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"Full Year 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 Full Year 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.

Mr. Costopoulos, please go ahead.

COSTOPOULOS J: Thank you very much. Good afternoon ladies and gentlemen and welcome to our conference call, where we are going to be discussing the Fourth Quarter 2013 Results and the Annual Results for the Hellenic Petroleum Company. Let me start by saying that, we all know that as far as the refining environment, within which we have been operating particularly in 2013, has been one of the worst that we have seen as an industry. In terms of, you know, more specifics, we've seen a tight crude supply in the Mediterranean, given the continuing sanctions with Iran, the difficulties with Libya and Iraq, and, you know, the flow of Russian crudes towards the East.

And on the other hand, we have seen increased competition from US refiners, the situation there which has been the result of the last few year's developments on the shale oil and shale gas growth has substantially improved the competitiveness of the US refiners who have increased their runs to the point where as you know, you all well know, they have curtailed substantially, if not eliminated, the gasoline imports from Europe. And since their running at record high refining runs, they have increased the exports of diesel towards Europe, hence depressing refining margins in Europe and particularly in the Med. So, in the fourth quarter and generally, I guess, in 2013, refiners in Europe and particularly in the Med have been operating in the most unfavorable environment that we've seen over the last ten years.

Of course, the weak European economy, particularly in the south of Europe and in the geopolitical turmoil in the Med, has affected the demand since demand for fuels have been affected by the low economic growth and the turmoil in the region. And that led to low refining margins, on average about $2 per barrel lower than the ones that we saw in the equivalent period in 2012.

More specifically, if we look at FCC benchmark margins, which were around $1 per barrel in the fourth quarter of '13, and for the whole fiscal year of '13 they were around $2.5 per barrel, both are actually historical lows in terms of cracking margins.

In the Hydrocracking/coking margins, although we saw an improvement in the fourth quarter to $4.6 per barrel, certainly they were lower than where they were a year ago. Now, against that, we want to highlight that our upgraded Elefsina refinery had a positive performance as well as our marketing units. Both domestic and international had better performance, as well as our petrochemicals, as we will discuss in more detail in a few minutes, however, not enough to basically offset the major negative impact that we've had from the very weak benchmark refining margins.

Another point that I want to stress is that we have seen, in the fourth quarter of 2013, some positive signs on the domestic fuels demand front. As you know, the fourth quarter Greek GDP basically was down 2.6% and for the whole fiscal year, Greek GDP was down 3.7%; both are actually lower than what was originally estimated. So we are beginning to see a stabilization trend in our domestic economy, and that, obviously, is beginning to be reflected in the fuels consumption.

Therefore, in the fourth quarter, we have seen a flattening of demand for transport fuels, and we've seen an increase in the heating gasoil demand, which was the result of basically a better implementation of the refunding of the excise duty to certain, you know, customers who were in need of this rebates, and the system was better, and therefore, we saw an improvement in the fuel oil sales, I am sorry, in the heating gasoil sales.

As far as our financial results are concerned, in the fourth quarter, our adjusted EBITDA came in at €45 million, which compares with €78 million for the equivalent period in 2012; again, obviously reflecting the weak refining margins, which mask, if you will, the improved operational performance across all our business units, you know, the synergies in refining, the low operating costs, the improvement on the marketing front.

As far as our associate companies were concerned, in gas and power, the contribution was €7 million, which is pretty much in line with 2012. I want to highlight here, that our fiscal '13 results include a one-off provision of €21 million, which has to do with some retroactive taxes on reserves according to a new tax law provision in Greece.

In terms of net income, the IFRS net income came in at a loss of €98 million, which was the result of inventory losses as well as one-off charges, which were incurred by the Company as we implemented the last leg of our voluntary reduction scheme. Our CFO will explain that in more detail. We had a substantial….. a further substantial reduction in headcount with a very positive…… we should have a very positive impact in the 2014 result. It will generate more than €20 million in OPEX savings in 2014.

Looking at our balance sheet, our net debt closed at €1.7 billion, which is €200 million lower, and that was primarily attributed to reduced working capital as we've seen a reduction in inventories. We've seen, also, a further reduction in receivables and an overall, you know, a major effort that we have undertaken to manage our working capital in a very tight way. And of course, as we have said in our previous conference call, our major investment period has been completed at the end of 2012, so we have seen also a lower CAPEX. The lower net debt has, therefore, led to a gearing of 43%.

On a more strategic front, the key developments are the DESFA privatization transaction. As you are well aware, the shares and purchase agreement was signed at the end of 2013 and the closing is expected within 2014. The exact timing, as you well know, depends pretty much on the domestic and international regulatory approval process.

We think that because of elections at the EU level, changes that.., will be happening a little bit later on in the year, at the commission level et cetera, that there might be a small delay in the process. We expect the process to be completed within the second half of 2014, which will certainly as you know, give us an additional cash injection of north of €200 million, which will go towards further reducing our leverage.

In terms of the domestic market, we have been saying in our previous conference call, that because of the difficulties in the domestic market and the substantial drop in domestic demand, the marketing company structure was pretty much unsustainable, therefore we took some, you know, drastic efforts to reduce our OPEX by consolidating support functions, by streamlining our organizational structures to make them more fit for, you know, the new competitive setting within which we are operating.

