



**MANAGEMENT REPORT OF THE BOARD OF DIRECTORS OF THE
NATURAL GAS TRANSMISSION SYSTEM OPERATOR(DESFA) S.A.**

FOR THE PERIOD

JANUARY 1st to DECEMBER 31st 2015

(Unofficial Translation)

February 2016

To

The Regular GA of Shareholders

Dear Shareholders,

We would like to present herebelow the Management Report and Financial Statements for the period 01 January-31 December 2015.

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I. Introduction

Dear Shareholders,

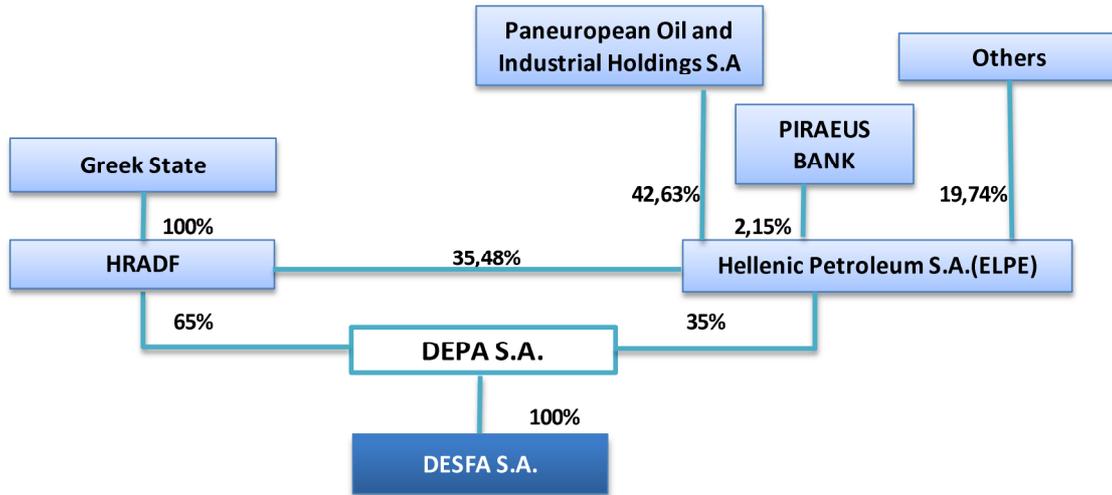
This management report issued by the board of directors relates to the period of twelve months of the fiscal year (1.1.2015-31.12.2015). The report was prepared in line with the relevant provisions of Law 2190/1920 as amended. The Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

This report contains summarized financial information on the financial position and results of DESFA SA, a description of the major events that occurred during the current financial year, a description of the principal risks and uncertainties for the next fiscal year, a listing of the significant transactions made between the Company and its affiliated parties and also an outline of data and qualitative assessments on the development of the Company's activities during the next fiscal year.

I.1 The Company

The National Natural Gas Transmission Operator (DESFA) S.A. was established by the issuance of the Presidential Decree 33/2007 on March 30th, 2007, with the aim to operate, maintain, manage and develop the National Gas Transmission System, as stated under the provisions of the new Energy Law 4001/2011 (O.G.A179/22.08.2011), and its interconnections, with the aim that NNGS remains cost-effective, technically sound and complete and serves the needs of the users of natural gas in a secure, efficient, reliable and financially viable way.

DESFA S.A is up to now a wholly owned (100%) subsidiary of DEPA S.A. and its shareholders structure on 31.12.2015 is shown below:



Meanwhile, the privatization procedure related to 66% of DESFA's shares is in progress (*i.e.* the total shares of ELPE, as well as the 31% portion of shares possessed by the Greek State). Within the framework of the assessment of said privatisation transaction by the European Directorate General for Competition (DG COMP), a new due diligence procedure has been initiated, in which participate companies that are not related to the supply of natural gas or electricity, with the scope of purchasing at least a 17% portion of the share from SOCAR, so that the final ownership structure of the company becomes the following: Greek State: 34%, SOCAR: up to 49%, companies that do not relate in natural gas or electricity supply: at least 17%.

