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"First Half 2013 Financial Results" Conference Call

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Conductors:

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Mr. Andreas, Shiamishis, Chief Financial Officer
Mr. George Alexopoulos, Corporate Planning & Development Director
&
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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 Interim 2013 Financial Results Conference Call.

At this time, I would like to turn the conference over to Mr. John Costopoulos, Chief Executive Officer, Mr. Andreas Shiamishis, Chief Financial Officer, Mr. George Alexopoulos, Corporate Planning and Development Director and Mr. Vasilis Tsaitas, Investor Relations Officer.

Gentlemen, please go ahead.

COSTOPOULOS J: Good afternoon ladies and gentlemen, it's John Costopoulos on the line. I welcome you to the Conference Call on the Presentation and Discussion of our Second Quarter '13 Results. I will, as usual, start with the highlights and then I'll pass on to Andreas Shiamishis, our CFO who will take you through the presentation. And then we will conclude with our Q&A session.

Let me start by saying that as I am sure you all are very well aware, in the second quarter of '13 our Group faced a very unfavorable refining environment which was affected, which actually negatively affected particularly refiners in Southern Europe and the Eastern Med. The sanctions on Iran as we know have substantially hit exports and limited that source for us. The various political developments in Middle East have not helped at all, and all those negative factors have combined together with the reduced supply of Russian oil in increasing the cost of crude for us.

Furthermore, on the demand side, we all know that the macroeconomic condition in Europe have not really materially improved, and nor have the ones in our domestic market in Greece. So we have been facing weak economic growth throughout our region and particularly in the South of Europe and that as expected has had a continuous negative impact on the demand for fuels.

These developments both on the supply side of cost of crudes and the availability of crudes in the Med, together with the reduced demand have obviously put a lot of pressure on refining margins in our region, which were significantly lower versus the equivalent quarter last year.

As you know, the benchmark cracking margin averaged about $2.9 per barrel. The equivalent for the second quarter of '12 was around $6.5 per barrel. And the Hydrocracking margins which obviously affect our new Elefsina refinery have hit during that, this quarter… the last quarter the lowest level that we've seen in the last four years.

Now, as a result of this very difficult macroeconomic and industry environment, our second quarter adjusted EBITDA came in at €21 million, which is substantially below the €197 million that we delivered in the second quarter of 2012. And that some how masked if you will, the positive impact that we had from the operation of our new Elefsina refinery, which following as you recall from our previous conference call, the first few months of operation where we were focusing on optimizing the units and the operation of the refinery.

In this last quarter, we were able to produce over a 1 million tons of products and we have reached the highest ever utilization of that refinery at 95%. And of course, as far as the main conversion units for the downstream, most of them have been now operating above the original design levels, and that has led to refinery Elefsis delivering margins which are significantly over the benchmark. The production of course, of the Elefsis refinery given the weakness in the domestic demand has been directed to export markets and our export volumes have doubled versus last year, which has led to an overall increase of 18% in our refining sales in the second quarter of 2013.

Net income, further down the line of the P&L account, was affected negatively since we have reported higher depreciation from…coming in from the Elefsis refinery. And of course, much higher finance costs, again linked to our large historical investment program. Furthermore, our reported results, as you are aware, include the negative impact of inventory losses on lower crude prices quarter-on-quarter.

However, we've had you know, we have some good news to report, one of course, is the one that I already mentioned, which is the good operation of our Elefsis refinery this quarter and the achievement of 95% capacity utilization, the doubling of our exports, but also we are beginning to see the…based on latest preliminary data for the total of the domestic Greek market, we are beginning to see a tapering of the decline of the domestic market based on preliminary data, the domestic auto fuels decline is now down to 3% versus the equivalent period from last year, which is an early good sign that you know, we are seeing the bottom of the barrel in terms of market decline of domestic market.

Also on the positive side, despite the drop in profitability, we've seen a reduction of our net debt to €1.8 billion. This was primarily came from a reduction in working capital needs because of lower sales, but also because of lower CAPEX since we are now finally in post investment mode, and our CAPEX is limited really to maintenance of our installations.

Furthermore, you know given the difficult environment, the management has enhanced its focus on the transformation programs, which as you are aware, have already delivered over €250 million of benefits, either in terms of margin improvement or cost reduction and cash flow improvement over the last three, four years.