And all this restructuring was completed in the fourth quarter of 2013. Overall, we now, we have achieved a reduction in headcount numbers as a Group, including some restructuring in our refining business, which as I said earlier on, will have an expected annual benefit of €20 million plus, which will be seen in the 2014 results.

Let me turn, as we usually do, the presentation and the discussion now to our CFO Mr. Shiamishis who will discuss the industry backdrop and the environment within which we are operating and the developments in that, as well as provide you some further details on the performance of our business units across the Group. Thank you. Andreas?

SHIAMISHIS A: Thank you very much, John. Ladies and gentlemen, good afternoon. Clearly, we are quite pleased to see 2013 coming to an end and reporting our results on one of the most difficult years in the last few years that we have certainly been with the Group. As John mentioned, a big part of that is done through the adverse refining environment, which compounded with the Greek economy crisis that we have been going through over the last few years have contributed to the sort of results that we've published.

With respect to industry, if we go to Page 5, we see that Brent has not been so volatile during the year. The problem is that Brent is no longer a very relevant crude for our operations. It used to be a benchmark upon which crude oils that we buy were priced against.

But as we have seen over the last year or so, that reference has changed significantly. More specifically with respect to Urals, we've seen what used to be sweet-sour spread, the price between… the difference between the prices of Urals and Brent of $2.5 to $3 per barrel, Brent being more expensive, coming down to practically zero. That is something which most refineries in the Med have to live with, and it is a result of the structural change in the supply of crude. And clearly, this is something, which will be affected by the availability of other crude, heavy crude sources in the Med.

On the back of that, we have, as I mentioned, a difficult crude market, and we also have a weak product demand market. Europe is still not growing as fast as we would like it to be. And of course, we have some specific weaknesses in the Med. Southern Europe is exhibiting weaknesses in terms of GDP growth and, hence, demand for products. And of course, we have North African markets and the Middle East travelled with instability, which is also affecting the demand for live products.

As a result, we see that benchmark refining margins, which is a reference for all similar refineries, are quite low. FCC benchmarks, which are relevant for our Aspropyrgos refinery is at the lowest level in a decade, $1 per barrel, that is, for the fourth quarter and on average just over $2 per barrel.

On the other hand, we have some more positive news on the diesel producing configuration of Elefsina. Even though it's still down versus last year, we have just under $5 per barrel on the average… as the average benchmark margin for Elefsina, it's still down from the $7 that we saw in 2012, in the fourth quarter of 2012. So this is where the average of $2 per barrel lower margin, that was referred to by John earlier, is coming from.

Now, the positive good news on the domestic market; we have seen a growth in domestic market demand in the fourth quarter. It is quite clear that this growth was driven by the heating gasoil demand, which grew by almost 40% in the fourth quarter against a very low base of 2012.

The slightly more encouraging news for us is the fact, that, we see auto fuels being relatively flat, if you compare it to last year, with probably a small switch between gasoline and diesel.

As you may be aware, over the last couple of years of the legislation, which allows diesel cars in Greece to be used as private vehicles has changed, and as a result, we have seen new car registrations in Greece being mostly for diesel cars. We estimate, we have about 50% to 60% of new car registration being for diesel cars, and that is behind the switch from gasoline to diesel.

Clearly, that is something which is compatible with our strategy. Even though the margins are still not there, it's clear that Elefsina, which is a diesel producer, is well positioned to take advantage of this switch in consumption patterns in Greece.

If we move on to Page 9, what we have tried to do here is to, give the changes compared to last year's fourth quarter by reason or by main driver. It is quite clear, that the main driver is the weak refining margins and the slightly weaker dollar compared to euro, which accounts for €35 million lower profits, lower EBITDA for this year.

We have a small loss, compared to last year, coming from the cost of supply; this is the fact that we have to pay for our feedstock at a slightly more expensive price than last year and we have the positive news coming from the operating units of the Group. Elefsina Refinery has delivered better results than last year; if you recall last year it was… the first few months of operation, so improvements are actually becoming more evident. We have €10 million, which is coming from competitiveness improvements and operations, and of course, marketing, which has delivered about €11 million of higher EBITDA; €7 million comes from domestic and €4 million comes from international marketing. Within other we have business units which are not identified separately, things like Engineering E&P, and some intercompany adjustments which are done at Group level.

As we have said in previous calls, on Page 10, you see the evolution on our transformation initiatives, on the competitiveness improvement initiatives. For 2013, the annual run rate is at €272 million, which is effectively €130 million lower than the full potential that has been identified of €400 million of lower costs.

During 2013, we've generated an additional €45 million, which comes from the processes that you see on the left hand side of the page, €6 million from refining, €2 million from procurement, €2 million from reorganization, and €1 million from marketing competitiveness. This is effectively the fourth quarter changes that we have seen as benefits. Now, if one goes back to 2008, which was the start of this journey, the overall net cash benefit for the Group exceeds €0.5 billion.

For 2014, we have targeted an amount, which is over €80 million, as benefits coming from improved operations, from synergies, from better cost structure, and from, if you like, the full benefit of the new Elefsina Refinery.

