“The role of HELPE Group in Revitalising Greece’s Economy”

Speech by Mr. Stathis N. Tsotsoros
Chairman of the BoD of the Hellenic Petroleum Group

Ladies and gentlemen, good afternoon.

From this podium I would like to thank the organisers for the opportunity I have been offered to express some, I hope, useful thoughts which will potentially contribute to the more general thinking around the systematic planning and decision-making that will make the economic recovery of Greece, which is experiencing the seventh year of the deepest and longest crisis in its modern history, possible.

I. Introduction

A. The Greek Crisis 2009-2015

Unfortunately conclusions on the situation, the structural problems and the causes of this prolonged crisis remain the same even today.

Amongst others, in summary we could refer to:

1. The unstable, changeable and bureaucratic framework of regulations and interventions (taxation, development, banking framework, privatisations)
2. Minimal investments and cessation of large projects
3. Continuous decreases in funding for investments in education
4. The disintegration of productive structures and the downsizing of production units
5. Intense banking system problems mainly related to restricted private sector funding
6. Violent and ongoing cuts in wages and pensions and the drastic decrease of asset value, especially of the value of property.
7. Unemployment and migration of young scientists
8. Aggravation of competitiveness indexes
9. The shrinking of the middle class (poverty)
10. Corruption, lack of transparency and wide-spread tax avoidance
11. Non-sustainable debt
12. Crisis of moral, political and cultural values

Given that the subject of today’s conference is recovery and the role of energy I will referrer initially to the self-evident, broadly accepted “prerequisites” for any recovery effort despite the fact that these are obviously a truism for the academics and industry professionals present here today.

These prerequisites include:

1. Political stability
2. Stable, small, anti-bureaucratic and flexible framework of the absolutely necessary state regulations in accordance with European policies
3. Reliable reforms for the prevention and cracking down of wide-spread tax avoidance, corruption and lack of transparency
4. The consolidation of the banking system
5. Select actions and interventions for the securement of long-term budget surpluses

6. Clear growth strategy and targets (selection of productive sectors and growth policies in the direction of enhancing international competitiveness)
7. Attractive framework for investments
8. Drastic enhancement of funding for education and research for the development of extrovert synergies and active participation in European and international research programmes in innovation and the promotion of cutting–edge segments and, finally
9. A comprehensive solution within the EU framework for the intensifying refugee and migration problem

B. The HELPE energy Group

HELPE Group is active in the entire breadth of the energy chain:

- In the oil and oil product sector [exploration and exploitation of hydrocarbons, refining (annual capacity 16 million tons of crude oil), wholesale (60-65% of domestic demand) and retail (1700 petrol stations and 30% of domestic market), product trading],
- Petrochemical production and trading,
- Crude oil and product transportation (pipelines, marine transportation)
- Electricity production from Renewable Energy Sources
- Production and trade of electricity via its 50% participation in Elpedison
- 35% participation in DEPA
- Research and consultancy services (Asprofos)

Currently, the Group employs 3,335 staff in Greece and abroad, has assets worth EUR 6.9 billion and equity worth EUR 1.8 billion (data on 30.9.2015). With a presence in 7 countries, Hellenic Petroleum is one of the most powerful energy Groups in South East Europe. Shares in Hellenic Petroleum S.A. are listed on the stock markets of Athens and London while over 50% of the Group's total funding comes from international funds. The company's bonds are traded on the Luxemburg stock market. Based on September 2015 data, the main shareholders of Hellenic Petroleum are the Greek State (35.5%) and Paneuropean Oil and Industrial Holdings (42.6%). Greek institutional investors own 8.6% of shares, foreign institutional investors 5.8% while approx. 80,000 private investors hold 7.6%. It should be noted the Group's shares participate in a number of the Greek Stock Exchange indexes and are monitored by a large number of investors and analysts globally.

The Group is the biggest industrial investor in Greece, having completed a massive investment programme worth over EUR 3 billion over the 2008-2012 period, in the midst of the international and domestic financial crisis while at the same time it realised a series of performance improvement programmes with a total annual benefit of EUR 361 million by the end of 2014.

