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HELLENiQ ENERGY Holdings S.A.
First Quarter 2023 Financial Results
Conference Call

Thursday, 18th May 2023, 18:00 (GR Time)

Conductors:

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Mr. Vasilis Tsaitas, Group CFO

Mr. Dinos Panas, GM, Oil Supply and Sales

Mr. Nikos Katsenos, 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 HELLENiQ ENERGY Holdings Conference Call and Live Webcast to present and discuss the First Quarter 2023 Financial Results.

At this time, I would like to turn the conference over to Mr. Andreas Shiamishis, CEO, Mr. Vasilis Tsaitas, Group CFO, Mr. Dinos Panas, General Manager, Oil Supply and Sales & Mr. Nikos Katsenos, Head of Investor Relations.

Gentlemen, you may now proceed.

SHIAMISHIS A: Good afternoon everybody. Thank you very much for joining this presentation of our First Quarter Results. I will try and walk you through the first couple of pages, with the main highlights of the quarter, and maybe some views about what we see happening, as far as, the environment and the company is concerned.

So, a slightly different presentation on Page 4. We have tried to make it even easier and more pleasing to the eye, as far as, the story to be told. So, in terms of the market, clearly a positive benchmark margin environment, it continues for the fourth quarter in a row and compared to the First Quarter of 2022, definitely a much stronger margin environment.

Another piece of good news has to do with the Greek economy macros which are demonstrating quite significant resilience and rebound from the COVID crisis and we have seen for a number of quarters now the underlying demand in Greece growing, which is partly because of increased tourism and longer touristic period, but also as an overall economic climate improvement.

Crude oil prices dropped significantly during the quarter, we are still trading higher than the pre-energy prices, but the crude oil price has dropped by 21% leading to some inventory losses in the year…in the quarter.

We've seen the energy crisis impact unfolding, unwinding over the last few months, nat-gas prices are dropping even more since the end of the quarter and that's clearly a good sign for the European economy. However, it is something which we don't know how it will evolve towards the third quarter and particularly if we have increased demands for power generation which will be met by CCGT unit, so it is something to look out for. So far, I would say, it's a positive development.

Another important aspect of the environment which affects our business and more so, as we move into more capital-intensive renewable projects has to do with the increase in the borrowing cost, as EURIBOR, as a base is increasing. We see the total cost of funding going up as well.

Now, in terms of operations, not only did we have stronger benchmark margins during the quarter compared to '22 First Quarter, we also had improved refinery runs, the Elefsina refinery was almost fully operational for the quarter, which meant that our production and exports were significantly up from last year and even though the Greek market is improving with the exception of heating gas oil, we have been able to increase our exports significantly.

In terms of other portfolio developments, we have completed the 2D and 3D seismic work in the offshore blocks, we still have some work to do in terms of understanding them, analyzing them and reaching a decision for a go no go drilling campaign, which I would not expect to see within 2023, the decision that is. The drilling campaign will be even longer after… 2023.

On the performance of the company, we have just over 400 million euro of adjusted EBITDA, so if you take the last 12 months trailing, we have just shy of €2 billion of EBITDA clearly and exceptionally good performance, the best 12 months that we have seen in the Group.

I have to say that we don't expect this strong performance to last at least not in this quarter, as we have seen a softening of, and thus putting it mildly of the benchmark margins, so effectively we are moving in toward normal territories from Q2 onwards.

The reported results have been affected by inventory losses roughly about €150 million of that, if you compare this year with last year reported net income, there is a delta of roughly about €400 million, because we had 200 something inventory gain in 2022 in the First Quarter, compared to a 150 almost loss in this quarter. But this is something that we know, we've learnt to live with that, it just demonstrates the volatility of reported results.

We do have improved contribution from our power and gas and renewables businesses, which is a good thing given that we are investing in that business section. And in terms of cash flows, a very strong quarter, we've had a massive reduction of net debt.

However, I need to point out that this is before the payment of dividends and any taxes and solidarity contributions, which will be coming up in the next quarter or so, Q2 and Q3. So we have good environment, strong operations and very healthy financial results.

In terms of strategy, we completed in 2022, the first round of Vision 2025, and that's about reshaping the portfolio of the company and moving in a totally different direction than the one we have been following for the last 30 years. So, a number of things have been done and we are very proud of those things.