Now, in terms of cash flow, we have a slightly lower net debt number versus last year. This is coming mainly from working capital reduction. The fact, that the Greek domestic market is lower than last year means that we need to carry less stocks and we have lower receivables. The fact, that we have 50% of our sales going to export customers, means that we collect our cash much faster than the domestic market, and this accounts for this one-off benefit in the working capital.

Now, in terms of gearing; after about five years of heavy investment in the new refineries, about €2 billion is the investment or the growth CAPEX as we say. We have net debt peaking in 2012 at just under €2 billion; €1.9 billion to be precise.

Now, since the beginning of the year, we've started deleveraging gradually. Aand clearly, we expect, that, first of all, with improved results in 2014, the expected proceeds from the DESFA sale and the lower CAPEX, we will see an acceleration of this deleveraging in the next year to two.

Now, clearly, the net debt is quite high, so the way we finance our Group is very important. In the beginning of

2013, we refinanced about €1.2 billion of debt, which was maturing in December 2012 and February 2013.

Now, with the new Eurobond that was issued later in the year, in May 2013, you can see that our debt maturity is significantly improved, and that is the same for the type of capacity we have for the Group. So, in terms of funding mix, we have a much more diversified mix with the Eurobond at about 20%. We have EIB at 14% and syndicated facilities are about 30%. The rest 35% is made up from bilateral lines, mainly from Greek Banks.

Now, the good news is that, over the last six to seven months, we have seen a tightening of the yield of our Eurobond; over the last few weeks, we have seen it dropping to a range of 5.50% to 6%, which is a range, which could facilitate another transaction in terms of changing the mix of our funding even further.

Now, moving onto the individual segments; the first one is, refining. Refining is clearly the one, which has been affected most by the weak environment. You can see that the quarterly adjusted EBITDA is €22 million, and the main reason behind that, is the reduction of refining margins and the worse exchange rate in terms of euro/dollar.

Now, moving on to Page 16, the sales numbers have stabilized for the domestic and the aviation and bunkering markets. They are, however, lower in terms of exports, because exports is, if you like, a balancing market where we channel our excess production.

Now, if you see on Page 17, the fact that Thessaloniki refinery was not in operation for the fourth quarter of 2013, effectively means, that we have less products available for exports. The good news is, that, even though at a lower production, the mix of products is much better. We have an improvement in terms of middle distillates, which is something coming from the Elefsina refinery.

The second half of 2013, has been much better in terms of utilization of the new refinery. We have seen it gradually picking up. The first months of operation we had to deal with issues which were down to the new technology and learning how to operate and extract the maximum value from this new refinery.

And, we are pleased to say that, over the last six to seven months, the refinery has been able to run very close to its capacity, as a refinery, and the units have been able to perform even more than the nominal capacity throughout…, on a continuous basis throughout this six month period.

As a result of this, we have seen on the following.. page 19, we have seen a significant over-performance versus the benchmarks; over-performance effectively includes a number of variables. The benchmark is nothing but a theoretical margin for a refinery, which is of similar configuration. But the performance of any refinery depends on how well it is run, as well as certain… usually small differences in the way it's configured.

So, the over-performance is a result of density. t; This is a result of slight differences in the mix and the yield of product, compared to the standard. And of course, it involves the benefit of trading premium as well. So, we can see that the realized margin is significantly higher in the fourth quarter of 2013; its $8.4 per barrel compared to a much lower benchmark margin.

Now, moving onto marketing; we see what is clearly a turnaround of the business. If you recall, last year we did announce that 2013 would be a year for turning around marketing, following a rapid decline, of both, volumes and margins in the Greek market. It seems, that, most of the work has been achieved; marketing is delivering a doubling of EBITDA, and it is down to a number of drivers. It is down to better network performance, cost restructuring, and of course, it is down to a small recovery in heating gasoil demand as well as auto fuels.

Now, you can see the volumes by market, and by type of product on the following page, Page 21. I will not go through all the numbers. The performance of international marketing is also stronger than last year. We have better performance from practically all markets, even though 2013 we had to weather the crisis in Cyprus. We are quite pleased to see that at the end of the day. I International businesses have delivered increased performance across the Board.

Now, you can see the breakdown of volumes and EBITDA by market. Of course, what is not seen here is the benefit of vertical integration, as the majority of this volume is actually sourced from our own refineries. During 2013, about 73% of products sold through the networks of the subsidiaries was sourced from one of our refineries in Greece.

Moving onto Page 24, Petrochemicals have reported the historically highest full year EBITDA, which is down to both high margins on the polypropylene value chain, as well as cost reductions and better optimization of our Petchems business. As you may be aware, the Petchems business is a vertical integration on our refinery business, which means, that by running this integration chain more efficiently we can extract more value from our petrochemicals business units.

If we move now to our associates, which is the power generation and the natural gas, in term of power generation, we have a pretty much stable performance; 2013 EBITDA from Elpedison is just under €60 million, which is similar to last year. The participation of gas… of natgas power plants in the energy mix is down versus last year that is, a result of new regulation, which governs the electricity market.

At the same time, we had a planned maintenance outage at Thisvi, which means that Elpedison was actually in…it actually had reduced utilization during the year.

