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"Full Year 2014 Financial Results" Conference Call

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Conductors:

Mr. John Costopoulos, CEO,
Mr. Andreas Shiamishis, Deputy CEO & CFO,
Mr. George Alexopoulos, General Manager Strategic Planning & Development and
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 2014 Financial Results Conference Call.

At this time, I would like to turn the conference over to Mr. John Costopoulos, CEO, Mr. Andreas Shiamishis, Deputy CEO & CFO, Mr. George Alexopoulos, General Manager Strategic Planning & Development and Mr. Vasilis Tsaitas, Investor Relations Officer.

Mr. Costopoulos, please go ahead.

COSTOPOULOS J: Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us for the presentation of the Fourth Quarter 2014 Results. I will proceed by as usual giving you the key highlights and then passing on for the bulk of the presentation to Andreas Shiamishis, our Deputy Chief Executive and CFO of the Group.

Let me start by saying that, you know, clearly as you have seen from our presentation, our fourth quarter results on an operating level were strong. Actually in this quarter, this fourth quarter is the strongest ever in terms of adjusted results for the Hellenic Petroleum Group. Adjusted EBITDA for the Group came in at €171 million, in comparison to the €45 million that we had reported on an adjusted EBITDA basis the year before in fourth quarter 2013. And our adjusted net income came in at €53 million versus a €35 million loss in the equivalent period last year.

It's important also to note here that we actually have seen better results across all our business units, refining, domestic retail, international retail, petrochemicals, we've seen really good results across the board with all kind of cylinders firing in our engine which is very good. Of course, clearly the major contribution as expected came in from our refining operations where at this last quarter of 2014, we saw a historically high production by refineries. We were able to operate all our refineries to maximum utilization.

As you recall, our Elefsis refinery at the beginning of last year actually in the second quarter was stopped for a few weeks for some debottlenecking work, which enabled us then after that to increase mechanical availability and the utilization of all the key conversion units of our refinery to well above the 100% nameplate capacity.

Aspropyrgos also this year operated at maximum utilization actually we are very pleased with our performance in our Aspropyrgos refinery which has been able to run for three and a half years without a planned major shutdown turnaround, when other refineries of its complexity usually shut down every couple of years. And of course, our Thessaloniki refinery which as we have explained in previous presentations, works very synergistically as part of a broader refining system, providing feedstock for our conversion units in the south and our two refineries of the south and also they are receiving naphtha from the south to convert into gasoline through its reformer units enjoying therefore the healthy naphtha gasoline spread.

So overall, you know, we were able to achieve 4 million metric tons of production. We fully exploited the much improved refining economics in this quarter. And our exports reached 2 million tons, which is a record high, and in the fourth quarter our exports accounted for 50% of our total sales, so 50% of our sales is now non-Greek related.

On the cost side, because of increased utilization, but also the good results from our competitiveness improvement projects, which we have spoken about many times in the past, the fixed operating cost came in 30% lower per barrel versus last year. And our overall transformation projects contributed €24 million of cash benefits in the fourth quarter of 2014 bringing the total for the year to €89 million cash benefits coming in from transformation projects and initiatives. And of course, looking forward, we expect more to come in 2016 and 2017.

On the cash flow fronts, our controllable cash flow significantly improved quarter-on-quarter a) obviously because of our improved results and operating cash flow because of released working capital and also because of the normalized CAPEX in 2014. I'll remind you that in 2014 our CAPEX came in at around €130 something million which included the work done in Elefsis, as well as some expansion of our Company-owned and managed network in Greece, some minor expansions in our foreign subsidiaries and of course a stay-in business CAPEX. So clearly you know that normalized CAPEX helps a lot our cash flow.

HSE, as we've said in the past is a top priority, safety is our key KPI in our organization and all our HSE indices have improved year-on-year. We now rank amongst best in terms of KPIs in HSE across major European refiners.

Coming back to our balance sheet, we closed the year with a stronger balance sheet. We've seen improved financing terms as a result of the two bond issues in 2014 and the re-negotiation of our terms for our term loans and our bilateral financing agreements with our banks. And hence, I think we will see financing cost benefits flowing through in 2015. So despite the, you know, challenging environment, you know, our balance sheet both in terms of you know tenure, in terms of diversification, i.e. Eurobonds versus kind of bank loans and so on and so forth looks much stronger than it did at the end of 2013.

As I am sure you have read on our Extraordinary Shareholders Meeting on the 15th of December, we approved a distribution of 0.21 per share which comes out of the Greek Law 4172 reserves. And we feel that clearly the improved operations and the improved results that we have seen in the second half of 2014 and we are still witnessing as we are progressing in the first quarter 2015, really supports this decision. Andreas.

