

Decision on the Approval of the sale of HELPE's participation in DESFA

HELLENIC PETROLEUM SA (HELPE) is the shareholder of 35% of DEPA Group, which includes 100% of DESFA shares. The Greek State, HRADF and HELPE (jointly the Sellers) signed a Memorandum of Understanding (MOU) on June 26th 2018 to jointly sell 66% of DESFA (35% HELPE, 31% HRADF) (the Transaction), subject to the approval of the Extraordinary General Meeting (EGM) of HELPE, which was granted on July 6th 2017.

The Sellers then proceeded with the sale tender process. Following two rounds of submissions of binding offers by two shortlisted Consortia, the SNAM-Enagas-Fluxys Consortium (the Consortium) submitted the highest binding offer at €535m for the acquisition of 66% of DESFA shares.

The consideration corresponding to HELPE's share is €283.7m gross of any taxes. Barclays Bank PLC, acting through its investment bank (Barclays), is acting as a financial adviser to HELPE in respect of this Transaction¹. Based on a valuation performed using a number of valuation methods, the Consortium's offer is within the acceptable valuation range and is considered satisfactory.

HELPE's Board of Directors hereby introduces this item to the EGM, proposing the approval by the EGM of the sale of HELPE's participation in DESFA.

1. Brief business description of DESFA

DESFA (today 100% owned by DEPA) owns, manages, operates, maintains and develops the National Natural Gas Transmission System (NNGTS). The NNGTS includes among others three Natural Gas (NG) entry points (Sidirokastro, Kipoi, Agia Triada), the main NG high pressure transmission pipeline and its branches and the Liquefied NG (LNG) regasification terminal at Revythousa island. DESFA provides users' access to the NNGT without any discrimination and in a transparent way. The operation of the NNGT and the transmission tariffs are regulated by the Energy Regulatory Authority (RAE).

2. Strategic rationale for HELPE's sale of its participation in DESFA

In addition to the valuation considerations, the sale of HELPE's participation in DESFA through this process is supported by the following:

(a) DESFA is a non-strategic, minority participation

This is a minority participation in a capital intensive business activity, with high new capex requirements and regulated returns based on its Regulated Asset Base (RAB) (9.22% nominal pre-tax rate of return). Natural Gas transmission does not offer scope for vertical integration synergies with HELPE's participation in DEPA or any future activity in Natural Gas due to very strict regulatory constraints. HELPE's – indirect today – minority participation in DESFA (35%) grants HELPE limited representation rights in DESFA's Board of Directors and Supervisory Board. Value for the Group is extracted through the statutory dividend payment which goes through DEPA and the inclusion of 35% of its share of Net Income.

(b) The joint sale process with HRADF maximizes consideration / sale proceeds

Through a joint sale process, the total participation in DESFA which is for sale by HELPE (35%) and HRADF (31%) together (66%) is a majority stake in DESFA, which grants the preferred investor control rights. This is reflected in a higher offered prize for Sellers (control premium) than would have been the case if only HELPE's stake of 35% were for sale.

¹ Barclays, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for HELPE and no one else in connection with the Transaction and will not be responsible to anyone other than HELPE for providing the protections afforded to its clients or for providing advice in relation to the Transaction or in relation to the contents of this announcement or any transaction or any other matters referred to herein.

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The Consortium's offer (€535m for 66% of DESFA shares) corresponds to €283.7m gross of any taxes for HELPE share. The proceeds will allow HELPE to accelerate the Group's deleveraging process, improve the strength of the balance sheet and / or fund new capex.

(c) Avoidance of possible future governance issues under the current EU regulatory framework

By virtue of article 63A of Law 4001/2011, following the Transaction, DESFA must adopt the Full Ownership Unbundled System Operator model and be certified as such based on the provisions of articles 62 and 63 of Law 4001/2011 and articles 9 and 10 of the European Gas Directive 2009/73/EC. HELPE would no longer be able to participate in DESFA's BoD or EGM and its rights would be strictly limited to dividends only.

3. Tender Process – Key milestones & Next Steps

(a) Key process milestones to date:

26 June 2017	Invitation to Submit an Expression of Interest
7 August 2017	Deadline for submission of Expression of Interest by Investors
22 September 2017	Selection of 'Shortlisted Parties'
10 October 2017	Request for submission of Binding Offers
16 February 2018	Deadline for submission of Binding Offers (2 Consortia)
29 March 2018	Deadline for improved Binding Offers (2 Consortia)
19 April 2018	Deadline for submission of final improved Binding Offer by SNAM-Enagas-Fluxys Consortium

(b) The Binding Offer – The Consortium's final improved Binding Offer amounts to a total cash consideration of €535m for 66% of DESFA shares, of which €238.7m pre-tax proceeds correspond to HELPE's share (35%).