Following the provisions of Greek Law 4001/2011 (O.G. A' 179/22.08.2011) as applicable, which incorporates Directive 2009/73/EC, DESFA is a certified Independent Transmission Operator. Specifically, the Greek Regulatory Authority, RAE, in accordance with Article 65A of Greek Law 4001/2011 (O.G. A 179), as amended by law 4286/2014 (O.G. A 194), and taking into account the relevant Opinion issued by the European Commission (C5483 final) «Commission Opinion of 28.7.2014 pursuant to Article 3(1) of Regulation (EC) No 715/2009 and Article 10(6) and 11(6) of Directive 2009/73/ EC – Greece – Certification of DESFA», with its Decision no. 523/2014/ (O.G. B 2572/ 26.9.2014), decided on the certification of DESFA S.A. as an Independent Transmission Operator. Such certification covers both the current and the expected new ownership structure of the company. RAE's decision essentially certifies the adequacy of DESFA's resources (infrastructure, manpower and financial resources) in undertaking its natural gas transmission operations, as well as the company's independence from the Vertically Integrated Company during the operation of said duties.

I.2 Main areas of activity and revenues of the company

A. Use of the National Natural Gas System – NNGS

The two main activities of the Company consist of transportation services of natural gas in the National Natural Gas Transmission System (NNGTS), as well as the unloading, temporary storage and regasification services of Liquefied Natural Gas (LNG) in the LNG facility on the island of Revithoussa. To this end, the Company receives transportation and regasification charges of the LNG, respectively, under the Tariff Regulation (RAE's decision no. 594/2012 – O.G. B' 2093/5.7.2012) and the Decision approving the use of tariffs of the National Gas System (RAE's decision no. 722/2012 – OGG B' 2385/27.08.2012. These two services are the main source of regulated revenue of the company, which for the year 2015 correspond to 96,5% of the total regulated and non-regulated services (not including the revenues from gas balancing, operating gas and security of supply).

B. Sale of Electricity: DESFA invoices revenue for the sale to LAGIE of electricity produced in the CHP unit in the LNG facility on the island of Revythoussa. Despite the fact that, for accounting purposes, this item is recorded as revenue, from a regulating perspective, said revenue reduces the total costs of the LNG facility. It shall be noted though that as off 31.12.2015, LAGIE owes to DESFA the amount of €13,552.59thousand from unpaid invoices.

C. Balancing and Operation Gas Services of NNGTS

The Balancing of the gas network and the covering of Operational Gas of NNGTS arise from the role of DESFA as the responsible entity for the balancing between deliveries and receptions of NG in the NNGTS, and the smooth operation of the transmission system. Revenues and expenses resulting from this activity are set off without resulting in any gain or loss for the Operator. The balance between gas deliveries – receptions in the NNGS is achieved with the gas balancing services, while own gas consumption and losses in the NNGS are covered by operational gas, the cost of which is allocated to the shippers without resulting in any gain or loss, as provisioned in the current legal framework. The procurement of gas for those activities is made following an international tender procedure.

D. Security of Supply in the Natural Gas market

With its Decision no. 344/2014, *“establishing the maximum approved cap of the Security of Supply Account and the Security of Supply Levy per type of natural gas User, and per type of*

power unit, in accordance with the provisions of art. 73 of Greek Law 4001/2011, as amended”, RAE introduced the Security of Supply Levy, which is paid by the natural gas consumers, in order to safeguard their compensation and the supply as a minimum the supply of the Protected Users in case of emergency situations.

Based on the aforementioned decision, DESFA is responsible for managing said account for security of supply purposes, the maximum amount of which has been set equal to 9,8 mil. €. From this account, in case of emergency, DESFA will compensate the power producers for the alternative fuel installations they maintain and the alternative fuel use, as well as the Gas Suppliers for the disruption of supply to their disruptible clients. On the basis of RAE’s decision, the revenues and costs of said activity are recorded separately and do not affect the company’s financial results.