SHIAMISHIS A: Thank you very much, John. Moving on to Page 3, effectively we have the summary of our performance for the quarter and the full year. As John mentioned, it is the best fourth quarter reported by the Group, not the best quarter overall, but still it's the best quarter with an adjusted EBITDA of about €171 million, with a positive performance coming from all units, and clearly the main driver of this improvement coming from our Refining, Supply and Trading business.

In terms of adjusted net income, we see the impact of depreciation and slightly lower financing costs, bringing our adjusted net income to just over €50 million for the quarter. Clearly, the reported numbers which includes the impact of prices is a big negative number, which is to be expected given our stock obligations…our compulsory stock obligations and it's something which is gradually being reversed as crude oil prices start picking up since mid-January 2015.

Now, moving on to the environment in which we operated for the last quarter and ended for the year. On Page 5, you see the crude oil prices and some comments about the crude oil market. We've seen a dramatic fall from the highs of a $110 per bbl almost in the second quarter of 2014 to just under $50 per bbl in the first ten to twelve days of January, which is used for the valuation of our inventory. Clearly the impact there is quite material given that we have a substantial amount of stocks. And as we have seen in the past, this has been partly mitigated by the inverse relation between crude oil prices and the dollar which has strengthened for a number of reasons, not only because of the crude oil correlation, but has somewhat mitigated the inventory impact on our performance.

On the different types of crude, we have seen a much tighter Brent/WTI spread which is clearly a factor affecting the European refining performance overall. As we have commented in previous sessions and previous quarterly results, the big difference between Brent and WTI was one of the reasons why European Refineries suffered over the last 18 to 24 months.

Now, as we see a slightly different situation coming into play, the arbitrage between the two main markets has closed for most of the fourth quarter. Likewise, the Russian exports have been reduced into the Med. And as you will see later on, during the fourth quarter, we opted to source and feed our refineries with a much lower percentage of Urals compared to a year ago.

Moving on to Page 6, the margin environment has been significantly different in the second half of the year compared to the first half. Both complex refineries have enjoyed healthier margins round about 5, 5.5 for Elefsina and 5…4.9 for Aspropyrgos. That's not the only part of the equation which has affected us. We also have the Thessaloniki Refinery which also performed very well, not only because of the standalone margins of the refinery, but mostly because of the ability to run the three refineries as a system which is what John described earlier having the Naphtha coming from Elefsina into Thessaloniki and being converted into gasoline and the fuel oil…the straight-run fuel oil from Thessaloniki being fed into our oversized conversion units in the south.

Page 7 describes an even better picture which is the Greek domestic demand. Unfortunately, over the last few years, we have been reporting a continuous decline. As you can see, it's an over 40% decline since 2009. And in the last few quarters, we have been able to see some reversion in…some reversal of this trend. 2014 closed 1% up versus 2013. And you can see in this small shaded box on the upper hand of…on the right hand side of the page, how the market performed throughout the four quarters. So fourth quarter has performed significantly better than last year, driven mainly by heating gasoil demand pickup.

Now, moving into the results, we have shown on Page 9 and Page 10 the various differentiating factors between 2014 and 2013, covering the quarterly performance and the full year performance. So on Page 9, you can see what we call environment, being the benchmark margins, being the foreign exchange and supply conditions and performance which is effectively the full utilization of Elefsina and the other refineries. Performance improvement in terms of yields, costs, energy costs et cetera and increased sales volume.

The good news here is that out of the 130 million of 126 million of improvement in the fourth quarter, about half of it comes from our own doing, which is the Elefsina, the performance improvements in the sales volume and half of it comes from a much better environment. So our aim is to try and maintain what we can do, what we can manage, which is the performance part, subject of course, to the prevailing price environment. And hope that benchmark margins will remain at healthier levels as we have seen in the last six to eight months.

And that is the same for the full year performance which takes us from 178 million to 417 million. Again, we are effectively showing the addition of two different half years, the first one it's relatively weak first half with lower margins and issues with the performance of Elefsina. The second one is a period, a six months period with much healthier margins, full utilization of the refineries and a much better performance in terms of sales volumes.

Clearly, we remain focused on improving our own performance in terms of key metrics and 2014 has not been an exception. We have been able to add to our cash benefits…annual cash benefits around €90 million of incremental savings or additional margin. We have shown here on this page some of the key projects which have helped us to deliver this benefit grouped in the four main transformation areas that we have described in previous quarterly calls.

Moving on to Page 12, CAPEX effectively has reverted to a much more normal run rate compared to what we have seen in the last few years, which related to the investment for the Elefsina and Thessaloniki Refineries mainly. We have an estimated normal run rate ranging between €110 million to €130 million of CAPEX. That includes the turnaround projects which are…the scheduled turnaround projects that we have for each of the refineries.

