

Extraordinary General Meeting of HELLENIC PETROLEUM S.A. – February 20th 2020

Conclusion of a Memorandum of Understanding between the “Hellenic Republic Asset Development Fund S.A.” (HRADF) and “Hellenic Petroleum S.A.” (HELPE) for the joint sale of their participation in “DEPA INFRASTRUCTURE S.A.”

Recommendation

By virtue of the decision No. 206/25.04.2012 of the Interministerial Committee for Asset Restructuring and Privatisations (Government Gazette B' 1363/2012), shares corresponding to a percentage of 65% of “Public Gas Company S.A.” 's (DEPA) share capital were transferred to HRADF. The Government Council for Economic Policy by its decision of 13.11.2019 (Government Gazette B' 4157/2019) approved the Asset Development Plan of HRADF dated 30.09.2019 including, *inter alia* the sale and transfer from HRADF of its shares in DEPA corresponding to 65% of DEPA's share capital.

HRADF and HELPE are the sole shareholders of DEPA, the former holding 65% and the latter 35% of DEPA's share capital.

Pursuant to article 80I of Law 4001/2011, as amended by virtue of Law 4643/2019 (Government Gazette A' 193), a partial demerger of DEPA's infrastructure branch shall take place and all gas distribution activities of DEPA shall be transferred to a separate legal entity which will be named “DEPA Infrastructure S.A.” (**DEPA Infrastructure**). All international projects in which DEPA participates shall be transferred through a spin-off to a separate legal entity, which will be named “DEPA International Projects S.A.” (**DEPA International Projects**). Following the partial demerger and the spin-off of the infrastructure and the international projects activities, DEPA shall be renamed to “DEPA Commercial S.A.” and shall retain, either directly or through its subsidiaries, all current gas wholesale and retail activities.

Following the above, HRADF and HELPE will own shares issued by DEPA Infrastructure and DEPA International Projects representing 65% and 35% of the fully paid up share capital of each of the aforementioned companies respectively. Because of the current structure of DEPA Group, the cost of investment per company following the demerger of DEPA S.A. does not appear in the financial statements of HELPE. Such cost of investment shall be determined following the completion of the partial demerger of DEPA (which will then be DEPA Commercial S.A.)

On 09/12/2019, HELPE signed a Memorandum of Understanding with HRADF (**MOU**) for the joint sale of 100% of the shares of DEPA Infrastructure, along the lines of the joint sale of 66% of the shares of DESFA, which was successfully completed in 2018. The conclusion of the MOU was in principle approved by HELPE's Board of Directors' resolution no. 1358 of 06/12/2019 and is subject to the granting of a special permission by the General Assembly of its shareholders, in accordance with the provisions of article 100 of Law 4548/2018. The key terms of the MOU, as finalised by HELPE, HRADF and both parties' advisors, are listed below.

On 09/12/2019, with the publication of the Invitation to Submit an Expression of Interest, HRADF launched an international tender for the joint sale of its own (65%) and HELPE's (35%) shareholding in DEPA Infrastructure.

1. Brief description of the gas distribution activities, which will fall under DEPA Infrastructure following the partial demerger of DEPA, pursuant to article 80I of Law 4001/2011, as amended by virtue of Law 4643/2019 (Government Gazette A' 193)

By virtue of the above Law, at least the following assets of DEPA shall be transferred to DEPA Infrastructure:

- a) 100% of the share capital of Attiki Gas Distribution Company S.A. (EDA Attikis),
- b) 51% of the share capital of Thessaloniki – Thessalia Gas Distribution Company S.A (EDA Thessalonikis - Thessalias) and
- c) 100% of the share capital of the National Gas Distribution Company S.A. (DEDA)
- d) DEPA's ownership rights on distribution networks,
- e) the fibre-optic network owned by DEPA,
- f) the rights and obligations of DEPA with respect to the development, design and implementation of infrastructure projects of distribution networks, including compressed natural gas projects or small scale liquefied natural gas (LNG) projects, excluding the rights and obligations of DEPA in international projects, such as any commitments in the interconnector pipeline between the Hellenic Republic and the Republic of Bulgaria (IGB) or the floating LNG regasification terminal (FSRU) in Alexandroupolis.