Finally, if we move to the gas, to the natgas business, DEPA has reported a small drop in terms of its operating results, in terms of EBITDA. The operational performance was better in the fourth quarter as a result of volume increase, which was driven mainly by retail sales, which was weather-driven. As you know, natgas is a substitute of heating gasoil for a lot of households in Greece and that offsets the IPP, the lower IPP demand due to the change of the framework.

The privatization process is, as described on this page as well, we had the SPA signed just before the year end, and we are in the process of obtaining all the necessary regulatory approvals. This involves both Greek regulatory approvals, as well as European DG Energy and DG Comp regulatory approvals.

Now in summary, 2013 has been one of the most difficult, if not the most difficult, year for the Group. We have a challenging environment. The crude market has not been… has moved away from its norms, both internationally as well as regionally. And Greek market, even though with some signs of recovery at the end of 2013, is 50% of its pre-crisis level.

Now, in terms of results, we did have the adverse effect of the environment. However, it is also fair to point out that the new Elefsina refinery is up and running with very good results. It has given us clear indication that there is more value to be had by running the refinery with more synergistic benefits with Aspropyrgos, and of course, all businesses have reported better performance, at the back of operational improvements and cost cutting as well.

2014 is expected to be a better year for the Group. We have the upgraded asset base and logistics, which are second to none in the region. We have a strong export orientation, and we have plans for, and are actually pursuing, additional operational improvements. We have estimated that to be in the area of €80 million to €100 million, which will be delivered in 2014.

Now, we do not have any major CAPEX plans going forward in 2014 and 2015. So, we expect that, as we see more inflows coming from our operations and DESFA sale, we will be able to deleverage the Group and resume, if you like, on a much more normalized pattern going forward.

Now, I will not go through the detailed numbers on the financial results appendix. And at this point in time, we are available to take any questions you may have.

Q&A

OPERATOR: The first question is from Mr. Boam Michael of Claren Road Asset Management. Please go ahead, sir.

BOAM M: Hi and thank you very much for the presentation. I just wanted to follow up on a couple of points, firstly, with respect to your working capital. You mentioned on the last conference call that you are expecting an outflow in the fourth quarter, that really didn't materialize and you had a very substantial inflow. But it seems to me that is largely driven by your payables as if… well payables and receivables, and not necessarily inventory.

Is that effect a one-time effect that you expect to continue, or should we expect, for example, your payables to start to reverse during the first quarter?

SHIAMISHIS A: Thanks very much for the question. That is true, about 50% of the working capital variance is actually coming from payables. In all honesty, we do not expect that situation to last, so some of it will be reversing in the first quarter of 2014.

What has driven this working capital probably lower than a normal level is the fact that in December, we did see an increase in sales of heating gasoil, which effectively meant that we have been able to reduce our inventory a little bit more than what we have planned.

So we have working capital, working capital numbers, which are…, if you sort of go through the balance sheet you will see that it's negative, we've got about €0.3 billion of negative working capital…

BOAM M: Yes, that's right. It was about €750 million swing.

SHIAMISHIS A: …we do not expect, sorry?

BOAM M: It was about €750 million swing in the fourth quarter.

SHIAMISHIS A: 450, if I… sorry, yes.

BOAM M: I am just talking in the fourth quarter.

SHIAMISHIS A: Fourth quarter, yes. No, I think that is probably not the normal position for working capital. I would expect some of that, probably as much as about a €150 to €200 million, to reverse in the first quarter of 2014.

BOAM M: Okay. And then my second question, you mentioned on the call, I know that you've been keeping an eye on where your bonds are trading, I know that you have expressed a desire to come back to the market. Could you tell us what sort of transaction you are thinking about doing, please?

SHIAMISHIS A: Well, during the previous transaction, clearly at a different market environment, we were able to get about €3.7 billion of orders from the market, and we printed €0.5 billion at 8%. Now, this time around, we will be assessing a possible market transaction, which will be at a much more attractive rate for us than the 8%, and it will be effectively reflecting the fact that we have moved into slightly better, if you like, environment for Greece and the Company, given that now we have completed the first year of operation for Elefsina.

I would refrain from actually saying anything more, because it is something that we are looking at and probably we will be able to provide some more color over the next few weeks.

BOAM M: So, the transaction is relatively eminent, at this point at least?

SHIAMISHIS A: What I can say, is that, it is something that we are looking at, whether we will decide to go to the market in the next few weeks or not. It is something that has not been decided yet.

BOAM M: Okay, thank you very much for your time.

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

LOFTING M: Thanks and thank you for the presentation. Two questions if I could please; firstly, I wondered if you could just talk in a little bit more detail about the 2014 outlook in terms of EBITDA generation. I think you spoke earlier about expecting this year to be better than last year. Could you be, perhaps, a little bit more specific in terms of what you think, either as a point of estimate or a range the EBITDA generation capabilities are for this year with the full year benefit from the Elefsina assets in place in particular?

Secondly, I just wondered if you could sort of update us in terms of the sale process on the rest of the year DEPA assets? Thank you.