In 2014, we had the shutdown; in the second quarter, in 2015 we are planning for the Aspropyrgos turnaround most likely in the second quarter of the year. And of course, we have what we call stay-in business CAPEX, plus some small debottlenecking, value enhancing or growth projects, such as new petrol stations in our retail networks.

In terms of cash flow, at the end of the day, we have started seeing some free cash flow coming from our operations. In the last couple of quarters, we saw what the system can…the Hellenic Petroleum System can generate in terms of cash flow. Clearly, it's a big…it's a step change for the Group. We have about €120 million of what we call free cash performed variations which is effectively translating to the clean EBITDA less our CAPEX. And that means that we can generate about €400 million to €500 million of cash in a year.

In 2014, we also see a material swing in our working capital which is driven mainly by the conditions in the market. As you can see, most of it unfortunately is not a release and conversion into cash because it relates to the reduction of value of current stocks as a result of the big decline…the big drop in crude oil prices. We do have some true benefits coming in terms of reduced CSO holding because of lower volume in the domestic market last year. As you may recall, there is a time lag of about a year in the definition of the setting of the level of compulsory stock obligations, as well as being able to negotiate better credit terms with our suppliers and be able to extend the benefit of having this negative working capital.

Now, our business model has effectively changed in the last couple of years, and we are now able to confirm that the policy that we opted for in terms of our working capital management is giving us an advantage with respect to growing our business given that we have a 50:50 share between domestic and international markets.

Our stock obligations are affected by our domestic markets sales and that's 90 days of compulsory stock obligations, given that we have 50% of our sales in the domestic market that translates roughly to about 45 days of stock. If you take our overall sales, we have anything between 20 and 40 days from our suppliers and we sell with an average credit term of about 15 to 20 days in the domestic market and anything between zero and 10 days in the exports market. So what we are seeing here is that the more business we process through our system, with the current credit policy at least, the more negative capital…working capital we generate. So there is an advantage in terms of growing our business the way that we've set it up.

If we move onto Page 14, where we have the capital structure, you see that over the last couple of years, we have opted to maintain a relatively high cash balance throughout the year. And this is if you like a result of the Group's decision to be very careful in managing liquidity risk compared to funding cost. Clearly, we need to reduce the funding cost, but given the volatility that we have experienced over the last few years and the situation that sort of sustains with respect to Greece and the economic situation and the stability part, we believe that accepting a small delay in reducing the funding cost is well justified by making sure that the Company is fully ring fenced in terms of liquidity management and being able to sustain uninterrupted operations no matter what.

Our 2014 funding plan has been successful in changing, in redefining the mix of our debt sources. And in fact, since the end of the year, we also signed a committed facility for three years for €200 million. So we are converting uncommitted facilities into committed facilities. And you can see in terms of maturity profile, the profile has become a lot more even going out into the next four, five years and gives us the ability to improve even further on the back of our cash flow generation.

If we move now to the individual business units, the most important and the one which has reported the biggest improvement is clearly the domestic Refining Supply and Trading business. I would put the emphasis on the domestic refining because it’s mostly benchmark driven and mechanical availability driven in terms of improvement. Out of the €110 million, I believe that more than 70% to 80% has come as a result of better margins and better mechanical availability and utilization of the refineries rather than commercial policy.

And you can see on the following page the Elefsina refinery mechanical availability and the performance improvements that we have experienced since the second quarter, debottlenecking works that took place. So we’ve been running the refinery at above its nominal capacity in terms of design rates, which is very good news. And what’s more, we have been able to, as you will see in a minute, to sustain a reasonable over performance compared to the benchmarks.

In terms of additional flexibility with respect to our feed and the crude slate, you can see on Page 18 that we have slightly changed our feed in terms of crude slate, particularly in the fourth quarter of 2014, Urals participation in the crude diet is a figure low, and it's below 30%. And that gives us a big advantage not only in terms of operational capability, being able to switch around different crudes, for example reacting to issues of the Bosporus Straits where we saw bad weather creating a lot of delays for ships coming into the Med. But it also gives us the opportunity to take advantage of optimization on the basis of economics as well, net backs for each different type of crude and being able to squeeze the extra cent from our units.

With the positive refining environment, we had full utilization of our refineries with respect to being able to maximize the net back from our system. The €4 million of gross production is clearly the addition of each refinery. In between them there is clearly a transfer of products in terms of intermediaries, but we optimized both on a standalone and on a system basis the performance of the refineries. The increase in demand has partly got…the increase in supply in our production has partly gone into the domestic market, mainly on heating gasoil increase and mostly in the exports market, which effectively is our channel of sale for the incremental production.

