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"Full Year 2016 Financial Results"
Conference Call

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Conductors:

Mr. Grigoris Stergioulis, CEO

Mr. Andreas Shiamishis, CFO - Executive Member of the BoD

Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & Executive BoD Member, Mr. George Alexopoulos, General Manager Strategic Planning & Joint Ventures & 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 Full Year 2016 Financial Results.

At this time I would like to turn the conference over to Mr. Grigoris Stergioulis, CEO, Mr. Andreas Shiamishis, CFO - Executive Member of the BoD, Mr. Ioannis Psychogios, General Manager of Group Supply, Refining and Sales & Executive BoD Member, Mr. George Alexopoulos, General Manager Strategic Planning & Joint Ventures & Mr. Vasilis Tsaitas Investor Relations Officer.

Gentlemen, please go ahead.

STERGIOULIS G: Good afternoon, everybody. My name is Gregory Stergioulis, I think we are familiar now. I am the CEO of the Hellenic Petroleum Group of Companies, and I welcome you to the official announcement of the Fourth Quarter of the Year and 2016 overall Year Results.

2016 was the first full calendar year, where the current management was accountable. Please, allow me, to remind the key pillars of our plan as presented a year ago. Full realization of our asset base, positive results in all business units, improvement on financial gearing, agreements with producers aimed for a 50% supply straight from producers, gradual improvement of good feed, aiming for over-performance. Export orientation, international sales and maintaining of our position in the domestic market, review of our planning in upstream.

Hellenic Petroleum Group announced today its year 2016 IFRS results earlier this afternoon. Following a good set of results in the fourth quarter of the year, we managed to report strong profitability in the overall year despite the 25% lower benchmark refining margin with adjusted EBITDA at €731 million and adjusted net income at €265 million.

Group refineries reported 16% production growth in the year, at 14.8 million metric tons, the strongest performance of record with over performance versus benchmark margins leading exports to a historic high of 8.6 million metric tons. All Group activities reported positive results with Petchems increasing contribution to a €100 million, also with higher sales. Fuels Marketing adjusted EBITDA amounted to €100 million also, with most of our subsidiaries increase share in their respective markets.

Looking at our report results, EBITDA came to €836 million with net income at €329 million, both the strongest on record supported by €102 million of inventory gains as international oil prices recovered in the fourth quarter of the year. This brings us to very high – how can I say – targets for the incoming year.

In more detail, we expect sustaining production at the high levels of 2016, continue to apply the agreements for the supply of feed stocks, strengthen our position in domestic and international markets, accelerate our activities in upstream, aiming at agreements with reputable companies in the sector. I would like to reassure our investors that the management is committed in succeeding in all the above targets and 2017 progress so far has been more than encouraging.

Thank you ladies and gentlemen. I think that now we'll pass to Andreas for the detailed presentation of the results and thank you all.

SHIAMISHIS A: Thank you very much Grigoris, good afternoon ladies and gentlemen. Thank you for participating in our fourth quarter and full year '16 conference call where we will be talking a little bit about our performance during the year and the last quarter.

Turning on to Page 2, which has the key highlights for the quarter; we have a very strong quarter at €215 million of adjusted EBITDA and a strong net income, adjusted net income at €82 million, driven by marginally higher margins in the last quarter, a recovery of oil price in USD, a stronger USD, compared to last year. And of course, a very strong performance from our core business being refinery, supply and trading.

For the full year '16, our performance at €731 million is indicative of a very strong operating performance of the refineries, given that we have reported about $1.4 to $1.5 per barrel, lower benchmark margins versus last year. So the performance for 2016 is indeed quite strong. As Gregory said earlier, we have very high refinery availability and record export sales on the back of the refinery utilization.

IFRS results, our EBITDA and net income are at record high for the full year, and of course, this led to a very strong cash flow, operating cash flow generation which is effectively the adjusted EBITDA minus CAPEX of about €600 million. If you take into consideration the fact that last year we had just €600 million as well, it means that over the last couple of years we have generated about €1.2 billion of operating cash flow.

Net debt is pretty much flat in line with last quarter at €1.8 billion, and of course the process in refinancing and de-risking the balance sheet with a number of activities, and transactions that we will be talking about in a minute is leading us into 2017 with a much better balance sheet.

As a result of the performance, the strengthened balance sheet and the projections for the next couple of years, the BoD decided today to propose to the AGM a dividend of $0.20 per share which will be made after the approval by the AGM later this year.

I will not go through the details on Page 3, with the numbers. So I will turn to Page 5, where we go very briefly through the industry environment. As, you know, the refining business has been positively affected by a strong euro…by a strong dollar compared to euro. And, of course, by a relatively lower than historic crude oil prices in the last eighteen months.