SHIAMISHIS A: Well, with respect to the first part of the question, clearly, we cannot provide the guidance. What I can comment on though is some numbers, which we have already communicated in previous calls. Our 2013 EBITDA is just under €200 million, our adjusted number. That has been penalized by about €50million - €60million of first half losses on Elefsina. If you recall, we were forced to shut down the refinery for a few weeks in the first half of the year and that is not happening. So, we clearly, without doing anything different or without moving the margins at all, we would expect to see about €50 million - €70 million additional EBITDA in 2014. And we have announced that we are targeting about €80 million to - €100 million benefit from our own initiatives in 2014.

So, if you want to use a baseline, we've got just under €200 million, €50 million from Elefsina and €100 million from our transformation initiatives. It's about €350 million, which is on a similar environment to 2013. Now, you can be my guest and add any improvement on margins as you wish. A dollar per barrel is about €100 million on our EBITDA. So, I guess it's down to margins on how they will behave.

The other part of your question has to do with the DEPA sale if I recall. Well, we are in the process of finalizing the DESFA sale, so we would probably wait to see that completing before we can actually communicate something on DEPA. The 65% shareholder is the government, and clearly, our actions will have to be coordinated and discussed with them prior to making any announcements.

LOFTING M: Excellent, thanks very much.

OPERATOR: The next question is from Mr. Rethy Robert of Wood & Co. Please go ahead, sir.

RETHY R: Yes, good afternoon, gentlemen. I have few questions for you this evening. First one, if you can provide a breakdown of the one-offs in the fourth quarter. I may have missed this one in the presentation.

The second, if you can comment on Thessaloniki a little bit more; I am wondering if the refinery is running as of now, and if not, whether you have any sort of consideration for that permanent closure or restructuring of the refining asset base.

The third one is on Elefsina shutdown; and if you can quantify the impact on first quarter EBITDA of this shutdown. The fourth question is on financial costs related to working capital optimization. I am wondering if there is any explicit cost of keeping working capital low i.e., if you pay an interest on payables or sort of factoring costs; and if this is material. And my final question, if you can just give me a normalized DD&A number on an annual basis. Thank you very much.

SHIAMISHIS A: Indeed, quite a few questions. Well, let me try and see if I got everything down. The first one was exceptionals for 4Q.

RETHY R: Yes.

SHIAMISHIS A: The exceptional numbers, we have about, – I am giving you an estimate now, – about €35 million, which is restructuring charges. As John mentioned, in December, we implemented a headcount reduction program which involved voluntary retirement, voluntary redundancy for about 320 people from retail and mainly back offices or administration functions. So that was about 35, probably slightly more than that of exceptional charges.

Clearly, this is the additional amount to what we have already provided for as pension obligations, yes. So that is the bulk of it. We have some minor one-offs, but a few million nothing material. And of course, inventory losses, which is just under €10 million; that makes effectively the adjustment from reported EBITDA to the adjusted EBITDA, which is about €50 million, €55 million for the fourth quarter.

Now, on Thessaloniki, as we have announced in the past, we try to run and we do run our refineries as a system. So, for example, the only determinant for Thessaloniki operation is not the benchmark margin for Thessaloniki, but…., which is a hydro-skimmer, but it has to do with the upgrading opportunities we have for some intermediary feedstock, like, vacuum gasoil or fuel oil or naphtha. Over the last few months, we have indeed not operated Thessaloniki, because hydro-skimming benchmark margins have been very low. That is not a long-term decision, it is quite customary and we have done it in the past, and most, if not all serious refiners will do that. We will decide on the operation of a refinery depending on the LP and the price set that we assume… that we have.

Another component is clearly the domestic demand. As you can appreciate, domestic sales attract a premium, which if you like, changes the economics for running a refinery.

At this point in time, the level of domestic demand is such, which would make the production of… the additional production coming from Thessaloniki being mostly for exports, which means that all in all, it's more economical for the Group, not to operate with this margin environment. This is evaluated, as I said, almost on a monthly basis, and depending on the LP outcome and the market conditions, we decide to operate or not operate the refinery. Clearly, it's, if you like it's a classic make or buy decision that we have to go through on a monthly basis.

Now, the third point that I noted down; third question had to do with the Elefsina shutdown. Elefsina shutdown is more of a decoking and catalyst change process than a mechanical maintenance process. We did have a small repair to make at the flexicoker; that is something which was announced a few weeks ago. But the cost of this shutdown is not budgeted to be material. Now, clearly having the refinery down, or part of the refinery down for a few weeks, will lead to some loss of margin, and effectively the number depends on what sort of assumptions one would use for margins. We are not losing any of the premium, of the domestic market premium, because, we will continue similarly; we will be losing a few million, now that number is anything between $5 and $15 million of margin, which is going to be the lost refining contribution, if you like, from Elefsina.

The fourth one had to do with financial charges; if I've noted the question correctly, you were asking whether the working capital financing, either by longer credit terms or by factoring, has a cost. Clearly, it does have a cost and that is reflected in the total charges of just over €200 million.

Now, the decision on whether to use extended credit terms from suppliers or to use factoring is something which is made again on a frequent basis and depending on the environment and capacity of the market. But irrespective of the structure, the costs are reflected in the financing charges. I think that covers all of the questions that you raised.

RETHY R: Yes, I have… the final one is an easy one. What is the normalized annual depreciation charge?