E. Non Regulated Services

DESFA can derive additional income from non-regulated activities. These activities mainly include supply of technical services to third companies, such as Technical Support Services to gas distribution companies, Services for the certification of the systems measuring gas quality, as well as other provided technical services, such as odourization of gas going to distribution networks, LNG ships cooling down on the Revythoussa island, e.t.c.

At this point, it is worth noting that RAE, with its Letter no. O-62313/13.10.2015, informed DESFA, as well as the Distribution Operators, on its decision with regards to the accounting unbundling of the Natural Gas Activities of each Operator. According to the above-mentioned Decision, the revenues (and expenses) of some of the currently so-called Non-regulated Activities will be transferred from now on to the respective Regulated Activities accounts.

II. SIGNIFICANT EVENTS OF THE 2015 FINANCIAL YEAR

The key financial-business data of the previous year, at country and company level were the following:

II.1 Business Environment

A. Global and National Economy

In 2015 the global recovery is characterized as moderate¹ and reflects decreasing growth rates compared to 2014, given that according to the most recent estimates² the world GDP (in real terms) decreased by 0,3 percentage points in comparison with 2014, being equal to 3,1%, mainly due to the increased financial market fluctuations, the more stringent leveraging environment, as well as due to the fall in commodity prices and currency devaluations.³

According to the October IMF Report, the growth rates from advanced economies, and especially from the Euro Zone, are expected to counter-balance the slowdown in emerging and developing economies, despite the fact that they remain on low levels during 2015. This is mainly due to the balancing between the ongoing expansionary monetary policy and the fall in oil prices on the one hand, and the demographical changes and other factors on the other.⁴

Specifically, the global GDP rate was mainly based on the contribution of developed countries (2,0% in 2015 compared with 1.8% in 2014), while the respective growth rates in emerging and developing economies remained at lower levels compared to the previous year (4,0% in 2015 compared with 4,6% in 2014).⁵ The corresponding growth rates for the USA are equal to 2,6% (from 2,4% in 2014) and for Japan equal to 0,6% (from -0,1% in 2014). China maintained a lower growth rate of about 6,8% (versus 7,3% in 2014), while the Russian economy demonstrated a significant drop on growth rate, which in effect became negative, and reached -3,8% (from 0,6% in 2014).

The course of the economy in the Eurozone continued to record a positive sign for 2015, as well, with a GDP growth of 1,5% (versus 0,9% in 2014), reflecting improved economic performance in almost all countries (apart from Germany, Belarus and Malta, which demonstrated almost stable growth rates, and from Ireland, Greece, Lithuania, Slovenia, Luxemburg and Estonia, which demonstrated falling growth rates).⁶

¹Source: IMF World Economic Outlook Update, October 2015, available at:

<<http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf>>, p. XV of the Executive Summary.

²As above, IMF World Economic Outlook Update, p. XV of the Executive Summary.

³Source: Introductory Note on the State Budget of 2016, p.11, available at: <http://www.mnec.gr/sites/default/files/financial_files/EISHGHTIKH%20EKTHESH%202016.pdf>.

⁴As above, p. 11, which in essence summarises the Executive Summary of the IMF World Economic Outlook Update, October 2015, esp. pp. xvi-xvii.

⁵As above, IMF World Economic Outlook Update, October 2015, Table 1.1, p. 2.

⁶As above, IMF World Economic Outlook Update, October 2015, Table 1.1.1, p. 32.

With regard to Greece, in 2015 the depression anticlimax process was disrupted. In the early months of 2015, the request for a new agreement framework with the international partners and lenders of the country, as well as the corresponding deterioration of the cash flows of the Greek State and of the liquidity situation in the economy, especially following the capital control measures, resulted in the escalation of financial uncertainty.⁷

Despite the initial projections of IMF and of the initial draft of the 2016 State Budget that for the above-mentioned reasons a significant drop in growth is expected in 2015,⁸ with the GDP growth rate to fall as low as -2,3% (versus 0,8% in 2014), eventually the annual growth rate of real GDP is expected to be equal to zero.⁹ This development is based on the expected contribution of the increase in private consumption and on the expected higher drop in the imports of goods and services (particularly due to the fall in oil prices and to the capital controls) in comparison with the stagnation in exports. This will result in a positive impact of the external balance of goods and services on the GDP.