Going forward, we have a priorities list, which effectively includes operational excellence, it includes the carbonization of our core business, it includes developing of renewables production and storage and energy management solutions, and of course, improving our ESG reporting.

So, on those fronts, we've reached the 340 MW of operating capacity on renewables, and even bigger pipeline at various stages of development, most of them, I have to be clear, at the early stage of development. So relatively small part of this portfolio is at a ready to build stage. But we're working on that basis.

In terms of the decarbonization projects, we have made our first attempt at carbon capture and storage at the Elefsina refinery. We have filed for a grant under the EU Innovation Fund. But again, being fully transparent, it is something that we don't see the investment decision, if you will, being taken in the next immediate period.

The reason for that is pretty nebulous environment, with respect to Europe, whether they like blue hydrogen or whether they don't want blue hydrogen at all. I have to say that without blue hydrogen, it's very difficult to achieve the aggressive climate change targets. Otherwise, we need to shut down all of the heavy industrial base in Europe and effectively shift the production somewhere in the nearby countries.

And I think, we all understand that this is not going to benefit the greenhouse gas emissions target. On the contrary, that's going to make it even worse. So, we are pushing on that direction and hopefully we will be able to get traction and eventually achieve this part of the decarbonization plan.

In terms of the green hydrogen and the biofuels initiatives, they are moving, the green hydrogen is heading closer to a final investment decision. And on the biofuels, we're moved into the implementation phase in the Thessaloniki Refinery for HBO. And hopefully that's something which is a good pilot case, if I may call it that, given the volumes, for further investments into this space, which has to do with bio and sustainable air fuel.

Now, digital transformation is something, which has to do with operational excellence, and we have progressed significantly on that. It's not an easy target given that this is about changing culture, it's about shifting the way people think and act. But if you stay committed behind this target, then it gradually starts delivering its benefits and eventually you end up with a changed mindset of the organization.

ESG, again, something which is high on the agenda. Clearly, it covers a number of things, starting from the strategic direction to the actual specifics of governance. There, we have made improvements on the risk management structure. We're working on putting together a holistic Group ESG framework, which will effectively put together everything that we do in the various businesses.

The following page, which relates to transformation agenda. I think it pretty much summarizes or sort of covers the things that I've talked about just now. '21-'22 was the first cycle of the Vision 2025, which included the change of the strategy. It included moving the organization towards a different direction, changing the corporate governance, something which was done with a lot of noise, if you will, because of the nature of the company that we are, but eventually it went through, and it's been working fine.

The corporate structure was implemented as scheduled, one of the fastest deliveries in a large-scale corporate transformation of the last few years. Of course, our new corporate identity, which was launched in September 2022.

So, as I said, for '23, we are slightly changing our angle and we are focusing behind the 4 priorities, which have to do with operational excellence, with decarbonization of the core business portfolio, the development of renewables production and storage, not only in Greece but also abroad and the ESG.

A notable development in the last month or so, after the quarter end, has been the appointment of Deputy CEOs, both at the Holding Company as well as at the major subsidiaries, which is HELPE and EKO. That's something which is done in order to improve the management structure and the succession planning of the Group and the individual companies. And I'm sure it will allow us to operate even better going forward.

Now, at that point in time, I will turn over to Dinos and Dinos will effectively cover the market and the environment for our businesses.

PANAS D: Well, thank you, Andreas. Good afternoon, everybody. On Page 8, we see the industry environment concerning the crude and the foreign exchange. Crude in a downward trend for the last 4 quarters at $81 per barrel on an average for the quarter, 1.07 the average of the euro versus the U.S. dollar during the First Quarter of the year.

On Page 9, you can see the graph that you all know. At the left part of the page, we see that the ULSD is in a downward trend, which continued after March. Gasoline is resilient at $19 per barrel, Naphtha at minus $9 per barrel and HSFO on an upward trend, average during the quarter at minus $25 per barrel.

We can see the margins…our benchmark margins, 10.7 for an FCC refinery with an FCC, like Aspropyrgos, compared to $3.6 per barrel in the First Quarter of 2022. And the cocking refinery, like Elefsis which had a benchmark margin of $14.2 per barrel compared to $6.7 per barrel in 2022.