And we've identified, earmarked and are now targeting an additional €150 million of benefits which will primarily come from basically squeezing out all the potential synergies from operating our three domestic refineries as a holistic and fully integrated system, Andreas Shiamishis will explain a little bit more, maybe some more details on this, as well as squeezing the OPEX throughout our Group.

For example, we were able a few months ago to complete and renegotiate the collective agreement with our retail operations union which has resulted in a reduction of compensation by about 18% year-on-year, and we are launching a new, you know reorganization program. All this you know, packages and programs, as I said, will deliver an additional €150 million over the next couple of years.

In terms of kind of strategic news, you are well aware that the DESFA privatization, our joint effort with the Hellenic Republic Asset Development Fund is now in its final stage. We have received an improved binding offer from SOCAR for €400 million for the 66% of DESFA. As far as Hellenic Petroleum is concerned, the cash proceeds for 35% of DESFA that we own will be to the tune of €212 million. We expect the completion of the deal in the first half of 2014. And of course, as we have mentioned before, this will accelerate our de-leveraging efforts, which is obviously a strategic goal for our Company.

I think as far as the highlights are concerned, I think I've covered the key points and I will you know pass on the presentation to Andreas, who will take you through the details for the Group overall, and then segment by segment. Thank you.

SHIAMISHIS A: Thank you very much, John. Good afternoon ladies and gentlemen. As John mentioned earlier, we did have one of our weaker quarters during the last quarter, mainly as a result of a challenging environment in the refining business and particularly so for the Med.

Moving onto the industry environment, we have some key facts which, I am sure you are all aware, we are just going through highlights and emphasize the impact they have on the Group; so on Page 5, we have the crude oil price, the

Brent index and the exchange rate information. One thing which has been probably downplayed or not fully taken into account over the last 12 months has been the decoupling between the European and the US crude oil markets which has had an indirect effect on us, because of allowing a much more significant margin for US refiners versus North European ones, which totally reverse the trend of product flows across the Atlantic.

So as a result, we've seen some weaker performance by European refiners in terms of utilization rates, depressed prices for products and clearly that has cascaded down into our region as well. Having said that, we have seen a closing of that gap, this is also helped by logistics infrastructure which is put in place in the US and it somehow goes to address this decoupling that we have experienced over the last year or so.

In terms of exchange rates, it's been limited volatility because we haven't had any major political news, which relates to the US or the Eurozone. I guess the point here is that we have suffered from the marginally weaker dollar versus the euro in terms of refining margins given that we are almost 100% based on dollar for our transactions.

An additional challenge that we've had to face in the East Med has been the supply of Urals in our region, a lot of the traditional sources for crude are no longer available, or are problematic in terms of maintaining a steady flow of products. And I think it's a common knowledge that Iraqi crude has not been consistently available on the market, a lot of problems coming from there.

We've had issues in Syria affecting a lot of the supply coming from that part of the world. Egypt has been also in a period of political instability and Libya has had its fair share of problems which have affected the loadings from those traditional sources for our Group.

These means that we had to rely a lot more on Urals coming into our crude slate, as the main heavy crude for our refineries and particularly the new Elefsina refinery. Now, we have seen in the last few quarters a reversal of the trend and in some cases, we've seen Urals being priced more expensively then Brent which clearly eat into our realized margins.

On top of that, we have seen weaker quality crudes coming into the Med and more concentrated in terms of who has availability of crudes in the Med, given that there has been a new supply route going into the East which allows Russian upstream production to be diverted into other markets as well.

And finally on Page 6, we have the additional information on the ULSD-HSFO spread, which is important given that our Elefsina refinery utilizes as feedstock for a material part of its production, not the majority, but for a material part of its production fuel oil as feedstock. So having a lower spread between the two products means that we have a lower… we have enjoyed lower margin uplift from the new refinery. The good news is, as we note is that the trend is reversing in the period since the end of the half year, and we expect that it will continue on that track.

Finally, in terms of the refining industry, we see that margin environment on Page 7; we have the FCC cracking margins and the Hydrocracking with the Flexicoking margin benchmarks which apply for Aspropyrgos and Elefsina, respectively.