The following section offers a brief description of the gas distribution companies listed in a) to c) above.

Gas Distribution Companies

- **EDA Attikis – DEPA participation 100%**

EDA Attikis is a gas distribution company whose operation spans in the Attica region. In December 2018, DEPA acquired 49% of the company's share capital it did not previously own from Shell for a consideration of €111m.

In 2018, by virtue of Regulatory Authority for Energy (RAE) resolutions, EDA Attikis was granted a gas distribution license and gas network operation license for the Attica region, for twenty-five (25) years, expiring on 31.12.2043. The duration of the licenses may be extended at the discretion of RAE.

The regulated tariffs allow EDA Attikis to cover its operating costs and a stable return on capital (9.22% nominal pre-tax return for regulatory period 2017-2018; decision is pending for the next regulatory period).

Key Financial Data	2018 (€m)
Turnover	€ 51
EBITDA	€ 28
Net Income after Taxes	€ 11
Total non-Current Assets	€ 275
Net Debt	€ 11
Equity	€ 266

Source: Published Financial Statements

- **EDA Thessalonikis – Thessalias - DEPA participation 51%**

In 2018, by virtue of RAE resolutions, EDA Thessalonikis – Thessalias was granted a gas distribution license and gas network operation license for the regions of Thessaloniki and Thessalia, for twenty-five (25) years, expiring on 31.12.2043. The duration of the licenses may be extended at the discretion of RAE.

The regulated tariffs allow EDA Thessalonikis – Thessalias to cover its operating costs and a stable return on capital (9.22% nominal pre-tax return for regulatory period 2017-2018; decision is pending for the next regulatory period).

EDA Thessalonikis – Thessalias is owned by DEPA (51%) and Eni gas e luce SpA (49%).

Key Financial Data	2018 (€m)
Turnover	€ 53
EBITDA	€ 37
Net Income after Taxes	€ 17
Total non-Current Assets	€ 304
Net Debt	€ 12
Equity	€ 284

Source: Published Financial Statements

- **DEDA – DEPA Pparticipation 100%**

In 2018, by virtue of RAE resolutions (1318/2018 και 1319/2018), DEDA was granted a gas distribution license and gas network operation license for the rest of Greece, i.e., other than the regions of Attica, Thessaloniki and Thessalia. This area includes seven regions, namely Central Greece, East Macedonia – Thrace, Central Macedonia, Peloponnese, Western Greece, Epirus και Western Macedonia. The licenses were granted for a twenty-five (25) year period and expire on

31.12.2043. The duration of the licenses may be extended at the discretion of RAE, pursuant to Law 4001/2011 and the Licensing Regulation.

The regulated tariffs allow DEDA to cover its operating costs and a stable return on capital (9.22% nominal pre-tax return for regulatory period 2017-2018, a new decision is pending for the next regulatory period).

DEDA operates 355km of medium pressure grid and 175km of low voltage grid, which service mainly industrial clients. With its aforementioned resolution (1318/2018), RAE approved of DEDA's 2018-2022 Development Plan for the above regions, which provides for the development of the Low and Medium pressure grid by a total of \approx 1,600 km and a budget of \approx €183m (cost of construction and installation of new connections).

Βασικά Οικονομικά Στοιχεία	2018 (εκατ.)
Turnover	€ 6
EBITDA	€ 0
Net Income after Taxes	€ (2)
Total non-Current Assets	€ 84
Net Cash	€ 30
Equity	€ 66

Source: Published Financial Statements

Post partial demerger – Balance Sheet of DEPA Infrastructure

Following the partial demerger of DEPA, DEPA Infrastructure's financials will result from the transformation balance sheet of the infrastructure branch, comprising all of the activities relating to infrastructure which will be transferred to DEPA Infrastructure.

As these figures include inter-company transactions, as well as transactions with branches not incorporated in DEPA Infrastructure, they should not be considered as the final figures of DEPA Infrastructure. These will be finalised after the spin-off.

2. HELPE position

In view of the upcoming sale of HRADF's stake in DEPA Infrastructure (65%), it is in the interest of HELPE to cooperate with HRADF on the joint sale of DEPA Infrastructure.