The next page about the energy prices. What is very important for us is that we have seen natural gas prices going significantly at lower levels than before, and now it is feasible to burn natural gas in the refineries instead of burning alternative fuels and that was the case during the previous quarter. Electricity prices, of course, went down, but we see that the EUAs remain at high levels, averaging at €89 per ton during the quarter.

And finally, on Page 11, you can see what is happening with the consumption in Greece, with the exception of the… in the domestic market, with the exception of the gasoil… the heating gasoil, which shows significant decrease. We had a big increase in all other products. Gasoline was 4% up, diesel 5% higher than the previous year, and the rest of the products like LPG, HSFO, and bitumen at plus 14%.

I must say here that the minus 34% of the heating gas oil was mostly due to two facts. One was that we had a milder weather, but most significant one was that during the fourth quarter of the year…the previous year, there was significant subsidy to the retail price of the heating gas oil, so most of the people in Greece filled up their tanks.

So, if we count winter…this winter with the previous winter double that was in the range of 7.8%. You see a strong aviation demand, plus 25% during the quarter and bunkers remaining at…bunkers' demand remaining at the levels of the previous…of the quarter of the previous year.

And with this, I will pass it over to Vasilis Tsaitas to discuss the Group performance.

TSAITAS V: Thank you, Dino and good afternoon to all attending our call today. On Page 13, having a look at our numbers as we discussed before, high utilization that our refineries made in the higher sales by 12% versus last year at 3.7 million tons. Flat marketing phase including domestic and our international marketing. Certainly, our rebasing of our renewable business with generated capacity 4 times as last year.

In terms of adjusted EBITDA, refine, supply and trading continues as strong ground for another quarter, accounting for around 90% of the total EBITDA of the Group at €404 million.

In terms of associate performance, both Elpedison and DEPA improved performance and we discuss in detail further on leading to an adjusted net income of €250 million. Not to forget to mention that the impact of benchmark rates on interest is having a…is affecting our funding cost which are as expected higher than last year.

Moving on to Page 14 where we see a more graphical representation of the main drivers that affected our performance versus last year, the key element is the refining margins that contributed just over €200 million. That was partially offset by Petchems margins that remain close to all-time lows.

In terms of the inventory impact, let us remind you that we adjust for the inventory impact in refining. However, I think it's important to highlight that our domestic market in business does carry a few days of inventories and the results of the inventory losses this year versus inventory gains in the First Quarter of '22 had a cumulative impact of €17 million…negative impact of €17 million. And the strong dollar although a little bit weaker quarter-on-quarter. Still have a positive impact.

The normal operation at our refineries versus the turnaround that Elefsina was undergoing for most of the quarter in 2022 had a significant positive impact in terms of our performance at close to a €100 million versus last year and leading to therefore €404 million.

In terms of our funding and balancing structure, our gross debt is at €2.4 billion. This is the lowest in the last 14 years or so as taking a balance of the good performance in our core business. We were able to deleverage our balance sheet significantly and net debt just below €1.5 billion.

The final…this is helping us…the lower base of our gross debt is helping us partially mitigate the impact of higher EURIBOR rates together with renegotiation of credit facilities that have been refinanced in the last couple of quarters at lower spread.

Moving on to the performance of our business segment starting with refining, supplying and trading on Page 18, as we discussed before, production is 30% higher than last year. That drove significant increase in sales volumes, higher adjusted EBITDA and average strong over performance with realized margins at $22 per barrel over $12 per barrel more or less over benchmark.

On Page 19, the normal operations at Elefsina refinery despite the few issues that we had in the First Quarter, but certainly are much higher utilization and much more normal operations versus last year. Are reflected on both total sales volume, product yields most due towards mid-distillates and the rest of white products.

And as a result of that on Page 20 sales at 3.7 million tons, 12% higher than last year, with exports staging a very performance at 2.2 million tons. This is the highest both in absolute terms, as well as a percentage of our total sales. 60% of exports…60% of our total sales are coming from exports, which is the best performance in both terms for the last couple of years.

And on Page 21, you can see the evolution of our realized versus benchmark margins for another quarter we were able to take advantage of the crude differentials in the area and the strong exports with good premia and higher volume also contributed to the very good performance.

Moving on to petrochemicals on Page 23. As we mentioned before, it's the third consecutive quarter of low…below mid-cycle benchmark margin…polypropylene. Margins. This is partially mitigated by the higher sales volumes. However, profitability €50 million lags last year by around 47%.

