refinancing.

Dividend policy, as we mentioned on Page 14, we have a doubling of last year's dividend and within 2018, we expect to be able to come up with a formal dividend policy which will take into account any process coming from the DESFA transaction.

CAPEX, the bringing forward acceleration of the maintenance of Elefsina during the summer, and a couple of one-off acquisitions, a plot of land which is adjacent to the refinery which we consider as important to sort of protect and ring fence one of our core assets have taken capital expenditure slightly higher than €200 million this year. We expect that 2018 and subsequent years will come down again and unless there is a material growth CAPEX coming in, we should see around €150 million to €170 million threshold.

Moving on to refining, , supply and trading Page 17, you can see the numbers for the business units. There are two or three points which are worth making. First of all, you can see the record production and sales volume coming through. Had it not been for the Elefsina turnaround, we would probably be even higher and that is something that is if you will a placeholder for years to come. We do have a system of refineries which is producing at or under 4 million tones a quarter threshold which is different to what we used to have a few years ago. And of course, making full utilization of that and our increased commercial activities, we can expect to have a 16 million tons sales volume increasing in the years to come.

The other performance element is depicted in the comparison between the benchmark margin and the realized margin deltas, where you can see that we have anything between $0.5 to $0.8 per barrel of improvement in terms of the realization part, which we call over performance.

Page 18, we have the operational sites, I don't want to bore you with the time series, but you can see the production is clearly higher, the delta between 4.3 million and the 4 million has to do with 3.9 million…has to do with the production of products and the feedstock which is shown on Page 18, the gross production. And you can see that we are again above the 100% utilization rate. A very even and balanced crude and feed stock mix, with the ability to take advantage of differentials between the different crude slates and a very healthy product yield with 80%-85% being effectively wide premium products.

As you can see on sales having higher production and a declining or static markets means that we have to turn to international markets more than we have in the past. So a year on year increase for the quarter of 12% on our export sales is reported here.

Page 20 is a different representation of the over performance and the value extraction we have from our refinery system and the integration of refining supply and trading. Clearly, the delta between benchmark and realized margin is not over performance in terms of the refinery, we still have the commercial part of the equation, but clearly, Hellenic Petroleum is in a totally different league compared to some complex and very well run and managed costal refineries which are swing refineries, so effectively they export.

Petrochemicals, a consistent performance, we have a small drop in terms of the fourth quarter and the full year Adjusted EBITDA at €95 compared to €100 million. Nothing major to report here in terms of expectation, so a stable, cash generating add-on on the refining operation side.

Moving on to Page 23 and domestic marketing, domestic marketing we have reported slightly higher volumes on …during the fourth quarter and of course, the full year, which is carrying over a very strong first quarter and third quarter because of tourists and heating gas oil. And that's why the adjusted EBITDA is flat year-on-year for the quarter, and we do have the carryover of the previous quarters, sort of crossing the threshold of €51 million or €50 million as adjusted EBITDA.

In terms of the international marketing, the wholesale volumes which we have in some of our nearby markets are down compared to last year, but those are effectively export volumes, which instead of being channeled through our subsidiary are being channeled through third-parties directly. So overall as a value chain, one should not read too much into this reduction of volumes, we have an improvement in terms of margin on the back of retail business, which is mainly common networks. And we have a strong performance from all of our markets that we operate in.

Power and gas, we are still facing the delay in the implementation of CACs, the capacity and flexibility mechanism, which is, I think its 10 months since it stopped, so we expect that this will go into implementation in the next couple of months that will help the recovery of the business in terms of financials. You can see that increased power sales are driving and of course pricing and driving the performance in the fourth quarter, but still the cash flow of the business although positive is not at the level where it should be to sort of absorb the very high capital and business risk involved in these business units.

Finally, our stake in DEPA, which is the subject of a number of changes in 2018. First of all, we have DESFA; we have received two offers from qualified bidders last week. They are in the process of being evaluated, so in the next few weeks we should be able to have some indications as to which way it's going. And at the same time, as part of the obligations that the country has assumed. There is a review on the strategy and deployment of DEPA in the natural gas grid market, be it wholesale or retail, so again that is an area where we should expect to see some changes coming through in DEPA.

