

## **Investors Brief regarding the EGM of Hellenic Petroleum – 30 January 2011**

### **Sale of ELPE share in DEPA Group**

#### **Recommendation**

Following the decision of Hellenic Republic to divest its majority stake in DEPA Group, ELPE management reviewed its strategic options regarding its minority participation in DEPA and concluded that it is in the best interest of ELPE to cooperate with the Greek State for the joint sale of either the DEPA Group or individual Group companies (DEPA without DESFA as its subsidiary, DESFA). A Memorandum of Understanding between ELPE, the Hellenic Republic and the Hellenic Republic Asset Development Fund (the “Fund”) governing the sale process and the relation between the three parties, is envisaged and its main points are presented in this brief.

The Board of Directors recommends to the EGM granting a special permission for the conclusion of the Memorandum of Understanding between ELPE, the Hellenic Republic and the Fund regarding the sale of DEPA Group

#### **1. Overview of DEPA Group**

DEPA Group of companies purchases, transports and supplies Natural Gas (NG) in Greece. The Group also participates in the development of interconnecting NG pipeline projects, namely Turkey – Greece – Italy (ITGI), Greece – Bulgaria (IGB) and Russia – Europe (South Stream) that promote the security of NG supply in Greece and Europe.

DEPA (Public Gas Corporation) is the largest NG supplier in Greece (87% market share in 2010) with long term NG supply contracts with Russia, Azerbaijan and Algeria. DEPA supplies directly customers with consumption exceeding 100GWh (power generators, large industrial customers, NG distribution and supply companies).

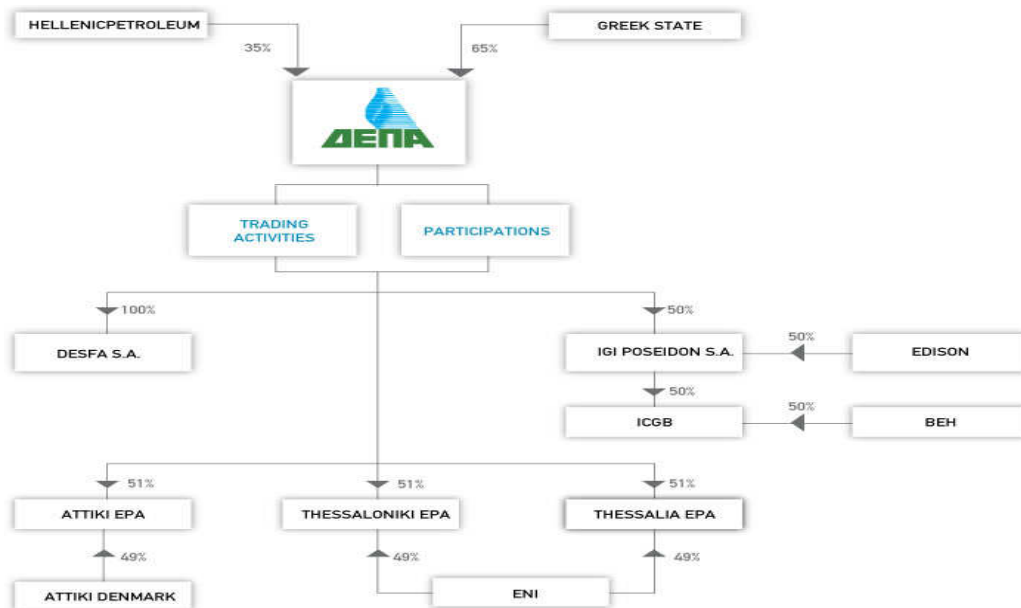
DESFA (Operator of the National Natural Gas Network), a 100% subsidiary of DEPA, owns, operates and develops the National Natural Gas Network (NNGN). The NNGN includes, among others, the 3 NG entry points (Sidirokastro, Kipoi and Agia Triada) in the country, the high pressure network and its branches as well as the Revythousa LNG regasification terminal. DESFA provides indiscriminate access to the NG network to users according to prevailing regulatory framework that governs the operation, relationship with users and usage fees and is regulated by the Regulatory Authority for Energy (RAE).

Through its participation in the supply and distribution companies, EPA Attiki, EPA Thessaloniki and EPA Thessalia, DEPA distributes NG directly to customers with annual consumption of less than 100GWh (domestic, commercial and small industrial).

## Main FY2010 financials of DEPA Group

Turnover: €1,217m  
EBITDA: €204m  
Net Income: €91m

## 2. Ownership and structure of DEPA Group



## 3. DEPA inclusion in the Medium Term Fiscal Strategy for 2012

The sale of the Hellenic Republic's participation in DEPA Group was included in the Medium Term Fiscal Strategy aiming at the conclusion of the process in 2012. According to article 7, paragraph 1 of the recent Legislative Act of 16.12.2011 "Urgent measures of application of the Medium Term Fiscal Strategy 2012-2015 and the State Budget 2011" (Government Gazette Issue A' 262/16.12.2011), an amendment of paragraph 1 of article 62, L. 4001/2011 took place enabling the sale of the Hellenic Republic stake both in DEPA Group in its current structure as well as in individual companies of DEPA Group (DEPA without DESFA, DESFA).