Under the pressure of the direct consequences of the crisis that resulted in the significant reduction of domestic consumption of petroleum products (-39% in the duty paid and -34% in the duty free market) HELPE Group sought resources from abroad by increasing the volume of exports by 99.85% between 2008 and 2015 which resulted in the increase of the participation of exports in total annual sales from 20.82% in 2008 to 50.28% in 2015.

Financial results

The Group's financial results are dependent to a significant degree on external factors such as, indicatively, international refining margins, the €/$ exchange rate and the price of crude oil and products. Moreover, an essential role is played by cost structure and the competitiveness of every company since the Group is active in an open international market and has to compete with other regional refineries.

Following two years of injurious results (-269 million EUR in 2013 and -365 million EUR in 2014), the Group returned to profitability in 2015 achieving historically high 9-month operational results which will lead to an operational profitability (EBITDA) at the end of the year expected to reach EUR 750 million, according to conservative estimates based on the particularly profitable results for the first 3-months, due to be announced tomorrow, and continuing high profitability in October-November.

II. THE FRAMEWORK

C. Developments in the global economy and new geopolitical conditions

Following the experiences of the past few years and the tragically negative results for Greece, as a direct consequence, amongst others, of the unlucky choices of individual Finance Ministers over the past seven years, we are confident that it has been made clear to everyone than any planning aimed at recovery will not work without the correct evaluation of, on the one hand, tendencies and developments in the globalised economy and, on the other, the expressed policies and regulatory frameworks such as the road maps for individual sectors as in the case of energy, which form the action framework for EU members which also happen to be our principle lenders.

Developments in the world economy for 2015 are being "formulated under the defining influence of, on the one hand, climate change (increase of extreme weather phenomena, exacerbation of water shortages) and the targeted confrontation of the environmental consequences of production activities (increase in pollution in developing countries) and, on the other hand, the structure and operation of the growth model of the modern world, the deregulation of the institutional frameworks of national economies and the dominance of banking capital, all of which highlighted the following as critical problems: growth without increased employment, the increase of income inequality and the indebtedness of developed economies resulting in the disintegration of the welfare state, the weakening of representational democracy and the strengthening of nationalism which is expanding dangerously due, among others, to defaulting political leaderships." (World Economic Forum, 2015). Beyond these, particularly important factors cited for 2015 are the end of the seven year period of quantitative easing and zero interest rate by the Federal Reserve (Fed), the routing of changes to China's economic model and events in Crimea and eastern Ukraine (World Bank, IMF, Goldman Sachs).

It is also clear that in the formulation of future global developments, a vital role will be played by:

- The redeployment of trade routes within the framework of the Pacific Agreement,
- The further enhancement of the role of China in Asia part of which is the recent approximation between China and Taiwan, and also
- The particularly important, for Europe and Western Asia, plan by China for the Chinese Silk Road.

These vitally important events are forcing European to re-evaluate the geopolitical factor to which we will refer in more detail later.

As noted in a recent article (Project Syndicate, 2 November 2015) Joschka Fischer, a Green Party MP and German Foreign Minister (1998-2005) entitled **"The return of geopolitics to Europe",** Crimea's annexation by Russia and the war in the Eastern Ukraine have made it clear that world order is not based on laws. Unfortunately, the world is very harsh and ruled by the most powerful. Russia's military intervention in Syria and the refugee crisis in Europe highlight this realistic approach and raise alarm bells for Europe that, sooner or later, crises in neighbouring regions (Eastern Europe, Middle East or North Africa) will reach its shores. On the other hand, the planned Chinese Silk Road, a giant project with investments reaching USD 3 trillion aimed at the development of Western China and, at the significant increase of China's economic and political influence in Europe but also in the transit countries of Central and Western Asia, is an attempt to formulate an alternative strategy to Cross-Atlantic structures.

The war in Ukraine, instability in Eastern Europe, the Middle East and Africa, Russia's military intervention in Syria and the refugee crisis as well as the new reality that will be formed following the realisation of the Chinese Silk Road, impose the return of geopolitics to Europe as the basis for realistic choices within the framework of rapid international change and developments.