You can see on Page 20, how the new refinery configuration and particularly Elefsina has transformed the business model. Compared to what used to be roughly a 20% export business for the Group a few years ago, we are now close to 50:50 and that gives us a number of benefits, not only the risk profile of the Group, but the economics of our business, and of course, what I mentioned as a beneficial working capital model a few pages ago.

Finally, with respect to the performance of the refineries, not only we have been able to perform at very high utilization levels, but we have also been able to sustain a reasonable over performance over the benchmarks, which has been maintained for a few quarters in a row now. So it's not something which was there, it's not a spike if you like. We've been able to maintain over $5.5 per barrel at normal operations, which is clearly transforming the refineries in terms of value and contribution to the Group.

Very close to the refineries and to the petroleum products value chain; we have petrochemicals which we chose to report as a different section for management purposes, for internal management purposes. The petrochemical section reported the highest ever EBITDA of just over €80 million for the year. Now, this is driven mainly from the propylene polypropylene value chain, so in effect it is part of the refining margins and the refining operations business unit. Most of the products are actually exported into markets like Italy, Turkey and Iberia. And it has been a very valuable contributor in terms of cash flow, given that the CAPEX requirements for this business and the working capital requirements for the business are not material.

Moving further down the value chain, we go onto marketing where again we have a positive performance for the year.

With respect to the domestic market, you can see that we've almost come back to our starting position back in 2010 pre-crisis which was the year when we consolidated the BP network into the Group. We are shy of the high number there of €43 million in 2010. And I have to stress that this is done with a much different business model than 2010. First of all, it's done with a market which is 40% down versus 2010 and with marketing margins which are almost at 50% of what they used to be. So most of this value has been generated by really reorganizing the way we go to the market through our retail business units. You can appreciate that the potential for growth in a growing market will be significantly higher in the coming years.

With respect to our international marketing businesses, again we have a record performance of €51 million for the year. And it has been a good year for all of our markets, despite the challenges that we face in each one. And this is again down to operational excellence, where we can control our business and optimizing the supply chain model for each of the market. As you can appreciate our business is as much a logistics and supply chain management business as it is an asset business for ground fuels.

Moving onto Power and Gas; with respect to power generation, our Elpedison associate has reported reduction in its contribution to the Group that is a result of what is still an inefficient framework for power generation in Greece. We have seen a reduction in energy produced by the nat gas-fired plants, and an increase in inputs coming into the system. Clearly, that is something which is not sustainable longer term. But unfortunately, we are...the performance of the business is driven by the framework for the energy market.

Moving onto 2015, the drop in nat gas prices which has a six months time, like with respect to crude oil prices mainly and fuel oil, is expected to lead to some sort of an improvement. But still as I mentioned, the framework is something which needs to be worked on.

A direct result of this framework changes with respect to power generation is also seen with respect to the DEPA results. One of the main off-takers for natural gas, the gas-fired plants and the fact that there was less energy produced by those plants, means that, we have lower sales of natural gas coming through DEPA, and of course, lower volumes being managed and handled by the DESFA system.

Now, in terms of 2014, I would turn over to John to summarize the year and give out some views for 2015. John?

COSTOPOULOS J: Okay. Thanks Andreas. Okay, I mean just basically, you know, wrapping up and with the danger of repeating myself. Just saying that, you know, our adjusted results in the fourth quarter are, you know, show really a major step change versus the past. As Andreas said, you know, driven primarily by our new Elefsis refinery, which is delivering in line with the vision, you know, with the plan and realizing all the strategic competitiveness improvement platforms that we've kind of launched across the Group. Of course, we were substantially aided by a much improved and positive refining environment during the second half of 2014. And, you know we hope it lasts for as long as possible.

If we look at the total year; our fiscal year adjusted EBITDA now comes in at €417 million, well ahead of the €178 million, that we reported as adjusted EBITDA last year and a positive net income. And as I said, you know, this comes through improved contributions across all our businesses; improve margins in our Hellenic Petroleum refining system. And as Andreas pointed out in his presentation, you know, the important thing to note here is, that we are continuously and sustainably over delivering by almost $5.5 per barrel of additional realized margin over benchmarks, which I guess supports, you know, and proves if you will, our efforts to optimize the refining system that we are operating.

In domestic marketing, we've seen improved profitability. In 2014, our marketing in Greece…our retail activities in Greece were able to deliver results which are commensurate to the ones that we had or an EBITDA level in 2010. So you know, right when the crisis beginning in Greece. And if one considers that, during those last four years we have seen a 40% volume reduction in domestic market, and we have seen a major erosion of retail margins because of heightened competition.