SHIAMISHIS A: I am sorry, I missed out one. We would have around a €180 million to €190 million of depreciation charges, roughly just under €200 million.

RETHY R: Thank you very much. I appreciate it.

OPERATOR: The next question is from Mr. Patricot Henri of UBS. Please go ahead, sir.

PATRICOT H: Yes, hello everyone. Thank you for taking my questions. Just two from me; the first one, on the agreement that has been signed between Gazprom and DEPA recently on the natgas supply on cutting back meter and price, are you thinking what's the likely impact in terms of your own cost, energy costs? And would you look to increase the use of natural gas to take advantage of these lower costs?

And second one is on the dividend, as you mentioned that, you will be looking at for sort of the deleveraging of the Company but you didn't mention the dividend. Are you looking to pay any dividend for 2013 and what's the actual potential 2014 dividend? Thank you.

SHIAMISHIS A: Thank you very much. You are absolutely right, there has been an announcement or there has been a lot of press cover on the Gazprom supply to DEPA. The agreement has not been finalized yet, it hasn't been approved, even though a lot of information is already out in the open. The impacts on energy cost will clearly be positive. I think it's still early days to materialize that, but it will not be that material for Hellenic Petroleum.

Now, the second part of the question is quite interesting, the natgas supply for our energy costs will clearly be looked into and there are plans to increase the participation of natural gas as a source of energy for our own refineries. That is something, which we have approved internally, the project is actually in its implementation phase, and we expect that over the next few months or definitely by the end of the year, we will have the ability to choose between using natural gas or fuel oil or some other form of energy or some other form of fuel to run our refineries. That is something which is expected to provide a material benefit. However, we would not expect to see that in 2014. It will be there for 2015.

Now on dividends, the… it's a valid question, we are not proposing any dividends for 2013. As you see, we have reported on a net income basis a loss of €270 million. I have to say that, that number includes a significant amount of taxes, of one-off retroactive taxes on reserves and changes in legislation of about €35 million for the year.

In the fourth quarter, we booked about €21 million for such items. We do expect that other things been equal, 2014 will be pretty much a year that we will revert back to the previous mode. It doesn't necessarily mean that we will be distributing exactly the same as two years ago, but clearly, that is the intention and that is the plan.

PATRICOT H: Okay, thank you.

OPERATOR: The next question is from Senapati Saumya of Bank of America. Please go ahead.

SENAPATI S: Hi, good evening gentlemen, a couple of questions from me please. Just a follow on from a question asked earlier; in terms of annualizing the financial expenses, you've obviously said that there will be a slight reversal of the working capital gains in this quarter. So what is the kind of run rate, in terms of it, that we can expect for this year, because obviously, this year had the net financial expenses jump significantly from 2012? And secondly, my question is around domestic demand recovery. Now, you said that during the fourth quarter, heating oil demand recovered significantly when obviously there was another adverse impact in the comparable quarter in 2012.

How should we look at this going forward. Is domestic demand stabilizing or do you expect, like, further recovery in 2014? Secondly, if you could please give us some guidance around maintenance CAPEX; so, on a run rate, what would it be for a year now that Elefsina upgrades are over? And my last question is around debts; the closure of the DESFA sale, how should we look at the income from associates' line going into say 2015, where the sale would have been completed? Thank you.

SHIAMISHIS A: Okay, I think we will start charging you for the answers because there are quite a few and it's not evenly spread.

Financial costs; let me try and explain the jump and give you some sort of guidance for 2014 at least and thereafter. In 2012, we had a total interest cost of around €130 million to €140 million. Now that if you go through our accounts, you will see that about €60 million is reported as P&L charge and about €80 million is reported as capitalization because of the upgrade project. We had about €2.7 billion of gross debt. CAPEX for Elefsina was just under €1.5 billion, €1.4 billion. So, the allocation between the two in line with IFRS gives us that number.

In 2013, at the beginning of 2013, we saw the refinancing of about €1.2 billion of debt. Now, unfortunately, we had to pay the price of a different environment. The maturing debt was priced at bps, and I think we are unlikely to see that environment for the next couple of years. Just to give you an idea, we had one facility at 25 basis points over EURIBOR or LIBOR. Now today, I will give you the reference, for the May Eurobond was 8% of coupon and today's yield is 5.50% to 6%.

So, the refinancing meant that we had a huge jump in terms of margins. You may recall, that in previous calls, we gave an indication of about 2% on an average increase in our cost of debt, which is pretty much what we saw in 2013. So, you can effectively see the bridge between what we reported in 2012 and what we have in 2013.

Now moving on to 2014, I would expect to see probably a 15% to 20% decrease on the cost of financing for the Group. That is down to lower debt; it's a factor of a different cash management policy. Up until now, we have been keeping quite a lot of cash for risk management purposes. As we see the markets opening for HP in terms of raising more money from the market, and the bank system normalizing, we feel more comfortable to use up some of the cash to reduce gross debt. Clearly, that means we do not have as much negative carry as we had in the last year.

Now, the second part was domestic demand. We did see in the fourth quarter, we did see the increase in heating gasoil. And we saw a stabilization of auto fuels demand. Now 2014, in the first part of the year, we have not seen the same trend on heating gasoil.