B. Natural Gas Market

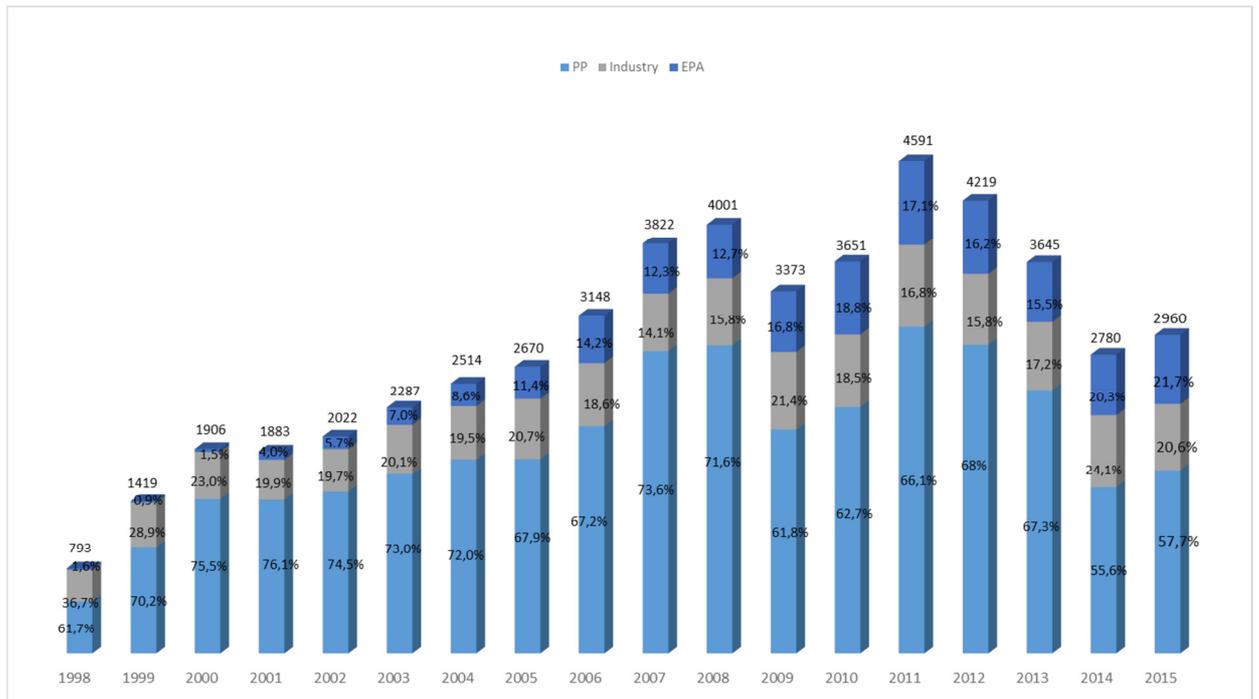
The gas market recorded increase in the demand for the year 2015, which amounts to about 6% compared to the previous year (affecting 20% of the regulated income) and a corresponding further increase of the actual capacity to about 7% (affecting 80% of the regulated income). The following chart shows how the gas consumption developed in the country between 2000 and December 31, 2015, by sector consumption (the Operational Gas is included).

⁷Introductory Note on the State Budget of 2016, pp. 20-21.

⁸As above, IMF World Economic Outlook Update, October 2015, Table 1.1.1, σελ. 32 and Draft of State Budget of 2016, p. 19, available at:

http://www.mnec.gr/sites/default/files/financial_files/PROSXEDIO_KRAT_PROYYP_2016.pdf.

⁹Introductory Note on the State Budget of 2016, p.21 and p.29.