## 4. ELPE participation in DEPA Group

ELPE, holding a 35% stake in parent company DEPA, has the following rights:

- 35% participation in DEPA Group profits through equity consolidation (associate)
- Pro rata dividend in any profit distribution

- Blocking minority as dictated by the articles of association

According to ELPE Group's financial statements for the first 9 months of 2011, the basic financials regarding DEPA Group are the following:

- Income from associates: €45m
- Book value of Investment in DEPA: €503m

Furthermore, according to a Shareholders Agreement between ELPE and Hellenic Republic which is not binding to potential investors, ELPE participates with two members on each of the Boards of DEPA and DESFA. The relevant provision of the shareholders' agreement on DEPA, which provides the participation of ELPE to the Board of Directors of such company with two members, has been incorporated in the Articles of Association of DEPA and has an erga omnes effect.

We would like to highlight that in the event of unbundling of DEPA Group, as a result of the European Commission directive 2009/73, ELPE will not have the ability to exercise its control and governance rights on DESFA due to its power generation activities through its JV Elpedison.

## **5. ELPE Strategy on DEPA**

In view of the upcoming sale of Hellenic Republic stake in DEPA Group or its individual companies, ELPE management assessed its strategic options on DEPA Group participation and concluded that it is in the company's best interest to cooperate with the Hellenic Republic for the joint divestment of its entire participation in DEPA Group.

The sale of ELPE participation in DEPA Group or individual companies will accrue the following benefits:

- a) Avoid the dilution of ELPE's rights with regard to its minority participation in DESFA in case of full unbundling of DEPA-DESFA.

In case of full carve out of DESFA (regulated networks and terminal) from DEPA (supply and trading of NG), ELPE will have to cede its rights of control and governance in DESFA due to its participation in Elpedison.

- b) Avoid minority participation of ELPE in DEPA Group following Hellenic Republic stake divestment

By maintaining its minority stake in DEPA, ELPE will not be able to influence the selection of the new strategic investor. The ownership change may affect the governance structure of DEPA Group. Furthermore, ELPE's future exit options are restricted.

- c) Financial Planning of ELPE

The combination of ELPE's large investment plan (€27bn for 2008-2011), high oil prices and the financial crisis reduce ELPE's ability for a potential majority acquisition of DEPA Group, as well as its participation in future capital increases in DEPA and/or DESFA to finance their investment plans.

On the contrary, the divestment of ELPE's share in DEPA Group will release significant funds and will contribute to the faster deleveraging of the company, while enhancing its ability to focus and implement its strategic objectives (growth in international activities, renewables)

d) Maximisation of price/sale proceeds

The joint sale of the stakes of ELPE and the Hellenic Republic in DEPA to a 3<sup>rd</sup> party is expected to result to a higher valuation of DEPA Group/parts of DEPA for the interested parties over the divestment of the minority stake of ELPE (control premium), consequently maximising the value of this investment for ELPE.

**6. Memorandum of Understanding between Hellenic Republic, the Fund and ELPE relating to the sale of DEPA/DESFA**

The Memorandum is a binding agreement that provides for the participation of ELPE in the sale process of the Hellenic Republic's share in DEPA by the Hellenic Republic and the Fund. The main terms of the agreement are the following:

- a) The Fund is appointed to coordinate the joint sale process on behalf of ELPE and Hellenic Republic. ELPE and its advisors will be fully involved in all the stages of the process, approve all transaction documentation (e.g. Request for expression of interest, information material, draft contracts etc.) and participate in all meetings with potential buyers.
- b) The assessment of offers that will be received from participants in the process will be held solely on the basis of value maximization
- c) The offer that will be selected will be subject to approval by the BoD of the Fund and an EGM of ELPE. The execution of the Sale and Purchase Agreement with the buyer is subject to the aforementioned approvals
- d) ELPE undertakes the obligation for the duration of the agreement: (i) not to sell, assign, transfer, pledge any of its shares in DEPA, 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, (ii) not to make any direct or indirect offer for the acquisition of shares in DEPA and/or DESFA
- e) ELPE is not obliged to consent to the unbundling of DEPA Group that Hellenic Republic may endorse
- f) Termination of Memorandum: In case that an expression of interest (or an equivalent action) in relation to DEPA and/or DESFA:
  - a. Has not been made public within 6 months from the execution of the Memorandum, the latter is terminated immediately with the lapse of the 6 month period

- b. Has been made public within 6 months from the execution of the Memorandum, the latter will be terminated immediately with the lapse of 12 months from the aforementioned expression of interest date, unless the parties have executed final sale and purchase documentation before the Memorandum termination date.
- g) The Memorandum is governed by Greek law and the courts of Athens, Greece have exclusive jurisdiction thereon.