Unfortunately, for our sales, and fortunately for people living in Greece, we have seen average temperatures in January and February of about 15 to 20 degrees Celsius. Now, you can appreciate that, that will effectively lead to lower sales of heating gasoil by definition.

In auto fuels, we are seeing a stabilization of domestic demand. We have, within a few percentages, some weeks we have a reduction, some weeks we have a better performance than last year, but I would probably say that domestic demand, the core of the domestic will be at least at the same level as 2013.

Now, it could be a totally wrong projection and we could see significantly different numbers. But indications are, that, we will be seeing at least a stable demand in 2014. Now, if I overlay the tourist projections for this year, which are a 10%

to 15% increase, I think, probably, sorry a 5% to 10% increase in terms of number of arrivals, I think it's realistic to say that we will expect to see a positive sign at the end of the year on domestic demand, with all the positives that will be accruing to us as a result of that.

If I have noted down correctly, the third question was on maintenance CAPEX. Maintenance CAPEX for the Group is around €100 million to €130 million per year. That includes any shutdowns and any routine maintenance work, which is required for the refineries as well as the petrol station networks, and the logistics for retail.

The fourth question, I'm not sure, I actually got it down incorrectly, it was something about associates, but I didn't get the question. Is it possible for you to repeat it please?

SENAPATI S: The question was just around the DESFA sale. So, as you deconsolidated from your results…

SHIAMISHIS A: Okay. Once we have a certainty of transaction, which is affectively the approval from the regulatory authorities, we will be deconsolidating DESFA. Now, it's going to be a lengthy process because it has to be unbundled from DEPA Group. But it means that we will be losing the net income contribution from DESFA.

Now, that number is anything around €10 million to €15 million a year. And of course, one would have to take into account the benefit from the lower debt as a result of the cash proceeds. Net-net has a more positive impact, I would say.

SENAPATI S: Okay, that's great, just one little clarification. So in terms of CAPEX for 2014, we should expect only maintenance CAPEX, then, that is the €100 million – €130 million a year?

SHIAMISHIS A: By and large, yes. I think every year, what we call maintenance CAPEX has about 10% to 15% which is small debottlenecking and upgrades. For example, the natgas projects that I mentioned earlier will attract a few million of CAPEX. However, it is within this so-called maintenance CAPEX. Nothing major is planned.

SENAPATI S: Perfect. Thank you so much.

OPERATOR: The next question is from Grady Andrea of BNP Paribas. Please go ahead.

ANALYST: Yes, good afternoon. Actually it is Julian Hesboreaux from BNP Paribas, I have got three questions. One is the Turkish Lira, the decline, is it going to have an impact on the trade of products in the region.

The second one is about the crude slate, what's the timing, when you expect to be able to buy materially more oil either from Libya, Iran or even Iraq?

And the last is on CAPEX; so your CAPEX level is going to be relatively low compared to your, let's say, forecast of EBITDA. At the same time you have got an asset which is underperforming, which is Thessaloniki. Shall we expect an upgrade of Thessaloniki, or do you see there is no need because there is low demand for resulting from the current in Thessaloniki.

SHIAMISHIS A: Yes, okay. On the Lira question, we do not expect that to have a material impact on the regional trade. It maybe have an impact in domestic consumption in Turkey. But I would expect, that, this is not going to have any material impact in the region. Clearly, the Turkish economy is driven by a number of variables. The currency is not the most stable currency in the region. So, it is something which will have, probably has a small impact in the domestic demand. Now, crude slate, well Iran is easy, once sanctions are lifted, it is something that we will revisit, but until then, it is not something that we entertain.

Libya, well, Libya we have quite a few cargos during the year. It is something that we would like to add to our slate, but clearly it is not up to us. I think Libya is something which is well beyond our controller effects, the flow of sweet crudes in the Med for all refineries.

On Iraq, we buy Iraqi crudes; the problem is that the supply, the flow of crude from Iraq is not consistent. And it is something, which probably, at least from our experience, cannot be a reliable source for all of our crudes. It is something, which we look into and we will participate in tenders to buy Iraq crudes, but we have not seen the full potential coming out of Iraq as yet.

Now, with CAPEX, you are absolutely right, our projected CAPEX is significantly lower than our projected EBITDA. This is a result of the new upgrades; we have the benefit of having higher depreciation than CAPEX for a number of years to come. And, in terms of upgrading Thessaloniki, we do not have anything in plan for that. Thessaloniki is a refinery which is advantageously located in northern Greece. It covers the northern part of Greece as well as South Balkans; it's got good logistics facilities and can be a very good complementary asset with the rest of the refining assets. At this point in time, however, I think it's probably premature to consider any sort of material upgrades for that refinery.

ANALYST: Okay, that's clear. Just a follow-up, so in term of crude slate, it seems that it should be relatively similar in 2014 from what you had in 2013?

SHIAMISHIS A: By and large, yes. That's a fair comment, yes.

ANALYST: Okay, thanks a lot. Thank you.

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

COSTOPOULOS J: Okay, thank you very much. First of all, let me thank all of you for the very interesting questions that you all raised. I hope you got satisfactory answers. Let me say a few words before we part.