In terms of fuels marketing business. As we mentioned before the price impact…the price effect had a significant impact on EBITDA. Adjusting for that, performance is more less flat versus last year, and we still see can see the negative effect of inflation on a number of cost base elements of our business. Otherwise, in auto-fuels we report small market share gains and similarly on our aviation business.

In international marketing, another quarter of very good performance, actually a third higher than last year, which is driven by higher volumes in most of our markets and very good performance particularly in the Bulgarian and the North Macedonia Market.

In terms of our new business in renewables, profitability, certainly rebased and difficult to compare versus last year. However, it was supported by very strong wind conditions at our sites with load factors over 35%, while PV due to seasonality had a lower contribution and in the coming 2 quarters is expected to increase as a share of total.

On Page 29 we have an overview of our capacity in operation HELLENiQ is the largest PV operator in Greece currently. And in terms of our pipeline , other than PV and onshore wind, we're also developing in storage. As we expect that it will play a significant role in the future as more capacity is coming online in the system in the next few years.

Moving on to our associates business, starting from Power, our 50%, share in Elpedison, very strong performance in Elpedison with €60 million of EBITDA, 30% higher versus last year. I think it's important on the bottom right to understand the contribution of the distinct activities within the natural gas trading accounting for more than 50% of profitability.

Energy management, mainly balancing services to the system and other ancillary services, like RES aggregation are also representing a significant proportion, with generation, effectively the Day Ahead Market accounting for the rest.

Retail has a very small contribution, it's actually almost negative, breakeven at the EBITDA level. So, it mainly… the international trading and energy management that drove profitability in this business. Similarly, like the previous quarters.

In terms of DEPA Commercial, also improved performance. DEPA took advantage of the favorable pricing mix in their supply contracts for pipe gas mostly, and they were able to also engage in international trading. As a result of that, they have a significant increase in their profitability and contribution to HELLENiQ ENERGY Group.

I will stop here, that concludes the main part of the presentation and open the floor for any questions that you guys may have. Thank you.

Q&A

OPERATOR: The first question is from the line of Athanasoulias Nikos with Eurobank Equities. Please go ahead.

ATHANASOULIAS N: Hello gentlemen and congratulations on the great set of results. I have 2 short questions. The first one is regarding your view on the refining margins for 2023 and the abrupt decrease as we saw in April. Do you expect the stabilization near 2021 levels or even lower? That's the first question.

And the second one, what is your view and how do you see the alleged resourcing of Russian related products through India? And how does this affect the demand in Europe? And how do you see this unfolding the next quarters? Thank you very much.

SHIAMISHIS A: Well, let's say…but refining margins it looks that the market is more or less starting to balance after quite a few months of big disturbances. We've seen refinery margins going down during April, May, recovering a bit during the last week again. So we have to see where all this will end up. It's good that we have a strong demand in Greece, increasing compared to last year, which is a significant market for us. But it remains to be same.

Now, the imports from India and it's not only from India; although, this is significant. We have also Russian barrels that are going to other countries like in the area, like to our neighbors in Turkey. And then we see it coming back into Europe. So this is a concern with us, and I think that this is something that policymakers about the whole situation and what this…they are trying to do with Russian athey will have to take care of.

ATHANASOULIAS N: Thank you very much.

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

GRIGORIOU G: Yes, hello. Congratulations on the results, I think. A question on free cash flow and your net debt. Because of your net debt at €1.5 billion, and I know you mentioned obviously, you have to pay taxes…the solidarity tax and dividends and everything. I was wondering what should we think as CAPEX for this year, excluding obviously acquisitions. But on the subject of acquisitions, you've mentioned recently in the press that you are thinking and you said this is what I think before the presentation, that you are thinking of going abroad for renewables. If you've got anything to share with us.

My other question is, if you could explain perhaps why Bulgaria did so well, both in terms of volumes and in EBITDA?

And my last question is on the cost. You mentioned that in the First Quarter, you are obviously seeing inflation impact on your OPEX, but going forward obviously that will ease out. Would you be so kind as to provide us a metric either per barrel or in absolute numbers, if prices both for electricity and natural gas and whatever stayed where they are today. What would be the savings for the whole year versus 2022? That's it. Thank you, SHIAMISHIS A: Thank you George. A number of questions. I will try to make sure that I get all of them just in case you may follow-up. In terms of our net debt, it's a low baseline currently. As you rightly suggest, we have a tax payable of around €0.5 billion in the second half of the year, and working capital inherently has some volatility. So, it's not something stable, so you could expect to see more outflows in the second half of the year versus the first.