As John mentioned earlier, on Aspropyrgos we've got almost $4 per barrel down. I remind you that in terms of numbers, $1 per barrel is approximately $100 to $110 million of EBITDA, of marginal EBITDA for Hellenic Petroleum. So $4 on the Aspropyrgos refinery and on Elefsina which is a new refinery, we've got a four year record low margin at just over $2 per barrel.

So moving on from the industry environment into the domestic market, we do have some better news there. We have experienced a further reduction in demand, but the rate of decline has reduced significantly. Excluding the heating gasoil because that has a one-off effect in terms of comparing year-on-year because of the excise duty impact, which by the way we will have to wait and see what the government will decide for this heating season, as there are discussions about the possible change in the taxation having experienced this last drop in the last heating season.

So excluding that from the equation, we are seeing a single-digit decline in the market. Clearly, there has been some benefit from the early months of the touristic season, given that Greece has…is experiencing a record high inflow of tourists, which is also good news for our consumption.

Page 10, gives you an analysis of our operating results, how we go from an adjusted EBITDA of €197 million to €21 million and it's doing that in a simplified way. So first of all, we've got the Elefsina Refinery contribution for the quarter, which is effectively the operational benefit of the refinery, it doesn't include any trading premium there, which is about €10 million for the quarter.

We've lost 85 million because of the weaker refining margins of the benchmarks and the realized element of the margins. So that's approximately $4 per barrel on this quarter's production. And we also have the crude supply challenges which have taken away another €30 million from our bottom line. The domestic market drop year-on-year has led to about €40 million of EBITDA being taken out of our bottom line, approximately 50% of that relates to the Refining business and 50% relates to the Retail business.

Finally, we've got a number of other factors; the most important of which, which is worth mentioning has to do with FOREX, given that we have a weaker dollar, it means that we are realizing less euros in terms of margin, and that's captured in this chart…in this analysis.

So, if one was to effectively focus on the Elefsina positive contribution, the number effectively, if we used last year's margins, it's close to about €40 million…€40 million to €45 million of EBITDA per quarter, which is in line with the number that we have used in our projections for the investment.

On top of the operating results, we also have the Competitiveness Improvement Programs. Now, it's fair to say, that over the last year or 18 months, most of the organization has been focusing behind the completion and the safe startup of the Elefsina Refinery, which has taken up most of the organization resources, plus handling the crisis, the refinancing and everything that we had to go through over the last years.

As a result, we have probably not been able to focus and drive as quickly as we would like to our Competitiveness Improvement Projects in the form of transformation projects. To-date, we have delivered roughly €250 million as a result of the four main transformation projects, being the Refining Excellence, Procurement Savings, Reorganization and HR and Marketing Competitiveness.

And during the last two to three months, we've effectively gone through the organization in a high level review and have identified roughly another €150 million of performance improvement initiatives, which is a combination of improved yield reduction of losses. For example, cost cutting, which we will be…as John said earmarking and pursuing to deliver over the next 18 to 24 months.

Now, the numbers; as you can see on the left hand side of the page are quite simple to explain. The majority comes from, the Refining business, given that we now have Elefsina up and running, which means that, we can apply the projects and the initiatives that we applied in Aspropyrgos, which accounts for roughly 80% of the benefits today on the Refining project, to the new refinery Elefsina as well. That is on top of synergistic benefits, which are obviously there; they are available to us. However, it does take time in order to deliver them through the profit and loss.

The other big chunk of benefits is coming from the reorganization and human resources costs. And…it's important to note that, today during the Board we have approved a new headcount reduction program, which will effectively allow us to reduce the size of the organization, in a way, which is consistent with today's domestic market.

So, we are aligning the fixed cost structure of the Group to the market that we are servicing today, which is significantly smaller than the market we used to serve four or five years ago. So that is a benefit, which will be coming through fairly quickly, and as we have already launched this project.

Now in terms of cash flow, the drop of sales in the domestic market, effectively allows us to release part of the compulsory stock obligations, which takes place in April every year. So the changes in stock take place in Q2. And you can see that coming through a slower working capital. That's also part of lower receivables that we need to keep for the domestic market, given that volumes have dropped as well. That is effectively the reason behind the almost a €100 million reduction in net debt from the end of 2012.

In terms of forward-looking numbers for our cash flow, clearly, even though we haven't been able to realize the improved performance in the first part of the year. We are seeing that being improved gradually, and it's effectively going to bring us in line with our original plans, which assume for about 35% to 40% as a target for our gearing that's to capital employed.