First of all, you know, I don't need to kind hammer in the point that 2013, as Andreas said…., you know, we are happy to see this year behind us. We have been facing an extremely adverse environment in European and particularly, you know, Med refining environment, the most severe one that we've seen in the last decade.

Also as far as the Company operating out of Greece, we've seen a high cost of funding because of country risk. We.., you know, taxation challenges this year as well as challenges that we have lived through over the last few years in Greece given the 30% plus decline in domestic GDP, which, obviously, had a tremendous impact on domestic demand of fuels.

I want to stress, however, that this very difficult exogenous environment, which obviously has hit benchmark refining margin as well as domestic demand, is completely masking the huge amount of operational improvement that has been achieved by Hellenic Petroleum over the last few years, which I know, we've been talking about every quarter as we discussed the results. But I want to say that, you know, just to make the point that over the last five years, the transformation initiatives that we have undertaken as a Group have delivered almost €500 million of benefits, of hard cash benefits, particularly on the OPEX side, and some on the CAPEX side.

Just this year 2013, we have achieved an additional €45 million of benefits in cost reductions through the transformation initiatives. And for 2014, as Andreas mentioned earlier on, we have earmarked and targeted, and we will achieve an additional €80 million benefits, some of that is already in the bag, because we did talk about the VRS, the Voluntary Redundancy Scheme at the end of 2013 which has a €20 million impact. But we will see further benefits through synergies in refining, through improvements across the Board in procurement and many other areas.

So, it's important to see that, you know, we are beginning to see some light at the end of the tunnel. As we mentioned earlier on, and some of your good questions did address that point, we are beginning to see stabilization in domestic demand. Let's not forget that, you know, Greece in terms of GDP after the 30% reduction over the last five years, for 2014, the kind of consensus is, that, we will, for the first time, see some, you know, positive signs in front of our GDP, I mean it's difficult to say where that will happen, but I think people are going within 0.6% and 0.8% growth in GDP.

Everybody is already talking about a fantastic tourism year, which obviously has an impact on fuels consumption, both in domestic market but as well as aviation, where, as you know, our Company EKO has a leading market share and it's supplied by us. So, you know, we have seen for the first time a primary budget surplus, so the macroeconomic picture is looking better. We are seeing a current account surplus; I think this double surplus is quite unique even among successful European countries. So, I think we are beginning to see the light at the end of the tunnel, and that will certainly have, will begin to have some positive impact on our business.

Now, the Company cannot really influence international benchmark margins, but you know, there are a few things happening also in the international environment. We did speak earlier on about the competitiveness of the US refineries; I just want to kind of highlight a couple of points. This will gradually redress itself in terms of competitiveness.

We know for example that, you know, a year, year-and-a-half ago, the spread between Brent and WTI was between $10 and $20 per barrel. You know, the latest numbers are south of $7, I mean the latest number I think is about $6.5, $6.7 per barrel. So, the improvement in the logistic situation in the US in terms of crude are also the strength of US economy, which in the fourth quarter of 2013 led to a 2% growth in domestic fuels demand in the US.

All this is beginning to absorb some of the competitive advantage that we've had here, but also some of the excess, you know, product supply that exist in the US in their own domestic market. And other major competitive advantage for US refiners has been the very low gas prices; you know, which are anyway between 3 and 4 times lower than what they have been in Europe with $3.5 to $4 per million BTU. The latest numbers, as far as I know, are closer to $7, so, because of exports of natural gas from the US, that it is going to begin to rebalance itself, there will be arbitrage there.

So, medium term, I think the regional demand supply imbalances will be addressed by market dynamics and global competitiveness. And I think, that we, as an organization having, you know, reorganized ourselves.

I'll remind you here that, you know, in the last five years, we have taken our headcount down from 5,500 people to 3,350 people; that's a 40% reduction in headcount. We have reduced the unit cost in terms of help of the labor cost.

We are maximizing synergies between our three refineries in Greece; and just from those synergies we expect an additional €18 million to €20 million. Actually we did deliver €18 million in 2013, we expect another €30 million, €35 million in 2014. So I think we are well poised after all this restructuring enhancement of our competitive performance to, you know, better capitalize on the, you know, the more positive environment that will gradually, you know, develop in our region for refineries.

Of course in 2014; we don't expect miracles or that things, you know, with the switch will change around. But things will begin to improve and given our structure and our competitiveness, I'll also remind you that in terms of realized margin, I think Andreas talked about that earlier on, in the fourth quarter of '13, our realized margin…system margin was $8.4 per barrel versus $2.1 benchmark margin.

And in 2012, I'll remind you it was $9 realized margin average for the year versus $3.3 benchmark. So, we are, you know, over delivering in terms of refining assets and our capacity to operate and maintain those assets in an efficient and effective way.

So net-net, I think, you know, we are hopefully going to be able to see some, you know, better performance going forward. The privatization at the conclusion of the sale of DESFA will generate additional cash in 2014 that will go towards a faster deleveraging of our balance sheet.

So net-net, you know, a difficult year and hopefully, you know, as we look forward, you know, we expect to see gradual improvement.

So let me kind of close here, and say thank you very much for attending our year-end results conference call. And I look forward to having the conference call again in a quarter. Thanks very much and have a good evening.