The crude differential effectively the Brent WTI spread which is an indicative differential that we monitor is at $1.5 per barrel for the fourth quarter, remaining relatively stable over the last few quarters. In terms of refining margins which is one of the key drivers of the business, you can see that overall in 2016 versus 2015, we have experienced a significant reduction of benchmark margins about $1.4 per barrel, which if one considers that we refine an effective throughput of about a 105 to 110 million barrels a year, it gives us quite a material reduction compared to last year.

Moving on to Page 7, the domestic market environment which is also a key driver of performance, we see a relatively stable performance throughout the year. We report about 1% drop in full year market demand with diesel, however, becoming the dominant fuel for the first time in the Greek market. So you can see that diesel is just over 2.5 million tons compared to gasoline to MOGAS which is 2.4 million.

If we move to Page 9, where we have the quarterly comparison year-on-year, so, 4Q 2016 to 4Q 2015, you can see that the differentiating factors which are analyzed here, we have a marginal improved margin environment and currency environment in 2016 4Q, and an improvement in the asset utilization and operating performance. Now this improvement is actually shown as €8 million, but there is a shaded bar below that, which suggests that the €8 million is a net impact given that we had the refinery in Thessaloniki being shut down for a turnaround, which effectively took away some of the shine if you will of the performance of the overall system.

The full year picture on Page 10 is slightly different. You can see that the system has suffered in 2016 from the lower refining margin, so industry macros were against us in 2016 compared to 2015, but on the other hand we've had better utilization. If you recall, we had a couple of shut downs in 2015 which were not repeated in 2016, and we also had a better performance in terms of refining and supply operations in the year. This could be driven by either better utilization, better planning, better crude sourcing, an overall better utilization of the asset and the logistics space of the Group.

Moving on to Page 11, talking about the credit facilities of the Group and the balance sheet financing. As you can see, we have reported a lower gross debt in 2016 as a result of repaying and reducing our gross debt. We are still carry a significant amount of cash as a result of risk management and the peculiar and sort of particular circumstances in the Greek market and the Greek banking system. However, this is gradually being addressed as we see first of all our operations and cash flow has been normalized and the banking environment and the market being a little bit more conducive for new transactions. As you can see, the result of this year's transaction has been quite positive; the maturity profile of the Group is improved compared to last year. And we expect that over the next few quarters, we will have the opportunity of improving this even further.

Moving on to the individual business units, on Page 13 we have our main driver of performance in the system which is domestic refining, supply and trading. The performance of this unit has been stellar, if I may say, in terms of making the maximum possible utilization from the three refineries, of course, taking into consideration the scheduled shut downs that we had. The selection of crudes and of course, the yield structure of those crudes was also a key priority leading to only a very small drop compared to last year when we would be expecting to hear significantly bigger drop as a result of the refining margin environment.

On Page 14, you can see the production profile by quarter for the last couple of years, a production of over 4 million tons, record production that is from the three refineries, which is consistent with our capacity and ability to utilize the refining assets. I will not go through the detailed pie charts at the bottom of the page with feed crude, I think we have only one point to note here which is the… if you will, expansion of the crude suppliers envelope and the utilization and taking advantage of pricing structure opportunities in the Med market for crudes.

Moving on to Page 15, in terms of sales, we have the breakdown of our three main channels of sale. In the domestic market, the Aviation and Bunkering which is quasi-domestic, delivery takes place in Greece at the port or an airport, but it's not directly linked to the Greek domestic market. And of course, exports which are just under 2 million tons for the fourth quarter.

On Page 16, you can see the performance on a quarterly basis, using as a benchmark the ELPE system refining benchmark, which is effectively the average… with a with a weighted average refining margin that one would expect from our configuration. As you can see in 4Q, '16, we still report a very sizable over-performance compared to the benchmark which is a result, first of all, of the commercial premia on our sales, savings on the crude input and over-performance for every barrel that we refine. And usually this comes in that order, so it's the… so the premia, sales premia, purchasing discount and over-performance from the operations.

Page 17, has petrochemicals performance which is again very good, we've reported €100 million of adjusted EBITDA and very strong cash flows given that the CAPEX margin on this business is relatively low.

And then we move on to Page 19, where we show the performance of the domestic marketing unit. The full year number is flat year-on-year, but 4Q shows a significant improvement compared to 4Q 2015. This is clearly partly led by a very strong heating gasoil season in 2016 compared to 2015, which is weather-driven and has allowed the Company to recover some of the fixed costs that we have in the heating gasoil business.