Now, what we note here is that assuming that DESFA gets completed, effectively we have another €200 million of cash, which will be used to reduce our net debt, and that is something to be decided at the EGM which is scheduled for September the 2nd, which gives us some more ability to handle the balance sheet of the Group.

Clearly, linked to that, we have the finance cost, which over the last year or so have increased significantly as a result of the Greek crisis and the refinancing we've had. But also because in response to this liquidity crisis and the banking crisis in Greece, we have effectively opted to maintain a much higher gross debt and cash balance on our balance sheet.

As you can appreciate, it has been a risk management strategy, which has a significant negative carry cost, because marginal cost of funds is significantly higher than the benefits or the interest that funds deposited in banks attract. And this is something which having completed the eurobond and having resolved the liquidity issues, for the Group, we have the opportunity to improve, and hopefully try and bring back funding costs at much more reasonable level.

Now, moving on to the specific business segments, we start-off with our Domestic Refining, Supply and Trading business. And again, here we are sort of re-iterating the fact that, our performance has been affected by the weak margins and the challenging crude supply conditions in the Med, even though Elefsina has started to give positive results and messages. Elefsina has recorded as you will see in a minute, a relatively high utilization, but there is still a lot of room for improvement as the units were designed to run as a system, and you will see that in the next couple of pages.

In terms of our sales, we are pretty much in line with what we have seen in the market. If we exclude the heating as oil sales in the domestic market, we have roughly a 4%...4.5% drop in our sales into the Greek market. And of course, we have a significant increase of about 19% on the total sales of refined products. You can also see that we have reduced our imports of products; our sales are covered 92% from our own production versus 85% last year. Clearly, the operation of the new refinery allows us to be able to sell a different mix of products, so we are selling middle distillates which come out of Elefsina.

Moving on to the following page; you can see that Elefsina effectively produced just over a million tons of products during the quarter, which is well in line with what we expected to do in the next few quarters.

Now, as you may recall, during the first quarter, we've had the startup and the optimization issues with the new refinery, keeping our production levels down. And this page is intended to give you the comparison between Q1 and Q2, by the main… by main conversion units, being the vacuum, gas oil unit, the hydrocracker and the Flexicoker. As you can see, we are well on the road to achieving almost 100% utilization. And in fact, some of the units have already over performed their nameplate capacities.

This translates into improved production economics, and of course, we have the index, which is… what we call over performance, effectively what the realized production margin of the refineries compared to benchmark margins. I have to say here, that benchmark margins are not as representative as they have been in the past, because of all the changes in the crude supply in the Med. However, it's important to note that, we have been able to see the benefit of having the new refinery operating as an integrated value chain, which has not been the case in Q1.

Our target over the next year to two, which is part of the €150 million of the benefit, is to be able to consistently over perform the benchmark by about $3 per barrel.

Moving on to marketing; marketing again has been affected by two main things. The first one has been the lower heating gas oil volumes in April, because the heating season ends in April, and the first signs of high touristic traffic coming in June. So aviation has been able to offset part of the weaker performance in the domestic market. On top of that, we've seen a reduction of our operating costs as a result of our transformation projects and we are seeing a part benefit for this quarter, which is a new CLA the new Collective Labor Agreement which was signed towards the end of 2Q. The full benefit will be coming in the next quarters and this relates to our domestic marketing business which is EKO and Hellenic Fuels in Greece.

On international businesses, we have… our marketing subsidiaries performing broadly in line with last year. We've got Bulgaria which is performing very well on the back of both improved margins and market shares, mainly on the wholesale business, which together with the improvements in Serbia effectively offset part of the drop in the Cypriot market and weaker margins in Montenegro.

Clearly, we are in a standstill mode with respect to our international marketing. We are maintaining our position in our networks, but we are not seeking to aggressively expand in these markets. We are seeing the benefit of mature networks in most of these markets, and we expect to be able to sustain a consistent performance from these subsidiaries.

Moving on to PetChems, effectively the improvement there comes almost entirely from the propylene-polypropylene value chain, we have close to 55% of our sales being exported to markets around Greece, Turkey, Italy and Iberia, and effectively this underlines the performance of this segment. As you may recall, we do have a relatively vertical value chain on this products, which starts from the Aspropyrgos refinery with the FCC converting propane into polypropylene and…into propylene and then polypropylene being converted in Thessaloniki refinery.