Graph1- Consumption Rates of Natural Gas 1998 – 2015(mil.Nm³)

A growth in demand is recorded in the electricity sector and in the regional distribution companies (RDC), while a drop of about 3,5% is recorded in the gas consumption of industrial users.

In the power producers' sector, many factors affected the final outcome in gas consumption, given that significant changes have taken place throughout the year with regards to the expectations.

The first months of 2015, the natural gas consumption was lower than expected due to the increase in electricity imports, as well as due to the decreasing contribution of natural gas in the energy mixture, with a parallel increase of hydro-electric stations in it. However, with regards to the final result, the following factors affected the increase in consumption that was recorded from June 2015 and on:

- a) The drop in oil prices, which resulted in the drop of natural gas prices, rendering it more competitive. It shall be noted that the reduction in oil prices is affecting the gas prices with a six-month time lag, since this is the average period associated with the gas procurement price formulas in long term contracts.

- b) The capital control measures that was implemented in the summer of 2015 resulted in the decrease of energy imports, hence in the increase of domestic power production and
- c) The technical issues that appeared on the offshore power transportation cable between Greece and Italy further contained electricity imports.

Especially regarding the electricity power plants using natural gas, the participation in the total gas consumption is 58% (2015 data). DESFA in collaboration with the Department of Electrical and Computer Engineering, Aristotle University of Thessaloniki, has prepared a study on "Natural gas consumption forecast for electricity power generation purposes for the Greek wholesale electricity market over the next decade 2016-2025" The mentioned study showed that natural gas demand in electrical power generation will increase from 2016 onwards mainly due to the phasing-out of specific lignite plants ("Kardia" and "Amynteo") due to environmental restrictions imposed by European legislation (these units may from 1.1.2016 onwards operate at a maximum of 17.500 hours at a maximum horizon of 8 years). The study also shows that the gas consumption for electricity generation will be increasing at a modest pace over the next 10 years. This forecast is derived from a combination of various factors (competition from RES and lignite plants, energy saving measures, etc.).

The total forecasts for natural gas demand in subsequent years are presented in the following table, in which they are compared with the quantities that were assumed when the current Tariffs for the use of NNGS (2012) were adopted. In the table below, the demand forecasts obtained from the above study and published in the "NNGS Development Study for the period 2016-2025"¹⁰ have been increased by 5%, in order to take into account the further decline in the price of crude oil occurring after the study and that, according to most forecasts, expected crude prices are projected to remain below 50 \$/bbl for a sufficient period of time.

¹⁰Available at: <http://www.desfa.gr/default.asp?pid=167&la=1>.

Year	Volume Assessments as in Tariff Decision (2011)(mcma)	Realized Volumes* / New Estimates (2015)(mcma)	Difference(%)
2012 *	4.646	4.219	-9,19%
2013 *	4.922	3.645	-25,94%
2014 *	5.476	2.780	-49,23%
2015 *	6.008	2.960	-50,73%
2016	6.344	3.719	-41,37%
2017	6.424	3.797	-40,89%
2018	6.528	3.923	-39,91%
2019	6.605	3.902	-40,93%
2020	6.605	3.955	-40,13%
2021	6.605	3.678	-44,31%
2022	6.605	3.560	-46,11%
2023	6.605	3.581	-45,79%
2024	6.605	3.632	-45,01%
2025-2031	6.605	3.972	-39,87%

* Valid for the years 2012-2015.

II.2 Business Developments

A. KEY DEVELOPMENTS

The major Business Developments were:

- The continued successful operation, management and maintenance of theNNGS, according to the provisions of theNNGS Network Code.