International marketing on Page 20, a small reduction from our business units outside Greece, this is mainly a result of two markets Bulgaria and Serbia which have dragged profitability of our international marketing down.

Moving on to power and gas on Page 22, we have the power generation business which is not fully consolidated, it is treated as an associate, and we have a significant improvement compared to last year coming from our business in Elpedison; our share in Elpedison's business. Performance has been driven, first of all by lower nat gas prices which allowed more of a nat gas participation in the power mix of the country, and of course, the resolution of the deadlock on the capacity and flexibility remuneration mechanism that we experienced in 2015.

That brings us to the natural gas business, where we also report a better performance. As you can see, full year volumes is up by 30%, and this is mainly driven by the power generation business, considering the comment that I made just a minute ago, plus the roll out of natural gas as a heating fuel in more consumers, in more households.

That brings us to the end of the discussion on the business performance of the Group. The remaining pages have the financial performance, and I do not plan to bore you with all these pages and numbers. And at this point in time, we have completed the description of 4Q and 2016 performance.

Q&A

OPERATOR**:** The first question comes from line of Kukhtanych, Yuriy with Berenberg Bank. Please go ahead.

KUKHTANYCH Y: Hi and good afternoon, gentlemen and thank you very much for the presentation. I have three questions to you, all financial. The first question is, if you could shed some light, what is the balance of the Iranian liability as of 2016? Second question is, why did you decide to repay €265 million of remaining bond which is expiring in May 2017, rather than refinance I guess, and what are the balances of balance sheet optimization measures as of end 2016? And I mean factoring and outsourcing of inventories. Thank you very much.

SHIAMISHIS A: Hello Yuri, Thank you very much for attending the call and the questions. First of all, the balance of the NIOC payable, unfortunately it is not disclosable because we have a non-disclosure agreement with NIOC. If you go through the accounts, I think, it's fairly easy to sort of see the key numbers, but unfortunately we are not at liberty to disclose that. What I could say however is that we have moved a long way in reducing this balance in line with the agreement that we reached with NIOC earlier this year, and this is actually being implemented as well. The second point is…

STERGIOULIS G: If I may add; sorry this is Gregory Stergioulis. If I may add, of course, there is a kind of speculation regarding the agreement with the NIOC. We assure you there is nothing like this. The prices we buy is the published prices and the debt is being paid according to the agreement. We have read some speculation in newspapers and news, and I think that there is nothing like that happening. Andrea...

SHIAMISHIS A: Thank you, Gregory. On the repayment of the 2017 bond, well it's… refinancing a debt is not necessarily matched 1-1, unless you are actually going for a tender processing and a new issuance at the same time which is what we did earlier...sorry in 2016, where we issued a new €375 million bond and we tendered about €220 million… €225 million of the 2017 bond.

The 265 as things stand will be repaid, and we are exploring opportunities to improve either the maturity, the terms of the cost or the cost of our funding. As we speak, we believe that repaying this bond is one of the certain things that we will be doing over the next few months, and, of course, if the opportunity arises to raise additional debt to repay other loans which are more expensive or carry more onerous terms, we will do so.

On the balance sheet optimization question, which I think was the last one, the amount of stocks which are held under the compulsory stock obligation structure is roughly about €100 million, and it's there in order to maintain this structure alive. As you can understand, with the current price levels it is...the working capital financing is totally different to what it used to be a few years ago.

In terms of factoring as we disclosed on the balance sheet, we don't have significant amounts which are sort of financed under factoring.

KUKHTANYCH Y**:** Sorry, did I understand correctly, that you don't have significant factoring position as of on 2016?

SHIAMISHIS A: Yes, compared to the total accounts receivable, we have on the balance sheet, the amount which is under factoring is not material.

KUKHTANYCH Y: So the €200 million is the final number, correct, the €200 million which was factored out as of end of third quarter is not back on the balance sheet?

SHIAMISHIS A: I'm not sure which €200 million you are referring to, so maybe we can take it offline, because I'm not sure that I understand which €200 million you referred to.

KUKHTANYCH Y: So… Yes, I just remember that, as of end of the third quarter, the factored amount was somewhere around €200 million.

SHIAMISHIS A: I don't think we have disclosed a factoring number in the third quarter, but as I said, if you want we can take this offline.

KUKHTANYCH Y: Okay, gentlemen, thank you very much. And just very brief question, if I may, technical question on publishing your financials. Could you please let me know why you are not publishing full reporting immediately after the presentation and the shorts reports?

STERGIOULIS G: Sorry, when you say you don't publish… We do publish…

KUKHTANYCH Y: Full financial report.