Moving on to our associates, we've got Elpedison, which delivered about €11 million of EBITDA, down versus last year, which is a result of lower demand on electricity and lower participation of gas-fired plants in the energy mix.

As you can see from the chart on Page 24, we've seen a reduction in the participation of lignite and gas-fired plants, and the production has been taken up by hydros and renewables, which have moved up by about 10% in the…in the contribution to the mix.

A new regulation, which relates to IPPs, has come in play in the last few weeks, which changes the regime of capacity certificates and cost recovery structures. The effect on IPPs is expected to be pretty much the same as the previous regime that was in place.

Finally, we move on to DEPA; DEPA has been affected by market demand, which is a combination of a number of factors. First of all in…during the heating season we've seen a drop in demand for heating gas because of warmer weather. And of course, we have the impact of lower gas-fired power generation. As a result, we have lower EBITDA in the first half to about €112 million for the Group.

As John mentioned earlier; DESFA privatization is at the final stage. The expected cash proceeds for the group is €212 million, and until we have the decision by our EGM which is scheduled for next week and visibility in terms of the completion, the DEPA Group is accounted for as an associate in our results. Once we have the decision, which is going to be in Q3, this will be reclassified as an asset held for sale with respect to DESFA, and of course, over the next six to nine months, we will be going through the process of unbundling the two companies and then realizing the sale.

Now, concluding in terms of the key messages. I think it's also good that we've had one of the most challenging refining industry environments, which has affected margins as well as crude supplying. So we have not only suffered from weaker margins, but we've suffered from exceptional crude oil supply conditions as well.

The hydro cracking margins, which are effectively relevant for the new refinery, have been at historical lows. Clearly, we appreciate the cyclicality of the business, it has come at a bad timing for us, because we were hoping to start-up the new refinery which…with a much improved environment. But as I mentioned this is a cyclicality of the business, not much we can do about this at this point in time.

A positive thing comes from the domestic market which is a reduction in the rate of drop of demand, and hopefully, we will be able to see some recovery coming through over the next few quarters. The good thing with operations is that, we have got Elefsina in terms of mechanical availability and production on track, and the fundamentals are there to be able to deliver the expected benefit for the Group. This is also going to be further supported by additional benefits coming from organizational changes as well as synergies in our refining business, and effectively that will lead to a deleverage of the Group which has been the target all alone. And that's coming through improved operating results as well as the DESFA sale process which as I mentioned, will be utilized to accelerate, and if you like, cover the shortfall in the first half of the year cash flow.

I think that brings us to the end of the presentation. The rest of the tables are effectively our P&L, balance sheet and cash flows. And at this point in time, we will open the floor for any questions you may have.

Q&A

OPERATOR: The first question is from Mr. Katsenos Nikos of Alpha Finance. Please go ahead.

KATSENOS N: Yes, hello and thank you for the presentation. I have two questions please. Firstly, you have reported an adjusted EBITDA number…a negative number from the refining decision. And thus I can see from Page 10 of your presentation, you have sided the positive contribution on an EBITDA level from the Elefsina refinery. I believe also Aspropyrgos could be positive in terms of its contribution during the quarter, given the margins at which it is benchmarked, and also the high utilization rate. So I am trying to understand, what is the dilutive business in terms of the refining sector, to arrive at this negative number in terms of the EBITDA level, is it the Thessaloniki refinery, is it something else that I missed? And my second question regards the current environment on the refining division, July and August obviously have not been particularly a robust months in terms of the benchmark margins. Would you be able to give us a color in terms of the Elefsina contribution and how the refinery has faired during these couple of months? Thank you.

SHIAMISHIS A: Thank you, Nikos. That's a very good question. It is true that we've reported a marginal loss on our refining business for the second quarter. And this is effectively the outcome of exceptionally weak margins.

If you recall the Aspropyrgos refinery had margins, which were approximately $4 down versus last year, it was about $2.8. At $2.8 for a cracking refinery effectively that translates into what I would call a breakeven situation. I mean, at this level of numbers, and the materiality, if it's 10 million up or down it doesn't really move the needle. So $2.8, $2.9 of benchmark margins, plus some over performance effectively cover the variable cost of the refinery, which is, why we have reported this loss. On top of that, we have highlighted the impact of the crude supply, because benchmark margins are calculated using a specific diet of crudes.

