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"First 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
Mr. George Alexopoulos, General Manager Strategic Planning & Development
&
& Mr. Vasilis Tsaitas Investor Relations Officer.

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 First 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. George Alexopoulos, General Manager Strategic Planning & Development & Mr. Vasilis Tsaitas Investor Relations Officer.

Gentlemen, please go ahead.

STERGIOULIS G: Hello everybody. My name is Gregory Stergioulis or Grigoris Stergioulis as you wish. I am the CEO of Hellenic Petroleum, and I am glad to present you the results of the First Quarter of 2016. So in the first quarter, Hellenic Petroleum Group reported another set of strong results, the adjusted EBITDA at €169 million against €205 million last year, better than expected from the analysts, mainly on the back of sustained high benchmark refining margins, improved operational performance of Group's refineries, coupled with the high exports, 55% of the total sales, as well as the use of the liquidity to take advantage of commercial opportunities in crude supply alternatives during this period.

IFRS reported net income amounted to €32 million, against €17 million net of the respective period last year, negatively impacted by €40 million by the continued crude oil price drop at the beginning of the year, and by one-off provisions in DEPA results. Excluding the inventory effect and one-offs, The first quarter of '16 adjusted net income reached €70 million against €54 million of last year. Group's balance sheet strengthened… as higher profitability during the last six quarters, combined with lower capital expenditure, improved operating cash flow generation and provides increased trading optionality and better crude oil supply terms.

On May 16th of 2016, the Group plans the repayment of the €400 million bond issued by HPF PLC and mainly through existing cash revenues while refinancing process of the remaining bonds is under consideration. Thank you. Andrea**...**

SHIAMISHIS A: Thank you very much, Gregory. Good afternoon, ladies and gentlemen. The plan is to walk you through this quarterly result presentation, and then leave some time at the end for any questions you may have.

As most of you undoubtedly are aware, the relevant legislation for publishing quarterly results has recently changed in all EU markets, which effectively removes the requirement for listed companies to prepare and publish proper quarterly financial statements under the IFRS. However, as a Group, we have decided to continue publishing as we have done for the last few years every quarter, and we will revisit this policy once we have some more information about what the industry will be doing.

So without further ado, let me go to Page 2. We have the key highlights. As Grigoris mentioned earlier, we have a strong quarter. It's the sixth or the seventh in a row where we are reporting very healthy results. The key underlying factors are clearly a healthy benchmark refining margin environment which supports our core activities. A relatively strong dollar compared to euro, it has remained relatively stable compared to last year. And of course, what is more controllable by us and what is our job to do is as good as possible operation of the refineries and the supply chain of the Group.

So we have a very good performance on the refining supply and trading. We have a record first quarter on the Petchems and we have a positive performance on our marketing activities. We also have reduced financing cost not by a lot, but one has to take into account the fact that Greece is still suffering from a comparatively very high financing cost as a market.

Our operating cash flow which we define as adjusted EBITDA less CAPEX is just over €140 million and our net debt slightly up from the comparable last year, about €2.5 billion. This is a temporary spike which was mainly a result of using liquidity for prepayments, and if you will, in improving the price element of the supply chain, as well as building some stocks ahead of the March/April turnaround we had in Elefsina. Finally, we plan to repay the $400 Eurobond on Monday which will effectively lead to a deleverage of the Group.

Page 3, we have the key numbers. You can see that our refining volume is slightly down, this is almost entirely due to the refineries plan and operation given that overall if we have the refineries operating, we can sell either in the domestic market or we can export. So most of this variance is attributed to the planning of the refineries and the scheduled shutdown and volume reduction we had there.

Marketing overall marginally down as well as you will see, Greece has suffered a little bit because of lower heating gas oil sales during the first quarter of ’16 compared to last year, and of course, net sales which is a reflection of the overall price for crude oil and products.

So in terms of profitability, you can see the various Sectors compared to last year and overall an adjusted EBITDA of €169 million compared to €205 million. In terms of associates, we are quoting here what we have as comparable profit from associates, mainly referring to DEPA which has reported a one-off charge in their first quarter results, but we’ve consolidated as a result of an arbitration process they have been running for some time now with BOTAS.