Then I think, the fact that, you know, we have been able in 2014 to deliver the same EBITDA as in 2010 with those major constraints I just mentioned. Again, go to prove, you know the major operational, you know restructure that has taken place in our domestic retail operation as we have kind of completely turned around the business model and optimized, you know, the logistics supply chain, but also you know, enhanced our marketing and commercial activities to provide more value to our customers and win more loyalty from our consumers as well as, you know, pushing forward a more extensive common network. So we are actually quite pleased to see the results of this…all this internal efforts and bring domestic marketing back into kind of decent profitability.

In international, despite the difficult market conditions across all the markets we were operating Montenegro, Serbia, Bulgaria and Cyprus et cetera. Again, our subsidiaries in all those markets were able to deliver very decent results ahead of last year of '13. And, of course, PetChems as Andreas said earlier on had a record year of the back of the integrated value chain that we have between our Aspropyrgos-based splitter that produces propylene which is then shipped up to Thessaloniki and converted into polypropylene at our Thessaloniki plant, some of which is then further down converted into BOPP in our Komotini plant.

And again, it's a very international business about 65% of our sales in PetChems are exported. So again, you know, further improving the risk profile of our Group. We did speak about reduced fixed OPEX, and that all the transformation products have delivered €89 additional million of cash benefits in 2014, which is in line with the plan we had originally put in place, it's a long-term plan with annual targets.

Now, within kind of this positive operating environment, unfortunately, you know the drastic drop in crude prices in the second half of the year, led to inventory losses of almost €500 million, and hence to negative reported results. And…but on the other hand, had a significant impact on our working capital, you know, releasing working capital. But clearly, you know, our reported results were seriously hit by inventory losses which I guess is in line with all other refineries.

Strong operating cash flows, Andreas mentioned the net cash flow of over a billion, which now gradually will allow us to deleverage our balance sheet. And of course, a stronger balance sheet that we mentioned before.

So all-in-all, good operating results, you know, hit by inventory losses. If we, you know, again look overall at the year, I think the last six months where we have seen a return into more, a more, you know, positive refining environment in terms of benchmark margins yet, you know, brings to the fore the results and cash flow delivery capability of our Group. And if you will…supports if you will the strategic decisions we made to upgrade our refineries to focus on competitiveness enhancement, to focus on export markets, and to focus on retail business model transformation. So I think this is what kind of a last two quarters of '14 bring to bear.

In terms of 2015, if I kind of take a couple of minutes. I'm sure you know that the positive benchmark refining environment is still with us in January and in February. So for us, margins are good and sales volume is positive. Of course, we've also seen a crude oil price recovery, I mean crude price have recovered by 30% versus the, you know, the lows. And therefore, overall we consider we expect a strong first quarter in 2015.

However, you know, volatility does remain with us because of the Greek macros and the high funding costs. So we will continue to face, you know, challenges. And of course, we will continue to kind of focus all our efforts to, you know; manage the risks through prudent risk management, the management of the business and the financial risk. Our operation so far have been normal to-date, we had no issues with our refiners. As you know, we have a planned turnaround for our Aspropyrgos refinery in the second quarter of 2015 and we are planning for that, some of the costs have already been borne in 2014.

Our retail business in Greece continues to perform well as well as our international business. And on the more strategic front, the DESFA transaction clearly is not proceeding as fast as we kind of had projected or planned a year ago. You know, that in terms of on a regulatory approval process, the European Competition Committee decision is pending. I guess they have the next few months to come up with a decision at the end of April, early May.

The good news of course is that Greece, I mean i.e. the privatization fund and us have signed an extension of the periods to allow if you will, you know, SOCAR and the European Competition Committee to come up with the kind of the final verdict on this. And the extension now is taking us to the end of the third quarter. And we remain hopeful.

On E&P because I'm sure you've read a few things about what we are doing, our initiatives are still at a very early stage. We have our joint venture with Petro Celtic and Edison as far as the Patraikos offshore concession is concerned. And we've actually bid for two other onshore lease agreements that have been brought forward by the Greek government. And we will remain focused on exploration activities in Greece. We believe we have some competitive advantage given our 20-year long history of having done exploration and development work across, if I recall correctly, 26 concessions around Greece onshore and offshore. So our people, our geologists, our geophysicists have a lot of experience as far as the Greek geology is concerned. And therefore, we are…you know, we will be focusing on Greece working in JVs with reputable, you know, international players.

So that's it on our side in terms of our presentation. We will continue 2015 to remain focused on delivering sustainable benefits for all our stakeholders, and we are happy to receive your questions now.

Q&A

OPERATOR: The first question comes from the line of Mr. Rethy Robert of Wood & Co. Please go ahead.