If we deviate from that that can be as much as an additional $1.50 to $2 of benefit or of giveaway versus the benchmark, which is what happened during this quarter for the crude. And of course, Thessaloniki, which is operating at weaker margins, being a hydroskimmer than the two complex refineries.

Now, in terms of… the next part of the question which is, July/August, It is true that we have seen some weaker margins for the complex refineries as well as Thessaloniki. However, it's important to note that when crude oil prices increase in a very short period of time, usually it takes some time for product prices to follow. So what our reading of this situation is that, we've seen the impact of rapidly increasing crude prices in the benchmark margins.

Clearly, when we sell products using our existing crude, that benefit is captured by the Group; its part of the inventory benefits, if you like, which we report separately. Hopefully, we won't be seeing these margins for too long, because at this level of margins, I don't think that a lot of refineries will be able to sustain full-utilization. The… there was a third part of the question, which I don't recollect, I didn't note down, which one was it?

KATSENOS N: I am repeating it. I was just referring to whether you could be able to give us a color in term of the Elefsina refineries contributions?

SHIAMISHIS A: Yes, okay. Now, our Elefsina refinery, we have…as I said 95% utilization, which means that in terms of the product output and yield we are pretty much there. We are not a 100% there, so there is some benefit to be had, but we are pretty much there. Now, if you take into account, the average margin that we have seen, in 2012. For example, if you go to Page 7, you will see that the average cracking margin for Elefsina is somewhere around $6…$5.50 to $6 throughout the year, which is a full $4, above what we have in Q2. Elefsina refines about 30 to 35 million barrels of Crude a year, so about let's say 10 million barrels during the quarter, that's another 40 million of margin uplift, simply by just taking into account last year's historic margins.

That means that Elefsina using twice the margin environment, and that is an assumption if you like, delivers are around anything between €35 million and €50 million of EBITDA per quarter. That is effectively the number that we would be expecting to see in a much more normalized margin environment. Now, whether that takes place in Q3, Q4 or 2014, it's very difficult to predict. It doesn't look like it's going to be Q3, '13.

KATSENOS N: Okay. Thank you very much.

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

LOFTING M: Hi, thanks for the presentation, gentlemen, a couple of question, if I could, please. Firstly, just coming back to sort of feedstock, I mean, some of your comments there clearly processed, a lot of Urals during the first half about 60%, I think you said in the slides, partly as a consequence of…the toll of the challenges in the feedstock chain elsewhere. I just wonder if you could give us a sense of how you expect that percentage to move through the second half of the year, and whether there is any flexibility to alter that slate to an extent given the fact that sort of Urals continues to… at this point in time at least trade above lighter grades? Secondly on DEPA, I just wondered, if you could sort of give us an update there in terms of ongoing progress in the background around the possibility of selling the rest of that stake ex-DESFA and what the remaining book value would be once the DESFA sale is complete? Thank you.

SHIAMISHIS A: Yes, hello there. Well, first of all on the crude supply, clearly, we have experienced all sorts of issues during the last…I would probably say year and a half, starting from the Iranian sanctions in 2012, the Libyan closure, the Syrian crude oil closure, and Egypt's issues. So I think we've probably tested our system for pretty much all sorts of constraints we can impose on crude supply, and it's a good thing that we have coastal refineries, which can be supplied from a number of different types of crudes even at the higher price. But we don't have the actual risk of running out of crude in this part of Mediterranean. We have been switching into Urals since; I would probably think it's Q2 2012, when Iranian crudes were no longer available in the market. And as a result, the participation of urals in our slate is on average as high as 55% to 60%, overall. On top of that, we have been…we've had to switch other types of crudes, which are lighter crudes to substitute them in order to ensure that we get the right plans.

Traditionally, we've…we resourced a lot of crude from Libya, about 15% of our crudes used to come from Libya and from… CPC was also an important contributor.