- The completion of the investment program amounting to € 48,05 million, of which the most important milestone is the progress in the construction of the 2nd LNG Upgrade of Revythousa.
- In 2015, the new High Pressure branch of Corinth - Megalopolis came into operation (January 2015). The new Exit Point "Megalopolis" has been already declared and the relevant contract for the supply of this unit has been signed.
- Following the public consultation conducted by RAE for the Draft Development Plan 2015-2024 and DESFA's answer to RAE on the comments / requests of the parties concerned, the 2015-2024 Development Plan was approved by RAE on 27.11.2015 .
- In March 2015, DESFA submitted to RAE proposals for the application of accounting unbundling of its Activities. RAE, with its Letter no. O-62313/13.10.2015 informed DESFA, as well as the Distribution Operators, on its decision with regards to the accounting unbundling of the Natural Gas Activities of each Operator. Based on this decision, DESFA is obliged to create nine (9) distinctive activities, so that - at regulatory level - RAE can monitor the Regulated Activities of the TSO. Details of implementation thereof are in progress in cooperation with RAE.
- Under the current Tariff Regulation, 2015 is a year of regular tariff review and is defined as Year of Calculation for the determination of tariffs for the use of the NNGS for the period 2016-2035. DESFA is currently finalising its tariff proposal and is about to submit it to RAE.
- The privatization process of DESFA is in progress (refer to par. I.1 above).
- DESFA submitted to RAE its proposal for the first revision of Tariff Regulation (not dealing with the calculation of tariffs), as well as a proposal for the third revision of the NNGS Network Code. The objective of these revisions is to adapt the national regulatory framework to the new European Regulations, namely:
 - (EU) 984/2013 on Capacity Allocation Mechanisms in Gas Transmission Systems (Capacity Allocation Mechanism Network Code - CAM NC) with effect from November 1, 2015
 - (EU) 312/2014 on Gas Balancing of Transmission Networks (Balancing Network Code - BAL NC) with effect from October 1, 2015
 - (EU) 703/2015 on interoperability and data exchange rules (Interoperability Network Code - INT NC) with effect from May 1, 2016.

The final submission of the two proposals was completed on November 24, followed by their further submission by RAE to public consultation. The public consultation on DESFA' s proposal for the first revision of the Tariff Regulation has already ended, while it still continues for the third revision of the NNGS Network Code.

- As part of the implementation of the 2nd LNG Upgrade of Revythoussa, DESFA has requested a loan from the European Investment Bank in the amount of € 80m. The disbursement of the first tranche of €40 million has already been made.

On November 3, 2015, the Agreement for the disbursement of the second tranche of the initially approved loan was signed between DESFA and the European Investment Bank (EIB). The disbursement is scheduled for second half of 2016.

- After the signing of agreements between DESFA and the three existing regional distribution companies (RDC) for the provision of consulting services, DESFA worked closely during the year with the three RDCs in order to review their two documents, namely the Distribution Network Code and the Tariff Regulation before submission to RAE.
- Implementation of the DESFA Compliance Program and thorough education of all personnel, regarding several compliance issues and DESFA's obligations as an ITO. Especially for having access to the Compliance Program and for its observance, a special electronic platform, E-idea, was established, in which the competent personnel can post recent texts and their most recent actions in their respective fields.
- Completion of the staff evaluation process for 2014.
- The two companies, DESFA and Bulgartransgaz, cooperated in the preparation of the Interconnected System Agreement to enable the operation of the reverse flow and the implementation of new European regulations (Balancing, Interoperability and CAM Codes) at the interconnection point between Greece and Bulgaria (Interconnection point Kulata / Sidirokastro). The completion of that agreement can not be materialized yet due to problems that were identified and are related to existing intergovernmental agreements and contracts with regards to the use of the the Bulgarian Natural Gas Transmission System.
- For the implementation of the European Code provisions on capacity allocation mechanisms in gas transmission systems (CAM Code), the use of a specialized

platform is considered necessary. After consultation of DESFA with the upstream TSO (BULGARTRANGAZ), the Hungarian platform "RBP Platform" was declared as the most suitable. The contract agreement for the use of said platform is in its final stage.