D. The oil environment

The financial crisis resulted in a plummeting drop in petroleum product demand and refining margins with an immediate impact of the sector's profitability globally.

Over recent years the refining sector has entered a period of reorganisation and realignment at international level. The financial crisis has forced many large companies (such as ENI, Shell, Total, INEOS) to re-evaluate their strategy by taking the decision to reduce their activities in certain countries either by closing/selling off less competitive refineries or turning them into storage spaces. Especially in Europe, 22 refineries with a total capacity of 2.6 million barrels/day, i.e. 13% of the total refining dynamic of Europe of which 15 with a total capacity of 1.8 million barrels/day concern EU countries, have closed or changed use since 2008. According to analysts' predictions an additional refining capacity of 1.5-2 million barrels/day must be withdrawn for the balancing of the demand/supply equilibrium. Pressures for the withdrawal of refining capability were amplified by increasing competitiveness in the Mediterranean. Neighbouring Turkey has already completed an important project for the upgrading of the Izmir refinery with an investment worth over $3 billion while the construction of the STAR refinery in Izmir worth $5 billion is about to begin.

Large projects which will offer significant refining capability are currently underway in the Middle East. 3 new large refineries (Jubail, Yanbou, Ruwais) with a total capacity of 1.2 million barrels/day which export mainly intermediate fractions to Asia and Europe have been completed and are expected to cover part of the supply deficit in the Mediterranean. Finally, a significant increase in capacity and upgrading of refineries has taken place in Russia.

Intensifying competition in the Mediterranean is particularly important for the competitive presence of Greek refineries since, as noted earlier, and under the pressure of the domestic market shrinkage, already more than 50% of production is exported.

Moreover, non-EU refineries are not burdened by the costs of compliance to the quality standards of products and acceptable environmental performance of the production process that apply in the EU. This fact, combined with the absence of similar standards in non-EU markets to which the bulk of products produced by the sector are directed, puts European and Greek refineries in a disadvantageous competitive position, with the negative prospect of this position worsening in the immediate future.

However, over the past 12 months the refining margins have shown a significant increase particularly in Europe and North America. Main factors are plummeting international oil prices that contribute to lower energy costs for refineries but also the important increase in oil demands in the USA.

Moreover, the Mediterranean region has benefited from the increase in petrol demand in West and North Africa and the Persian Gulf and increasing demand for transport diesel in the European countries of the Mediterranean basin part of which is however increasingly been covered by imports from North Africa, Russia and the Middle East.

III. THE HELPE ROAD MAP WITHIN THE EUROPEAN MAP FOR 2050

E. The European energy map for 2050

Existing European energy planning is overrun by the central decision for action, at international level for the confrontation of climate change. The main target for the abolition from carbon emissions is attempted to be achieved with policies, actions and measure for:

- High energy efficiency and energy saving
- Competitive presence of differentiated emission technologies and for CO2 capture and storage (CCS) technology
- High proportion of renewable energy sources (RES) with a target by 2050 of a 75% in gross final consumption and 97% in electricity consumption and, finally
- Low proportion of nuclear power.

The International Energy Agency (IEA) offers differentiated assessments on developments at international level; according to these, RES from 13.1% of total energy consumption in 2012 will increase its participation to 25.4% in 2030 and 43.4% in 2050. On the contrary, coal and oil will reduce their participation from 28.2% and 32.6% respectively in 2012 to 19.7% and 25.1% in 2030 and 11.1% and 17.4% in 2050. It should be noted that the forecast for the gradual reduction by 16.8% by 2030 and in total by 2050 by 36.9% of total petroleum product consumption from 179 Exa (10^{18}) Joule in 2012 to 149 Exa Joule in 2030 and finally to 113 Exa Joule in 2050 is particularly important.