Now, we've had to pay more expensively for Urals and that is…that is something which a number of refiners in the region have had to go through and that is a result of a number of factors. It's a Russian policy in terms of refining assets, it's policies in terms of opening up other routes to the East for

Urals through new pipelines. It's also part of their route to the market given that a lot of the Urals are actually handed by a limited number of companies in the Med. So we've had to if you like accept over the last year, a year and a half what I would call a higher price for Urals versus first of all benchmarks and what we would have to pay in a normal circumstance.

Looking forward, I would expect to see a reduction in the price of Urals, again, for a number of factors which I will not go into during this call. But we do think that we have seen the worst of that situation.

Now, the other question related to DEPA as, you know, DEPA was also part of the sales process; we've had indicative bids as well as non-binding offers at reasonable values coming through the system. For reasons which are beyond our control, we did not receive a binding offer, which would allow us to conclude the transaction on DEPA.

The plan is clearly, once we close of with DESFA, which should be in the next few days as a decision is to be made by our EGM, the plan is to work with the core service, with the Hellenic Republic Asset Development Fund, the privatization fund, to explore possibilities of, if you like, utilization that value which sits in DEPA.

Now, in terms of book values, we have around €600 million of book values for the DEPA Group, that will be allocated on the basis of the accounting books values because that's what IFRS requires us to do, which means that, top of my head, I would expect to have the book value for DEPA, excluding DESFA to be at round €300 million to reach the €300 million on the balance sheet. That will take place and you will be able to see that some time in 2014, given that the split of the companies will take place once we have a completed transaction on DESFA.

LOFTING M: Okay, great. Thanks for your answers, thanks very much.

OPERATOR: The next question is from Morgan Simon of Moore Capital. Please go ahead.

MORGAN S: Good afternoon, gentlemen, a tough quarter. I've got three questions, now, the first one, if you go to the first Page 11 of the bridge for your competitiveness improvements; I see €70 million from refining, €30 million from HR in the blue, and then on the right hand side €400 million implying another €50 million is missing. Could you just fill in the blank there and tell me where that other 50 is coming from. Secondly, in relation to that page, I would like to understand where the HR reductions are coming from and if consistent with others, you are going to be closing any refining plants, if so where, and if not, if you could help us to understand where those savings are going to garnered. And lastly, you've been a victim; I guess crude prices going up, overcapacity in Europe, demand down in Greece, and the US effect that you mentioned. And lot of your comments this quarter could have been taken off the transcript from last quarter, they are fairly similar. Also what I'd ask you is that backdrop is if there is no change in the operating environment, is it fair to say that we would have to expect another quarter of similar performance. And I guess a sub question to that is, with respect to the overcapacity, do you have any internal views about how long it's going to ring that out so that the margin can return to something that's more normalized. Thank you?

SHIAMISHIS A: Hello, Simon. Yeap, a good set of questions, let me go Page 11 first, and sort of try and address those, the first two questions. You are absolutely right; the upside that we are mentioning is €150 million on the right hand side of the Page. And on the left hand side of the Page we have as dark blue €100 million, the reason for that is effectively because the dark blue there was used to signal the change from the regional target.

The regional target was around €300 million, we've had added €100 million to the target, which takes you to €400 million. Out of the €300 million original target, we have been able to deliver about €250 million to date, which is effectively the €50 million which is the bridge between the two sides of the page. Now, in terms of reorganization, as I mentioned earlier, today the Board decided to move into a reorganization process whereby we will be reducing if you like, our resources to a level which is consistent with today's requirement.

At this point in time, it's probably too early to say more details on that, but I would probably feel quite comfortable on the target that we've got there for the €30 million to be delivered in the next, in the next six months or so. I mean, we are referring to an annualized target here. But I would expect it to have been materialized in the next six months.

Now, moving onto…moving onto crude oil prices impact and the refining backdrop, one of the key issues that we've had to face as European refiners and of course, as a sub group being the Med-refiners, has been the big delta between WTI and Brent. Traditionally, European refiners have been sending products into the US and that has been the case when WTI and Brent are pretty much at the same level, give or take $5, they are usually at the same level. Over the last 12 to 18 months, the increase in production from the states and logistics infrastructure constraints meant that US-produced crude was effectively taken up by US refineries, which were running at a much higher utilization rate and enjoying much higher refining margins, and we are aiming there for that. But, it also meant that they didn't have to import as much product from Europe. That has created a, if you like, a lower utilization requirement for European refineries, and a temporary overcapacity in the European refining market.