Finance cost, as I mentioned earlier, marginally down compared to last year and an adjusted net income of €70 million which is 30% up from last year. In terms of CAPEX, we have just over €25 million for the quarter, the full year estimates remain around €120 million to €130 million overall, which is what we would determine as maintenance CAPEX plus a bit of an upgrade, whether it’s point-of-sale in the retail business or a small upgrade in one of the units in the refinery, but no major projects expected this year.

Moving on to Page 5, we have the key determinants of the crude oil market and of course the euro/dollar change. The beginning of 2016 gave us a new law on crude oil which has affected the reported results. And over the last few weeks we are experiencing a slight comeback with the crude oil prices increasing that is a benefit that we will be seeing through our accounts in the second quarter of this year.

Of course, tighter Brent WTI spreads, benefit European refineries, and equally so is and likely, and at the same time we also had the benefit of the increased sweet-sour spreads on the crudes that we use, which is something that we will talk a little bit about later on.

In terms of refining margins, you can see them on Page 6. On average, we've got about $1.5, $1.6, if you sort of take it as a system, lower benchmark margins as last year, which is partly offset by better performance from the refineries, better over-performance that is, which allows us to maintain a relatively high clean result for the first quarter of 2016.

Moving to Page 7, the domestic market environment, effectively reflects what we mentioned earlier. The main category of auto fuels is marginally up, a bit of substitution between gasoline and diesel is clearly visible in the first quarter as well. But we have a big drop of 22% on heating gasoil as a result of the weather conditions in Greece.

Moving to Page 9; we have the causal track between the two quarters, €205 million of clean EBITDA in the first quarter of '15, €169 million in the first quarter of this year. The main differentiating factors are depicted on this page. We have the environment, things we cannot control, the benchmark is being lower about $1.6 per barrel, I mean €37 million of lower margin and of course EBITDA, with a small benefit on the foreign exchange and the translation impact on our sales.

On the internal, the operating factors we have the Elefsina refinery catalyst change on the hydrocracker, which meant lower yield and lower throughput, shaving off €17 million from last year's numbers. But on the other hand, we have an improved performance mainly coming from the Aspropyrgos refinery, which last year was at the end of run, if you will, was just before we went into a major shutdown. So it is expected, and it is shown on this page that following the shutdowns, the refinery is performing better than last year. Within this number, we also have an element of improved supply benefit which is a result of utilizing the liquidity to…if you will generate more value through our gross margin and our EBITDA line compared to previous years.

Page 10, a few words about our financing; we have the dollar bond of $400 million bond maturing on Monday; this will be repaid fully by HPF who is the issuer. And as we have mentioned in the past, clearly, we are moving on a deleveraging path. We are generating anything between €400 million and €600 million of operating cash flow. If we take about €200 million of interest which is last year's number, clearly as we move on this gets lower, it means that we have anything between €200 million and €300 million minimum of free cash to deleverage, and of course pay some dividends moving on into 2016, 2017, and 2018.

As part of the refinancing, we believe that we have seen the worst over the last few years, given that we had the peak financing requirements for the Group due to the big investment in Elefsina mainly. And of course the prolonged Greek crisis, which started in 2009, 2010.

The Group is in a much better position, we are generating positive cash flows, which means that we can improve our balance sheet, and gradually we can see and expect that the Greek macro will also improve at least a perceived risk of the Greek market will improve, which means that we should be expecting to see an acceleration of the improvement on the financing costs of the Group.

DESFA is a transaction which has been outstanding for some time. We have a September 2016 long stop date with the counterparty being SOCAR and the process from this transaction have been earmarked for deleveraging the Group.

Now, given that we are now in a much better position. We are preparing ourselves for a possible refinancing assuming that market conditions will be conducive to such an initiative, meaning being able to attract lower coupons and improved terms on a market transaction.

Moving on to the individual business units now, Page 12, you can see the domestic refining, supply and trading summary which is a core of our operation. The lower benchmark margin as a system is visible, we moved from 6.4 to 4.8 this quarter, and it’s also visible, and also the fact that the realized margin has come down from 12.6 to 10.2, which again is mainly the result of the benchmark margin erosion.

In terms of operations Page 13, shows by quarter, the production by refinery, we make a distinction here that this is gross production, meaning that there is some inter refinery processing taking place. For example, Naphtha from Elefsina gets upgraded to gasoline in Thessaloniki, and vise-versa we have Thessaloniki shipping to the south hub, to Elefsina and Aspropyrgos, fuel oil and VGO which gets upgraded in one of the two refineries.