RETHY R: Yes, good afternoon gentlemen and congratulations for the results. I am most impressed by the underlying EBITDA you generated. I have four questions for you today, three easy and one slightly more complicated, I guess. First one would be about Elefsina; I am just wondering where will you see the sustainable annual throughput capacity now. I mean I guess it wouldn't be wise to multiple by four the fourth quarter throughput, so I was just wondering what's your view on this one. The second one is on Thessaloniki, and assuming that the external macro is broadly unchanged, where would you see the annual throughput of the Thessaloniki refinery? The third one is on your funding cost; I am just wondering if there has been any shift in your funding cost, I mean the variable part obviously, given the recent domestic developments. And the fourth one is on your balance sheet and working capital and I am slightly troubled to understand the fourth quarter changes in working capital. I fully understand what's going on with inventories and receivables given the crude price, but the payables, there was a substantial increase in your payables and my core question such as payables days, really, really high. So I am just wondering if this is really sustainable. And if it is then also wondering what is the cost of maintaining such high level of payables, because clearly, the suppliers are not doing this for free. Thanks very much.

SHIAMISHIS A: Hello, indeed it's four questions. I think we can probably address them relatively easy and straight forward, but I will let you be the judge of that. Now, in terms of Elefsina capacity, clearly Elefsina is…it's a refinery which is designed to operate at a 100 plus percent of its capacity. The complexity factor supports full conversion. The question mark is whether the topping margin is such that supports the full utilization of the CDU whether we should be fitting in intermediaries into the system, but there is no question in terms of conversion units it should be operated at 100 plus percent.

Fourth quarter was I think representative of what we should expect to see from Elefsina subject to any scheduled shutdowns. We don't have anything for 2015 scheduled. So I think you should be expecting to see a repetition of the fourth quarter for Elefsina, I mean clearly with any deviation subject to unforeseen reasons.

With respect to Thessaloniki, we have been operating the refinery at a very high utilization. I would say anything between 70% and 80% in terms of the nominal capacity. Again, it's a question of how you define utilization between CDU and conversion units. But as we've mentioned a number of times, Thessaloniki has a big advantage of being part of the system, which supports a much bigger utilization than a standalone refinery. At FOB margins we have straight-run fuel oil which is centered in the south refineries. So there is a big benefit for us with respect to the delta of price between straight-run atmospheric residue and cracked fuel oil which is a benefit for the Group. And of course, the Naphtha gasoline crack. So at this environment that we have seen for the last eight months, one should expect Thessaloniki to continue operating at the same rate.

Now, funding costs, you are absolutely right, the remark you made is exactly what we are facing. We have seen in the last couple of quarters, what I would call a material reduction in terms of the variable funding cost up until October, November

2014, we managed to negotiate a lot loans and we've seen reduction between 2% and 3% on the new agreements.

Clearly, that is not the case with respect to the quoted implicit yields on our bonds, given that that is driven mostly by the Greek environment and the Greek perceived or reality risk. However, it's not part of the variable cost anymore. We didn't have to finance anything, any new facilities in the last few months. In fact, we have aimed to fully utilize any undrawn facility, which is seen on the balance sheet, it's a very high cash balance, which unfortunately does not allow us to reduce the interest cost. And I would probably dare say that that is…it is not an immaterial cost, it's tens of millions on an annual basis, but as I said, it's a Group decision. It's a strategic decision to maintain flexibility and manage risk compared to accelerating the reduction of interest costs.

Now on the balance sheet and the working capital element, again your comments are very correct. Clearly, the working capital swing that you see in 2014 and that is similar to the fourth quarter versus third quarter variant is driven mainly by unfortunately not a release into cash, but by a reduction of value. So we have 15 million to 17 million barrels of stock. It's broadly the same level of stock throughout the year, subject to seasonality and different product categories and the $50 per barrel drop in price has led to a very material reduction in working capital which as I mentioned, we have not seen coming for our cash through our bank account. Now, to the extent that prices go up again, then we would expect to see that number being added into that working capital, and of course, to the reported results. It's an accounting entry between the two.

As I tried to explain, the credit terms that we have applied to our export business have allowed us to generate some benefits…some cash benefits with the increase volume. In the fourth quarter we have sold something like half a million tons more compared to the third quarter, that simply by taking into account the day that we… the DPO with the DSO that we have shared with you on Page 13 generating between €100 to a €150 million of benefit in their working capital because you buy the crude, you have it as a creditor, but you don't have the receivable, you effectively sell and collect.