The sale of HELPE's stake in DEPA Infrastructure (35%) is recommended, given that it would help accomplish the following:

Exit from a minority non-strategic participation

- Incompatibility with HELPE's participation in DEPA Commercial, Elpedison, and / or a future HELPE engagement in the natural gas market, due to a very strict regulatory framework.
- Minority participation with limited representation rights at Board of Directors level.
- Inability to increase HELPE's participation in DEPA Infrastructure due to the restrictions of article 80E of Law 4602/2019
- Capital intensive activity with possibly large future investment requirements, albeit with regulated returns through the Regulated Asset Base (RAB)

Maximisation of consideration / sale proceeds through the joint sale with HRADF and the transfer of full ownership

- The joint sale of the stakes of HELPE and HRADF to a third party is expected to result in a higher valuation for the interested parties (control premium)
- Expected proceeds from the sale can be used to fund other investments, including the further development of the commercial gas activities.
- It is expected that the tender will attract the interest of companies already operating in the same sector, but also of infrastructure investment funds.
- The recent successful joint sale of DESFA sets a good precedent in HELPE's cooperation with HRADF in the preparation and implementation of such a transaction. The DESFA transaction will largely be used as the basis for the design of the DEPA Infrastructure tender process.
- Conversely, the retention by HELPE of a minority participation would strand its asset and lower its value.

3. MOU between HRADF and HELPE relating to the joint sale of 100% of DEPA Infrastructure

The MOU is a binding agreement, which provides for the participation of HELPE in the sale process of HRADF's 65% share in DEPA Infrastructure, with the concurrent sale of its own 35% share. The main terms of the agreement are the following:

(a) HRADF is appointed to coordinate the joint sale process, also on behalf of HELPE, to achieve the joint sale of DEPA Infrastructure. HELPE and its advisors will be fully involved in all the stages of the process. HELPE and its advisors will be involved and will approve all transaction documentation (e.g. Request for Expression of Interest, Information Memo, transaction documents drafts etc.) and will participate in all meetings with potential buyers, the Hellenic Republic and the competent Regulatory Authorities.

(b) The assessment of financial offers received from the investors participating in the process will be done solely on the basis of value maximization.

(c) Each of HRADF and HELPE will commission an independent valuation for the shares of DEPA Infrastructure (i.e. for the 100% of the shares). Both valuations will be taken into account at the assessment of the binding offers. HELPE's independent valuation will be assigned to an international investment bank / consulting firm.

(d) HRADF will select the investor who will submit the highest binding offer as the preferred investor, according to the terms of the tender, as long as such offer is higher than the lower end of both independent valuations.

(e) The offer, which will be selected, will be subject to approval by HRADF's Board of Directors and HELPE's Board of Directors. Execution of the sale and purchase agreement with the potential buyer shall be subject to the approvals of the competent corporate bodies.

(f) HELPE undertakes the obligation not to sell, assign, transfer, pledge any of its shares in DEPA Infrastructure, as well as not to enter in any agreement that will affect its voting or any other rights deriving from any of its shares in DEPA Infrastructure.

(g) MOU Termination:

- (i) In case an invitation to submit an expression of interest (or an equivalent action) in relation to the sale has not been published within six (6) months from the execution of the MOU, or
- (ii) In case the parties have not executed final sale and purchase documentation within twelve (12) months from the publication of the invitation to submit an expression of interest (or an equivalent action, or
- (iii) Upon the completion of the transactions described in the tender document relating to the sale of DEPA Infrastructure, (or upon the termination of the tender documents relating to the sale of DEPA Infrastructure, as per the terms therein, if occurs earlier).

Please note that the as per (ii) above, the 12 month deadline may be extended for another three (3) months, either (a) with a mutual agreement of the parties, or (b) by any party following a notification to the other party.

(h) The MoU is governed by Greek law and the courts of Athens, Greece have exclusive jurisdiction thereon.

4. Process

Given that HELPE is a listed company, this recommendation is accompanied by a fairness opinion performed by KPMG, an international audit firm. The fairness opinion assesses whether the MOU with HRADF is fair and reasonable for HELPE and the shareholders who do not constitute a related party, including the minority shareholders, pursuant to paragraph 1 of article 1010 of Law 4548/2018.