STERGIOULIS G: It is going to be uploaded, well full financial results will be uploaded in line with Athens Stock Exchange requirements, if not by the end of today, you will be able to access them tomorrow morning.

KUKHTANYCH Y: Okay, so okay. Thank you very much then. Thank you.

STERGIOULIS G: Okay.

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

PATRICOT H: Yes, hello. Well, thank you for the presentation. Two questions from me, the first one on your operation starting with 2017. I think you mentioned that you expect the production to be relatively flat year-on-year in your refining business; I take it there is no major maintenance this year? And then, second one on the dividend, I was just wondering if you can give us an idea of how you decide, to set the level of the dividend…you have a payout ratio in mind or that depending on the cash flow and then dedication, some guidance on when we try to see where the dividend could go in the next few year? Thank you.

PSICHOGIOS I: So good afternoon from my side, I am Giannis Psichogios, if I understood well your first question was about operations and you asked we have scheduled any major maintenance for the year to come. And the answer is no, we have not any major maintenance in our plans. We have some minor activities in maintenance, which are not so important. I'm not sure that this was your question?

PATRICOT H: Yes it was. Thank you.

PSICHOGIOS I: Okay.

SHIAMISHIS A: Okay, okay. Now, on the second part of the question dividends, as you know, over the last couple of years, we have scaled back our dividend payment in order to support the deleverage target and the… if you will, the risk management of the balance sheet. With the last couple of year's performance and the improvement of the environment, we feel more comfortable to reengage in distribution of all dividends. As a first step, the €0.20 per share is providing a very reasonable dividend yield on the Stock Exchange price. And I think that the Board has acknowledged that a further strategic decision on dividend payout will be forthcoming. So if you take that as a first step and let us hope that we have a similar pleasant problem in 2017, in terms of how much we will be distributing.

STERGIOULIS G: If may add to this, remember last year, this period last year, we announced that year 2016 will be a stabilization period regarding our economics. It's exactly what we are planning to do and what we did. From this point of view the Board of Directors decided today to propose to the AGM a conservative dividend policy and if this year we are going extremely well as we did last year, we are then going to reexamine our policy. Thank you.

PATRICOT H: Okay. Thank you.

OPERATOR: The next question comes from Grigoriou George with Pantelakis Securities.

GRIGORIOU G: Yes, hello, two questions, if I may, one going back to the refinery shutdowns drop down for 2017. I was under the impression that Elefsina was going to… was in a planned maintenance for about 20 days in the second quarter of 2017? And, my second question is regarding the difference between reported and adjusted EBITDA results for the marketing operations, what's… what does the different imply to? Thank you.

STERGIOULIS G: So about the Elefsina refinery maintenance, what we have in mind is that we are ready and we are… our plan is to extend our run further let's say down the year or maybe to extend to the next, to 2018, but always we are ready to do it if it's necessary. For the time being, what we have in mind is that this will be not necessary according to the indication we have at the moment.

SHIAMISHIS A: Okay, on the second part of the question, George, the difference between reported EBITDA and clean EBITDA on the marketing business is roughly about €7 million and this has to do with one-off items and provisions that we have taken on our reported EBITDA, but they are not reflective of the business. So it's been the prior year items unfortunately with IFRS, they are, you sort of show them in the current year.

STERGIOULIS G: If I may, just have two follow-up questions. And is your decision regarding Elefsina to postpone it perhaps to next year, does it have to do with the curve level of margins? I mean, well let me say, if they were weaker, would you go ahead with the maintenance, and sorry, Andreas just a follow-up as well on the marketing. Is there any way you would actually disclose what the level of… or do you like have provisions increased in 2016 in the marketing business versus 2015 because of the economy and the state of the market or not? Thank you.

STERGIOULIS G: Okay regarding… regarding our Elefsis, this is Gregory Stergioulis again; regarding our Elefsis refinery turnaround, possible turnaround, do bear in mind that the heart of this refinery is the flexicoking unit, the flexicoking unit up to now has been running for almost two years uninterrupted with no indication of blocking or need of any kind of maintenance. And as Mr. Psichogios just explained, statistic-wise we expected the unit to need a turnaround for cleanup and de-blocking around three years from operation. This is the standard… the international standards of maintenance period. Up to now I repeat, we have no indication of such a need, this is why we re-plan, we are ready, but we re-planned our maintenance period till next year, it has nothing to do with margins, it has nothing to do with economics at this very moment, it's only process-wise need for possible maintenance and we expect to exceed the world average by going into almost three years of continuous operation. Andreas…

SHIAMISHIS A: Okay on the marketing question, first of all, the provision for bad debt, which is a very valid comment and question, I'm pleased to confirm that the provisions taken in 2016 for bad and doubtful accounts are actually 30% lower than what they were in 2015, and even lower than what they in 2014. So even though the situation in the Greek market is still quite challenging, our level of provisioning has come down as an absolute number and as a percentage of our net sales. I mean, it's an absolute number you would expect, that given the prices are lower, but it's down as a percentage of our net sales.