Now, whether we expect that to be changing over the next few months, most likely we don't expect to see a drastic change. However, we do have to bear in mind that this is a very cyclical business. And it's, you know, now we are going through one of the worst periods in the refining sector. Three or four years ago, we were going through one of the best sectors and instead of actually looking at $2 to $3 margin per barrels; we were looking at $8 to $9 per barrel. So in short, I don't expect it to be changing in the next couple of months. But on the other hand, I don't expect it to be lasting for too long because at the end of the day, we do have capacity issues, and a lot of companies effectively reduced their utilization of the refineries if the economics are not there.

We are one of the companies that have assets which are complex and we do have the advantage of the local market, which means that we will be able to take advantage of the upsides when it comes.

MORGAN S: Okay, now I appreciate the cyclicality of the business side, just based on the last quarter's comment and maybe also this quarter and these comments for the next quarter, I was just wondering to benchmark. And so, just for clarity you mentioned the €30 million of savings should be realized in the next six months. Is that €30 million at the incremental in total over the benchmark, or is that €30 million coming from the HR savings alone. I wasn't clear on that?

SHIAMISHIS A: No, that's coming from the HR savings.

MORGAN S: That's all clear, thank you very much.

SHIAMISHIS A: You won't be seeing €30 million impact in the second half, it's an annualized impact. But the actions that effectively delivered that benefit will have been completed in the next few months.

MORGAN S: Understood, thanks very much.

OPERATOR: We have a follow up question from Mr. Lofting Matt of Nomura. Please go ahead.

LOFTING M: Hi, thanks sorry, just one follow question if I could, around dividends. I think you indicated in the last conference call at the end of May, that you sort of the look at the interim dividend for 2013 with…likely with Q3 results over the back end of the year. I just wondered if you could confirm if that's still the case. And secondly; add any color if possible in terms of how you sort of thinking about that distribution at this point in time, so that given the challenging environment through the first six months of the year. Thanks.

SHIAMISHIS A: Well, I guess, it's fair to say that dividend distribution had to take into account the performance of the Company, liquidity position of the Company and the challenges ahead. With the first half of the year being quite weak as performance and probably not much of an upside coming up in Q3 on the basis of what we know up until know in terms of margins, I would not be expecting to see any additional dividend announcements coming up at the end of our third quarter.

LOFTING M: Okay, thanks very much.

OPERATOR: The next question is from Lake Duncan of Societe Generale. Please go ahead.

LAKE D: Yeah, hi good afternoon. Sorry, I jumped on the call a little bit late, just a clarification question on working capital. Just want to assume that given the fact that you are commenting that, you know, conditions seemed to be pretty much what I understand is you know same in the first two months of Q3 that happened in Q2. I mean should we expect a pretty minimal movement or a small movement because we have been seen some big pretty swings in the past. I am just trying to have a look where we should think of cash, you know, from the high level that is in Q2, going to Q3. Thanks?

SHIAMISHIS A: No, we wouldn't expect to see any major changes in working capital.

LAKE D: Okay, great. Thanks a lot.

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

COSTOPOULOS J: Okay, thank you very much for attending our teleconference with such good questions. I mean just a few words to say that, you know, as you all know, we've been operating under very challenging environment this quarter. We've had the greek recession continuing, but also we've been faced with the difficult crude supply environment and very weak margins. Nevertheless, I think in this environment, we did manage to increase our exports to more than 50% of the overall sales. And I think the good news on the Elefsis refinery is that, you know, the productions there is steadily increasing and our performance is improving as Andreas explained in more detail.

And certainly we are continuing to focus on our transformation efforts and we have added another €150 million as earmarked savings over the next two years. I just want to add then in the last, you know, few weeks we have seen, you know a small improvement in the refinery margins.

I think maybe that's due to the…the onset of the maintenance season in Russia.

Also, we have seen a substantial closing of the Brent/WTI spreads that Andreas mentioned before that had traditionally… historically over the last few years given a competitive advantage to the US. That spread has closed substantially and it's approaching if you will historical differences. So we expect gradually to see less exports from the US, so at least less than we have seen in the last year. But, it's very early days to, you know, to celebrate a major improvement.

And thank you for participating in the conference. And we will be talking again in the next quarter. Thank you very much. Bye-bye from all of us.