Ten reformative changes are being promoted for the transformation of the European energy system that will have immediate and important effects on the total cost of the energy system and its investment structure. According to the proposals of the European Commission for "Energy Union and Climate Change Policy":

"We must move away from an economy which is currently based on fossil fuels, an economy in which energy is based on an aggregated approach to supply, old technologies and outdated business models. We must empower consumers by offering them information, choice and by creating flexibility for managing demand as well as supply. We must move away from a fragmented system characterised by uncoordinated national policies, market hurdles and energy isolated regions". (Energy Union Framework strategy, adopted on 25 February 2015)

Within this framework, the oil sector is experiencing significant pressure if one takes into account, among others, the political choice for a turn towards alternative fuels including electric cars and, beyond the significantly important choice of RES, the selection of natural gas as being of major significance for the transformation of the energy system. Given these choices: "Oil is likely to remain in the energy mix even in 2050 and will mainly fuel parts of long distance passenger and freight transport. The challenge for the oil sector is to adapt to changes in oil demand resulting from the switch to renewable and alternative fuels and uncertainties surrounding future supplies and prices. Maintaining a foothold in the global oil market and keeping a European presence in domestic refining – though one that is able to adapt capacity levels to the economic realities of a mature market – is important to the EU economy, to sectors that depend on refined products as feedstocks such as the petrochemical industry, and for security of supply.". (COM (2011) 885 final, 25.12.2011, p. 15)

Beyond the middle-to-long-term pressure which the petroleum industry will be faced with within the framework of a medium-term planning process, the ever intensifying competition from the Mediterranean, as already noted, is a fact.

F. The strategy, role and aims of HELPE Group in the revitalisation endeavour

F1. The strategy and role of HELPE

The intense pressures on the refining sector, as noted earlier, highlight but also necessitate the securement of its continued competitive presence in the refinery sector which is a prerequisite for any planning or role in the revitalisation endeavour and is the Group's main medium-term target.

Therefore, the maintenance of HELPE's competitiveness indexes among the 25% more competitive refineries according to the Solomon classification, is the company's primary aim and main obligation towards its shareholders.

Within the framework of this medium-term aim, the Group is adopting the European positions for the transformation of the energy system, innovative business models and re-orientation towards energy actions and advanced products (RES, natural gas, electricity) with a parallel strengthening of the petroleum sector as defined in the European energy transformation framework.

The Group, with its competitive international presence and orientation aims to play an important role in the revitalisation process by participating activity and effectively:

- In the country's energy transformation
- The realisation of a medium-to-long-term investment programme
- The improvement of the country's trade balance
- The protection of the environment and the support of safe operations
- The seamless supply of the Greek market with petroleum and petrochemical products
- The securement and maintenances of the country's strategic stocks
- The effective confrontation of illegal petroleum product trafficking.

F2. The targets of HELPE within the framework of the strategy for active participation in Greece's energy transformation and revitalisation.

1. Maintenance and upgrading of international competitiveness.
   1.1 Minimisation of the exploitation and operational cost aimed at maximising the benefits of favourable refining margins and the minimisation of the negative effects of future reduced margins, within the framework of the circular movement of oil prices.
   1.2 Minimisation of the supply and commercial expenditure cost
   1.3 Modernisation investments and improvement of energy and mechanical efficiency.
   1.4 Stabilisation of the refineries' position among the 25% of the most competitive refineries in the world.
   1.5 Stabilisation and improvement of the Group's international presence in SE Europe. Minimisation of exploitation and operational costs.

2. Actions at national, European and international level for the adaptation of regulatory interventions within the conditions of international competition

Active, continuous and systematic participation in the formulation, planning and approval bodies, committees, agencies of the regulatory frameworks in the European Union and Greece through:

a. Coordinated actions in the direction of the harmonisation of the national formulation of price interventions with those of the international competition and all competition within the framework of EU restrictions.

b. Coordinated actions in the direction of confining the negative effects of certain European policies aimed at improving competitiveness between the European refineries of the Mediterranean basin.

3. Improvement of investment plans and intensification of actions in the hydrocarbon exploration and exploitation sector (upstream).
4. Improvement of participation in the exploitation and development operations of production units and natural gas and electricity networks.
   5. Intensification of actions for the development of new business fields within the framework of the European policy choices (RES, saving, networks).

   5.1 Medium-term executive preparation programme with the realisation of the post-graduate specialisation scholarship programme in the Group's commercial sectors currently under-development within the frameworks of European energy planning.