The bad side about it is that with the increase in taxes, our retail businesses are actually taking even bigger exposure to their customers, because 50% to 60% of the exposure is actually taxes, if not higher. So good news on the bad debt provision. On the other provisions that I mentioned, unfortunately I have to be a little bit more technical here, and apologies for that from the beginning, about 60% of the one-off items relate to legal and customs cases provisions, which go back about anything between 10 and 20 years.

Unfortunately, Greece has a very peculiar legal framework with respect to customs taxes evasion. When a retail company such as ECO sells to a customer, we deliver at the gate of the installation or to the customer. If our customer actually is caught not paying their duties or doing funny things with the products; even though they are totally independent from us, we have no control over what they do in the supply chain, we are held co-responsible.

Unfortunately, in the last year or so we have had final rulings from the Council of State, "Symvoulio tis Epikrateias" where we lost not only us, but I think most of the other retail companies, and maybe Giannis Psichogios who use to Head the Retail Company can recall if all of the retail companies were involved, we lost the ruling whereby actually we were forced to pay for the fines and the taxes of our customers.

So as part of our conservative approach, we have provided financially for these cases. And of course, we will take the all the necessary legal actions in order to, if you will overturn or establish a better and more fair legal framework in that respect. So it's a tough one for us to accept, but unfortunately, we did take the provisions.

GRIGORIOU G: Okay. Thank you.

OPERATOR: The next question comes from the line of Khaziev Ildar with HSBC. Please go ahead.

KHAZIEV I: Hello, thank you. I have a question about refining margins. It looks like part of this recent strength in the margin has been driven by very strong fuel oil cracks, rather resilient fuel oil cracks. What do you think has been driving this and how sustainable this could be in your view? Thank you.

PSYCHOGIOS I: Yes, the last months, maybe three or five months, we have a very strong fuel cracks which are not so strong the last days. So the minimization of fuel oil production to the refineries of the area because of the investments that they have been made the last year, they have reduced the fuel oil production. And this is one reason that fuel oil balance is…production is lower. So the demand is, I mean, it is higher compared to the production. The other problems also is what happened in the Russian refineries, where because of the tax changes in the way the tax is applied there, they have reduced the fuel oil production. And this is another reason that the fuel oil available in the area is lower. But last few days or few weeks, the fuel oil cracks have been much lower. And today, the hydro-skimming margins are again in the areas of $1 to $1.5 per barrel, which is something that it is more… its normal, that's and what we expect to happen for the next period.

KHAZIEV I: Thank you.

STERGIOULIS G: Let me add to this, that if you look at the area, we have two refineries with problems, and this created fuel oil shortage on top of what Mr. Psychogios just explained, and this is recovering. So we expect everything back to normal if these cracks are called normal? Thank you.

KHAZIEV I: Thank you very much.

OPERATOR: We have a follow-up question from the line of Kukhtanych Yuri with Berenberg Bank. Please go ahead.

KUKHTANYCH Y: Yes, gentlemen, one more question from my side. Following the OPEC decision, could you please comment whether you have seen worsening market for feedstock purchases, whether the discounts has contracted already and what is the general feelings for the next three to six months? Thank you.

STERGIOULIS G: Thank you, Yuri, it's a very nice question. As Mr. Psichogios explained, previous Mr. Shiamishis also, we have heavily extended our feedstock origin. We have been having agreements with five major oil, state-owned oil companies in the past year, and at the moment we are in a pleasant situation to have more degrees of freedom that we can absorb, therefore we do not see any shortage of crude oil in the area. We do not see any major impact on our feedstock supply, and we hope this prediction will become true.

KUKHTANYCH Y: Okay. Thank you very much.

OPERATOR: Excuse me, gentleman. There were no more questions registered at this time. You may now proceed with your closing statements.

STERGIOULIS G: Ladies and gentlemen, thank you for your attention, and thank you for your kind cooperation, of this share of information, the ideas and things that we wanted to communicate with you. It has been our best year on history on record, but records are here to be exceeded. We hope that you will communicate all these things we discussed today to your audience, you are the open door to the society and we really appreciate it. And we hope that within the next year and by the end of the year We will have more and better results and news for our shareholders and the area. Thank you so much for your attention. Have a nice evening.