(c) Next Steps to Transaction completion (Completion):

- Required approvals – The Transaction is subject to (a) the approval by the Hellenic Court of Audit, as is customary for all HRADF transaction documents, and (b) the regulatory and competition approvals by the competent authorities in Greece and the EU.
- Transaction structure – As HELPE today owns DESFA only via DEPA, the transfer of 100% of DESFA shares from DEPA directly to DEPA's shareholders (35% HELPE, 65% HRADF) via an in-kind share capital reduction at DEPA's level is a necessary step before Transaction Completion.

4. DESFA Valuation

Based on a valuation of HELPE's participation in DESFA performed using a number of valuation methods, the Consortium's offer (€535m for 66% of DESFA shares) is within the acceptable valuation range and is deemed satisfactory.

5. Share Sale and Purchase Agreement (SPA)

Key SPA terms are summarized below:

(a) Conditions Precedent (CPs) for Completion

- Transaction documentation approval by the Hellenic Court of Audit
- Anti-trust clearance by national and EU competition authorities
- RAE approval of the Transaction and certification of DESFA
- Completion of the Pre-Sale Reorganisation (being the transfer of the DESFA shares to the Sellers)

(b) Termination prior to Completion

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- If any of the CPs are not satisfied by the Long Stop Date (10 months from declaration of Preferred Bidder)
 - In case of a change in law or regulation (not required by EU or international law obligations) which may materially adversely affect *only* DESFA in the long-term
 - If the Preferred Investor chooses not to comply with commitments and obligations relating to divestments over €70m, which have been proposed by the regulatory authorities as a condition for granting the necessary regulatory approvals
- (c) Conduct prior to Completion & Permitted Leakage
- The Sellers undertake not to alter the constitutional documents or the share or loan capital of DESFA, and to ensure that DESFA operation is carried on “in the ordinary and usual course of business”. The Sellers also undertake to ensure that certain acts or matters that exceed certain thresholds do not occur (unless these are included in DESFA’s Business Plan or were made known to the Preferred Investor ahead of the Binding Offer)
 - The SPA provides for the distribution of €45.5m dividend for financial year 2017 (€16m HELPE share).
- (d) Post-Completion Realisations
- The Sellers shall be entitled to receive 50% of any profit or gain on any disposal of all or a part of the DESFA business within three (3) years following Completion
- (e) Seller Undertakings and Warranties (several)
- Warranties for tax liabilities which might occur following Completion but which relate to the time period prior to 31.6.17 (Locked Box Date), accuracy of title of shares, no bankruptcy / liquidation, accuracy of disclosed loan agreements, validity of main customer contracts, no adverse impact on DESFA flowing from outstanding litigations, validity of all key permits, compliance with law for all material operation during period of 12 months preceding the binding offer
- (f) Limitations of Liability (several)
- For all claims other than title and capacity claims and leakage claims, total aggregate liability of each Seller shall not exceed 20% of the Purchase Price (corresponding to such Seller)
 - For all title and capacity claims, total aggregate liability of each Seller shall not exceed 100% of the Purchase Price (corresponding to such Seller)
- (g) Governing Law & Jurisdiction
- Greek Law
 - ICC (International Chamber of Commerce) Arbitration in Athens, in English language.

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APPENDIX – Summary of DESFA Financial Statements 2015-2017

[DESFA full IFRS Financial Statements can be found at <http://www.depa.gr/content/article/002001009007/103.html>]

Income Statement	2015	2016	2017
€000			
Turnover	149.158	169.652	268.697
EBITDA	81.969	104.292	177.398
EBIT	37.814	59.064	133.460
PBT	25.145	49.785	125.940
Net Income	16.707	34.326	85.636

Balance Sheet	2015	2016	2017
€000			
Total Fixed Assets	1.298.397	1.267.889	1.242.163
Government Grants	(270.217)	(260.906)	(256.881)
Capital Employed	1.022.852	956.099	916.819
Shareholders' Equity	(826.194)	(852.431)	(921.773)
Net Debt	(176.658)	(103.668)	4.954

Cash Flow Statement	2015	2016	2017
€000			
Net Cash generated from / (used in) Operating Activities	76.159	106.262	139.540
Net Cash generated from / (used in) Investing Activities	(35.525)	(27.681)	(14.588)
Net Cash generated from / (used in) Financing Activities	(39.302)	1.714	(43.071)
Net increase / (decrease) in Cash and Cash Equivalents	1.332	80.295	81.881