This concludes the walk through of this presentation, which includes all the numbers, the performance for the fourth quarter and the full year. And at this point in time we are available to take any discussions or comments that 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: Okay. Hello, everyone. Thank you for the presentation. I have two questions on your cash flows and one on your projects. So on the cash flow this quarter and the working capital went down despite the increase in the oil price and seems to be mostly on receivables in terms of something special this quarter, could you explain this drop whether it is temporary or permanent? And secondly, CAPEX were also higher in the quarter, is that because they include some of the acquisitions that you mentioned, was there something else. And temporarily on the other projects you said you'd like to do more in renewables and also to adapt the changing model for marketing ? So I'm wondering if you could give us some more details on these projects. Thank you.

SHIAMISHIS A: Good afternoon, Henri. Thank you very much for the questions. You are right to point out that we've had the change in working capital quarter-on-quarter. The drivers are effectively a combination of first of all, lower receivables, significantly higher inventories. We have about €130 million of higher inventories, but at the same time we have about €200 million of payables…€150 million of payables up as well so this is must. I would call this swing set within the operational volatility level rather than anything major. Coming out of the third quarter usually brings with it a reduction in receivables because of the high season that we have the tourist season. So that's the first part.

The second question had to do with the phasing of CAPEX. It is true that we've had an increase in CAPEX in the fourth quarter. This has to do with the disbursements more than anything else. So the projects we have allocated for the year with the exception of the acquisition of the plot of land which is about, if I recall around €25 million, which is a spot outflow if you will, but it has to do with the disbursement of the cash flow. So there is no specific reason why the fourth quarter was higher than the previous.

Renewables that was the other question. Maybe, George can take this question.

ALEXOPOULOS G: Yes, hello Henri, George Alexopoulos here. Yes, we have indeed decided to accelerate our growth in the renewables business. We have set a medium term target of 200 mega watts in installed capacity. We have successfully participated in the first tender for renewable capacity by the regulatory authority last year. We expect to be participating in the future tenders that have been announced for 2018 and going forward. And we see our growth coming through a combination of organic growth of our existing portfolio which is under development and possibly acquisition of projects.

STERGIOULIS G: Regarding the IMO, Ioannis Psychogios.

PSYCHOGIOS I: Okay, good afternoon from my side also. I am Ioannis Psychogios. For the IMO 2020 issue thus I would like to say that we are ready to produce low sulphur fuel oil in 2020. Our refinery system is in much better situation compared to the average Mediterranean and European refineries and this is because of the Elefsis Refinery where we have I would say big flexicoker unit. And, of course, this is an opportunity…2020 is an opportunity for us. We expect higher margins in 2020 because…especially because of the increased distillate cracks that everybody…all the forecast is that there will be there. So we have done our studies. We have completed out our studies in 2017, and there are no significant or major investments needed, and we are confident that we will be in a better position than the competitors in the area.

HENRI P: Thank you.

OPERATOR: We have another question from the line of Khaziev Ildar with HSBC. Please go ahead.

KHAZIEV I: Yes. Hello, thank you. Just a quick question about DESFA utilization. Could you please just quantify how exactly the cash flows would work out. Are there any tax implications if that deal takes place? Thank you.

SHIAMISHIS A: Hello there. Well, the sale of DESFA will take place once DESFA is spun off DEPA. So we will be selling shares. There is no specific tax implication for us as a seller, because this is…if you will the sale of shares. We don't have a capital gain but at least not a material one. So there are no specific workings. We will have to see what the consideration is and if there is profit from the acquisition cost there will be some profit which increase effectively. It is exactly the same as business profits.

In terms of the utilization of the cash flows, first of all we won't spend before we receive it. But I think, it is fair to assume that all of this will be utilized to reduce debt and provide some flexibility on the dividend payment.

KHAZIEV I: Thank you.

OPERATOR: There are no further questions. Gentlemen, you may now proceed with your closing statements.

STERGIOULIS G: Well, according to my experience, when we have so few questions so it means that either the presentation is excellent or the results speak by themselves. From this point of view, thank you all for discussion, and I want to assure the shareholders and all of you that the Company is on the right track, healthy and stronger than ever, and ready to face any kind of challenges…upcoming challenges on every kind of activity we are having in the Company.

Thank you all and I hope that next year we will be glad to announce a very healthy results, better results for all of us the stakeholders, the owners and, of course, the people who are interested in our activities. Thank you all.