Now, the payment terms, we have been able to negotiate extensions, they come either at a cost which is taken into account when we assess the decision or by the utilization of our stronger balance sheet. In the last couple of quarters, I can safely say that we have enjoyed a much more open relationshipth our key suppliers, with traders primarily who have been increasing the amount of open credit, that they are prepared to extend to Hellenic Petroleum. You're right in saying that, there is no free lunch, but it's something that we assess and we take into account when we do our numbers. Now, whether this is sustainable or not, I will probably not claim that it is sustainable 100%, but it is clearly something that we will be prepared to try and optimize in subsequent periods as well. Thank you.

RETHY R: Alright. Thank you very much.

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

PATRICOT H: Yes, good afternoon everyone. A couple of questions from me, the first one, just wondering whether if you could give us some idea why you think there is still more cost improvements that you can make for the good progress you have done in 2014. And the second one, just on the turnaround at Aspropyrgos in Q2. I was wondering, if you could give us a better idea on how long it will take and what would be the financial impact of that maintenance? Thank you.

SHIAMISHIS A: Okay, thank you very much. On the cost improvements, I think we would probably not be…we would not be trying to claim that we can repeat the performance of the last few years. We have generated a significant amount of benefit in the last few years. Now, moving on as we say on Page 11, we expect that we have about €50 to €70 million of additional upsides coming up in the next 12 to 24 months. A big part of that I have to say is directly linked to the margin environment and to energy costs. In 2014, the Group decided to expand the flexibility in terms of energy provision for the refineries. We have helped out the refineries with the capacity to use nat gas as source of energy, as well as fuel oil, naphtha or LPG.

Unfortunately, the price environment is such, which does not allow us to take the full advantage of that. But I have no doubt in my mind that in due course we will be able to capitalize on this flexibility. For example, if prices remain as they are then we would expect natural gas prices to gradually become more competitive compared to the alternative fuels that we are using in the refinery. So some additional benefit in terms of energy efficiency will be coming through this project.

For the turnaround of Aspropyrgos in 2015, we have set ourselves up. In terms of duration, it's a major turnaround, so end-to-end it should last anything between five and six weeks. Clearly, not all of the refinery units will be done for that period of time. It's a staged shutdown, which is driven by the utilities which are common for units, and of course, the intermediary stocks. The impact is clearly driven by the opportunity costs, which is the refining margin during that period. We will try and minimize that. I would expect this one to be clearly above €10 million to €15 million in terms of the minimum. If we are lucky and we see the same refining margins, we would be expecting to see an opportunity cost of around €20 million to €30 million. But as I said, I sincerely hope that we are lucky and lose that money in terms of opportunity cost because we would be continuing to see a very healthy margin environment.

In terms of CAPEX, a lot of the CAPEX has already taken in place in 2014, given that there is a big lead time in terms of preparing for a shutdown. So I would not expect to see a big number, and I would put that in the range of €10 million to €20 million as CAPEX coming into 2015.

PATRICOT H: Okay, very clear. Thank you.

OPERATOR: The next question comes from the line of Mr. Stone Joshua of Barclays. Please go ahead.

STONE J: Hi, good afternoon. I have two questions, please. The first question is, coming back to the large turnaround coming up. Is that, you've given the strength to margins and potentially for that to last longer, is there any scope to start maintenance back slightly or is it very much a stepping stone? And then my second question, you referenced the macro challenges in Greece. Can you talk a little bit of where you see the most risk there is it environment related, such as perhaps in demand or is it operational level or strikes? Or is it maybe some…any risks of government's intervention or policy change? Thank you.

SHIAMISHIS A: Okay, you have given us an easy question and a not so easy question. Well, it's an easy question, but the answer cannot be that easy. On the turnaround, I think we've…as John is saying we have pretty much exhausted the limits for the turnaround. Turnarounds are fairly complex positives with a few hundred, if not more people, being involved and a lot of different technology vendors. If we are lucky and we continue to see very healthy margins, again, this is the price to pay for the shutdown at least we will have the two other refineries operating properly, so we will be happier in that respect. So I don't think we will be able to move it back significantly.

Now, on the Greek macro risks, you can appreciate that it is very difficult for us to sort of run all the different scenario and try and project what could happen. Clearly, domestic demand is an area which can be affected. The impact there is not that severe, given that a lot of our business is outside of Greece. You mentioned strikes, I think, we have done a lot of work over the last few years in terms of our industrial relations and maintaining a reasonable environment…a very good environment I would say in the Group. So it is something that we cannot rate very high as a risk. And I would probably focus my concerns on the issue of the funding of the Greek economy, that is the most tangible and immediate issue which has to do with the stability of the banking system. And of course, the overall credit exposures in the Greek market. In order for us to be able to withstand any issues, as I mentioned, we have adopted a policy in the Group of maintaining a higher than normal cash balance which allow us to continue our business without a lot of interruption at the expense of taking a slightly higher funding costs. And of course, we have put in place a business model, which is equally an international business as much as a Greek business in terms of our refining.