In terms of sales, on Page 14, the fact that the Greek market has come down, the heating gasoil market, it meant that we have more products available for exports, and as a percentage you can see that we have reached a 55% of our total sales, which are actually sold to international markets.

A relatively large percentage of those sales actually goes to our own subsidiaries, it's about 10% to 15% of our exports, which gives us some sort of protection as to the netback we can expect from this export business. So it's not simply a swing refinery, an excellent refinery profitability that we should be expecting from the Group.

Page 15 shows the over-performance versus the benchmark, clearly since the stabilization of the Elefsina refinery, we have seen a relatively steady over-performance compared to benchmark. Clearly, the over-performance does not reflect only to technical parameters, it includes supply optimization and of course, trading premia as well.

However, it's quite a strong message compared to a normal swing refinery or an expert refinery, given that we are actually being able to deliver about $5 to $6 per barrel on top of refining margins. So even if one assumes a relatively weak refining margin environment going forward, I would take the shaded part, the bottom part of the chart and roughly $1 per barrel means a €100 per year for the HELPE refining system but the over-performance tends to be unaffected from the benchmark margins, not a 100% correct, but I would probably say it's more than 80% correct. So it gives us some stability and some, if you will; protection against the volatility of benchmark margins.

Petchems, as we mentioned, this is an integrated value chain with the refining operations. We have a very strong first quarter; it's actually the highest in record as a first quarter. If the environment is maintained at the same level, then we would expect to see a record year for Petchems, which is not just an EBITDA producer, it's a cash flow producer given that CAPEX in this business is relatively small.

Moving on to Page 18, we have domestic marketing, domestic marketing has a very high seasonality element quarter-on-quarter. Usually in the first and the last quarters of the year, we have heating gasoil moving through the system. Now heating gasoil unfortunately requires a relatively large fixed cost base and it's a low profitability product which means that during those two quarters, our profitability is relatively low.

We have very strong expectations for the second and the third quarter, which are the high season because of tourism, which will hopefully allow us to report a strong set of results for the domestic market as well.

In terms of international, on Page 19, we have a strong performance; we are at the same level as last year. So we expect that 2016 will also be a relatively healthy year for our international subsidiaries, engaged mainly in retail activities and a bit of wholesale in their local markets.

Page 21, we have Elpedison power generation. We have a mixed message on the power generation business. The positive news come from increased trading results which clearly are not material enough to move the needle for our business. However, it's a positive sign and also we have a bigger participation of our units in the energy market given that gas prices have come down this year compared to last year.

On the negative side, however, we still don't have a capacity and flexibility remuneration mechanism in place which means that we do not get paid for the capacity we have installed, which is pretty much fixed. We expect that over the next few weeks this will be sorted out given that the relevant approvals are well in the pipeline, so I expect to see an improvement moving into the remainder of the year.

Likewise on Page 22, we have improved operating performance from DEPA. So stripping out the one-off items from the arbitration, DEPA has benefited from increased nat gas production, which accounts for anything between 40% and 50% of its total sales volume in any particular year.

Again, the first quarter sales for DEPA through the local retailing companies EPAs has been affected by the weather, this is like the heating gasoil story that we mentioned earlier, but we have the IPPs and PPC, the power generators, off-taking as much as 83% higher than last year.

On the privatization process for DESFA, as we mentioned, we have September 16 long stop date. We expect that the transaction will, if you will, proceed through the regulatory clearance process between now and then, which means that we will be able to close the transaction and then hopefully within three to six months effectively conclude and collect the proceeds from the transaction.

Now, that concludes the brief discussion on the performance of the Group and we are available for any questions you may have on the presentation of the business. Thank you.

Q&A

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

PATRICOT H: Yes hello, Thank you for the presentation. I have a few questions on the working capital and cash flows in general. I was wondering if you could provide me some outlook in terms of where you see that the working capital going within next few quarters and what was driving the big move in the first quarter when you mentioned the decrease in payables, but there is also a bit of an increase in the receivables. I mean if you can provide a bit more details on that, is there anything to do with repayments to Iran or is that completely separate. And then, secondly on the cash flows, so you have a negative €1.3 billion cash from operation and a €1.8 billion working capital movement which leaves around €400 million of cash, much higher than the EBITDA, I was wondering what's driving the difference. Thank you.