In terms of CAPEX and leaving renewables out of the equation, would expect anything between €200 million, €250 million for the rest of our business. For our international expansions in renewables, you know, it's something that we are looking for in order to get to our target of the 2 GW and 1 gigawatt in the next few years and 2 GW by the end of the decade. Greece won't suffice, so we are on the look for specific opportunities and hopefully, will be able to be more precise later in the year.

In terms of the Bulgarian market, there is…the refining incumbent is actually driving the market there. So, we are price takers. So, we took advantage of the positive environment during the First Quarter and that explains the higher profitability.

In terms of the OPEX, it's not exactly like-for-like in terms of electricity prices because during 2022, we had the subsidy that alleviated part of the impact. I would say net-net at current prices we could see savings of around 50 cents per barrel excluding…, considering also the net impact from the subsidy and assuming that there won't be any subsidies for the rest of the year.

GRIGORIOU G: Excellent, many thanks. That's been very helpful. So, if I can just…one last question if I may. In terms of Elpedison, you currently provided this breakdown for the EBITDA split of Elpedison. On a year-on-year basis, natural gas trading versus last year, do you have a sense. Could you provide us a split in terms of percentage or absolute numbers? Thank you and that's it.

SHIAMISHIS A: George, actually the high contribution of international natural gas trading is the main driver for the variance versus last year as there were very good opportunities in the First Quarter that Elpedison was able to take advantage and materialize. So, there is no significant change in the other activities.

GRIGORIOU G: Super helpful. Many thanks.

OPERATOR: There are no further audio questions, I will now pass the floor over to Mr. Katsenos to accommodate any written questions from the webcast participants. Mr. Katsenos please proceed.

KATSENOS N: Thank you, Operator. We do have a question from Adam Milewicz from PKO BP. Who asks whether we see any signs of recovery in refining margins from recent drop?

I guess, we have already answered the question previously. So, currently operator we do not have any other questions, so I can pass again the floor to you.

OPERATOR: Ladies and gentlemen there are no further questions at this time. I will now hand over the conference to management for any closing comments. Thank you.

SHIAMISHIS A: Thank you, very much for your time and the questions. Clearly, a good set of numbers for the quarter, and overall a good grant for the last 4 to 5…4 quarters definitely. The company has made strides in delivering in designing and pushing forward a transformation agenda which will probably not be changing the immediate future and performance of the company, but it sets the scene for the next 10 to 20 years in terms of the cash flow breakdown and the valuation of the company. And doing so we are improving our internal processes and our structure, things which have travelled us over the last many years in terms of governance and group model. So, we have if you will, a good set of results, we have progress on strategic issues, I think we have managed well to stay clear of the crisis. There have been opportunities that could have pushed our numbers even higher, but we opted not to engage in trading of more grey origin hydrocarbons, and that's a conscious decision. So, we are…if you will, at least confident that our performance is not inconsistent with our principals.

In terms of future, we have a weak benchmark environment in the next quarter, we have, are half way through a partial shutdown in the Elefsina Refinery, so we are facing some issues that were left-overs from the power failures of the previous year. Operations overall are doing well, and we are optimistic about a strong fuels demand in the Greek market.

All in all, I would probably say that we should be waiting a weaker 2Q, but then I would expect 3Q and 4Q to recover, maybe not to the last 12 months levels, but definitely to recover to a mid-cycle level performance. In the meantime, our investments in renewables will keep providing some additional stability to the cash flow, albeit small relatively to the very strong performance of the refining and supply and trading business. But, as I said, it is a long-term decision.

As far as announcements about potential acquisitions, I expect that in the next few weeks, we will be able to announce a couple of such agreements, some of them with immediate impact of the results, not that material, but as I said, it is…it is a journey which is longer than just 100 meters sprint, it's something that we need to build and we need to build it in a value-enhancing way, rather than going on a shopping spree, simply because we have the cash. So, that is a fine balance to achieve, and we try our best to do that.

Thank you very much once again and look forward to speaking to you in the next quarter.