STONE J: Very clear. Thank you.

OPERATOR: The next question comes from Mr. Lofting Matt of Nomura. Please go ahead.

LOFTING M: Yes, thanks for the presentation, gentlemen. One question, if I could, please, just related to the balance sheet and gearing level. It was I think in the past you sort of pointed to the possible sale process around the rest of DEPA is being one of the means by which you could look to sort of accelerate the gearing going forward, perhaps the investment cycle in the refineries over the last few years. I just wondered, if you could comment in terms of whether that is sort of still on the agenda or not from Hellenic's perspective, given the sort of…given the governmental changes and comments over the last few months. And if not, if there is anything else that you'd look at in terms of possible asset disposals or other moving parts in terms of lowering gearing on a more accelerated basis or whether you've sort of moved to a more gradual approach sort of focused more on free cash flow generation particularly with margins better for the moment? Thanks.

SHIAMISHIS A: Thank you very much, Matt. I would probably start from…with a reverse order, irrespective of what happens to DEPA or DESFA, for us, it is a key priority to maintain a healthy and strong balance sheet. So we would try and deleverage as much as possible using our free cash flow, that is of course taking into account the fact that with the restoration of profitability and operating cash flow in the system, the Company does not exist in a vacuum, the Company has shareholders, so we will have to consider and set if you like our distribution policy going forward. So that is something that we need to address in the next few months. However, deleveraging remains a key priority for us.

Now on the DEPA, DESFA investment, I think you've pretty much covered the key issues. DESFA is a transaction which the government is committed to see through as well. Clearly, we have a longer process than we originally expected. If you like, the expectation on all sides is that over the next few months, we will gradually come to a position depending on

DG Comp position that we can close the transaction and then go through with a few months of implementation. So I would probably put it around third quarter of 2015 as a reasonable milestone for the completion of DESFA.

Now with respect to DEPA, I cannot comment on the government policy. I mean you read what they announced as well as we do. What I can probably comment on is that, it is not part of our policy to be minority shareholders in a business that we do not control.

So clearly, that begs a question of how we take it forward. It is something that we need to wait and see how this will go in terms of unraveling DESFA, need to see and understand the changes in the natural gas market taking place in the next few months and then decide the way forward. But you do appreciate that we are a 35% minority shareholder there and 65% is held by the government. So it's really up to them to decide the next steps for DEPA.

LOFTING M: Yes, absolutely. Thanks a lot.

OPERATOR: We have a follow-up question from Mr. Rethy Robert of Wood & Co. Please go ahead. Mr. Rethy, you may proceed with your follow-up question?

RETHY R: Yes, thanks very much for the opportunity for another question and actually I just wanted you to elaborate a little bit on what you just started to explain, and that's the distribution policy of…or dividend policy of the Company or rather how you as management and also shareholders approach the improved cash flow environment, and what to expect in terms of the dividend proposal at the next AGM. And I guess it's quite tricky because you had a big reported loss and also if I am not mistaken then retained earnings almost disappeared from the balance sheet. So it's tricky to get a regular payout, yet I…actually sorry, no need to ask you for a comment if you can on this?

SHIAMISHIS A: Thank you very much. It is a very good and reasonable question to take from my understanding and from shareholders. The overriding statement is that we aim to be in a position to revert to our previous dividends distribution policy. I'm not saying about the exact level, but we should be able to have normal distributions linked to the clean results of the Group, so that we revert back to the original…to the mode that we had a few years ago.

What will happen in 2015, as you rightly point out will, to a large extent depend on how distributable retained earnings behave with respect to our reported results. The valuation or stocks did not help and we are in the process of reviewing our balance sheet and our Group structure with the aim of optimizing to the extent possible, the up streaming of profits and distributable earnings to the holding Company and to the shareholders.

I would probably refrain from mentioning anything more specific at this point in time. We are not looking to have a proposal for a distribution at the AGM with respect to 2014 results that would not be possible given the reported results. However, we hope and expect that over the next few months, we will be able to have a better communication with respect to the policy for dividend distribution for the Group.

RETHY R: Thank you very much.

OPERATOR: Mr. Costopoulos, there were no more questions registered at this time. You may now proceed with your closing statements.

COSTOPOULOS J: Okay. Well, thank you very much for attending this conference call with the presentation of our fourth quarter and fiscal year results for 2014. And we would look forward to you know, renewing our discussion again when we present our first quarter '15 results. And thank you for your good questions. Thank you for attending the conference call. Have a good evening. Thank you.