STERGIOULIS G: Andrea.

SHIAMISHIS A: Hello, Henri. Okay, the two questions are pretty much related, and effectively, I will explain the cash flow movements by walking you through the working capital changes. In 2015, in our first quarter results we had a working capital which was based on a much higher price environment. As we moved through 2015 and into 2016, the working capital has been affected significantly by the price environment. So that is an overall comment which affects the numbers.

Being more specific about the changes, you mentioned accounts receivable. Accounts receivable have gone up by probably; I would say around 20%...15% to 20% price adjusted for this, as a result of a change in the collection policy through factoring. Factoring is becoming quite expensive, so unless we really want to create capacity we are gradually moving away from such forms of financing. Likewise, we also have accounts payable which is impacted by three things. The first one is a reclassification of payables to Iran, following the agreement we reached in the first quarter. So and not in material amount has been reclassified into long-term liabilities, given that we have an agreement which allow us to make the payment over a number of years, we cannot disclose the exact details, but if you go through the accounts I think some of the numbers are quite visible. So that has affected the current liabilities trade payables.

The second thing is that, we have affectively changed during the first quarter, the payment terms to suppliers, and in fact we moved from extended credit which we had in the last six months of 2015 to prepayments. That is a relatively big swing, we did it because we had the liquidity, and we felt comfortable to actually deploy that liquidity and generate additional margin and EBITDA rather than keep it and just have the negative carry.

So in the first quarter, I think, it's the extreme swing from the year end. I would expect accounts payable to go back by around €300 million to €400 million in the second quarter. The third item which affects working capital is stocks. During March, we had the catalyst change in Elefsina and a small shutdown of the units which meant that we had increased stocks, which is not visible in the accounts because of the price impacted, lower prices that we have. But again, we have about 20% higher stocks, which we actually paid for at the beginning of the quarter. So it is not reflected in the accounts payable.

Now, the combination of all these three factors, probably gives a slight overshooting of working capital and net debt in the first quarter, which is of the order of about €600 million to €700 million. So I would expect over the next few months to see that number coming back into the working capital line. And that actually will normalize the operating cash flow as well. Thank you.

PATRICOT H: Okay. Thank you.

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

GRIGORIOU G: Yes, good afternoon. One question, if you could provide us with an outlook if you like for the Greek market in terms of consumption, given the pending measures of additional taxations, especially on gasoline and diesel? Thank you.

SHIAMISHIS A: Thank you, George. We have experienced a very big drop over the last few years and since six quarters ago we've started seeing some come back in the underlying demand in the Greek market. We expect that the rest of the year will be supported with our trend i.e., we will be expecting to see a marginal improvement in underlying consumption also supported by increase tourism inflow into the market.

We have heard rumors and everybody has heard that about possible increases in excise taxes in diesel or gasoline. We have no news on that and we don't know whether they will be an increase in consumption taxes. Clearly, if that is the case, then one might expect to see a negative impact on the Greek market consumption. Overall, if we had to take a view, we would probably say that, we do not expect to see material changes for the remaining of the year. If anything probably a small positive expectation, if no material taxes are imposed on fuels. Thank you.

GRIGORIOU G: Sorry, Yiannis wants to add something.

PSYCHOGIOS Y: Just to add that what we see in the second quarter is that the market is increasing so what Mr. Shiamishis mentioned is, something we have already seen since end of March. So things…well the forecast are, let's say positive, cautiously optimistic let's say.

SHIAMISHIS A: Plus a major increase in the new car sales.

SHIAMISHIS A: Unless there are any questions, shall we proceed with the closing statement?

SHIAMISHIS A: Are there any questions?

OPERATOR: There are no questions in the queue at the moment.

STERGIOULIS G : Okay. We thank you all. As you have seen the Company, as we mentioned at the end of the year, has options, we are in a procedure of stabilization and cash flow improvement. Our refineries are in full operation. And all the agreements including Iran and the rest are now beneficial… starting to create cash flow and benefits. We expect this new, this roadmap to be continued all through the year. And by the next quarter we expect to hear even better results. Thank you all and bless you.