- In 2015 the list with the Projects of Common Interest (Projects of Common Interest list) was issued by the European Commission, including the following projects relating to DESFA: 1) compressor station at Kipi 2) pipeline Komotini-Thesprotia and 3) M/R stations for the connection of the NNGS with Independent Natural Gas Systems. It should be noted that these projects are included in the Ten Year Network Development Plan (TYNDP 2015-2024) issued every two years by the ENTSOG. For these projects, DESFA has not yet taken any Final Investment Decision.
- On November 24, 2014 a Cooperation Agreement between DESFA and the Belgian Transmission System Operator (Fluxys SA) was signed, for the conduction of a study to determine the conditions and steps for creating the Greek gas hub, its interaction with the Energy Exchange, etc. On the same day, a Cooperation Agreement between RAE and the Belgian regulator (CREG) was signed as well, thus creating a comprehensive framework for know-how transfer to Greece. Cooperation between the two companies continues, in order to complete the study on the creation of a gas hub in Greece.
- Truck Loading Station: The basic design of the Truck Loading Station in Revythoussa was awarded on 28.05.2015 and is expected to be completed in the first quarter of 2016.
- Development of small scale LNG plants in Greece: The technical feasibility and cost estimate study for the development of small-scale LNG plants was awarded on 29.06.2015 and will be completed in the first quarter of 2016.
- Participation in the action POSEIDON - MED II (under the program 'Connecting Europe Facility' in the transport sector), where DESFA has assumed the role of Technical Consultant. The Grant Agreement of the action, with 50% granting, was signed with the European Commission in mid-December 2015, while the Consortium Agreement, which describes the relationship between the parties concerned, is expected to be signed soon.
- Throughout 2015, the DESFA and TAP cooperation continued, in accordance with the relevant contract, between the corresponding Working Groups set up for this purpose. In this context, DESFA prepared a report where it examines the issue of

parallel routing of the two gas systems from a technical, legal and operational perspective. The report was sent to TAP, setting the minimum approach distances of TAP with existing NNGTS, that should be taken into account in its design. Within the framework of the "Operational Group" WG, the preparation of the Technical Scope of Services of the Operation and Maintenance agreement of the Greek section of the TAP pipeline (which is intended to be undertaken by DESFA) has begun. In December 2015, an extension of the existing Cooperation Agreement by the end of 2016 was signed by both parties, acknowledging the right for further extension.

III. ECONOMIC PERFORMANCE AND THE FINANCIAL POSITION

III.1 Financial Data and Financial Position of the Company

For the preparation of the financial statements during the ninth fiscal year (2015), the International Financial Reporting Standards (IFRS) and the applicable Greek tax legislation were implemented.

The Earnings Before Taxes according to IFRS amounted to **25,144.88** thousand euro, compared to 27,423.59 thousand euro of the previous fiscal year.

The total revenue of the company during the ninth fiscal year amounted to **173,527.15** thousand euro, compared to 212,083.68 thousand euro of the previous fiscal year, broken down as follows:

- The main income from the use of NNGS (Transmission System and LNG Facility usage charges), including the charges for use of the system by balancing gas and operation gas, amounts to **104.015,91** thousand euro.
- The revenue from the production and sale of electricity in LAGIE amounts to **1.595,43** thousand euro, compared to 2.295,45 thousand euro in 2014. This revenue reduces the cost of the LNG facility.
- Revenues from non-regulated services, which services include, but not limited to, the operation and maintenance of medium and low pressure distribution networks, gas odourization services, etc. amounted to **3.749,80** thousand euro, compared to

3.577,06 thousand euro in 2014 and make up the **2,79%** of the total revenues (not including the revenues from sale of gas for balancing and System operation and collection of security of supply levy, which are offset by equal amounts of expences/expense provisions).

- Other income, such as income from returns from the Deposits and Loans Fund in accordance with law 2282/2001 Art.10 concerning a 10-year limitation of actions (pipeline easements), from interest income of cash etc. amounted to **10.273,99** thousand euro (it includes revenue in the amount of 2.000,00 thousand euro from an arbitration decision, which is the offset for an equal amount of expense, as seen under the account "Interest and Related Expenses" below, since a corresponding provision was made).
- The non operating company gains (grants amortization for acquisition of fixed assets, etc.) amounted to **12.694,38** thousand euro.
- The interest income amounted to **1.400,32** thousand euros.

The **Operating Expenses** for the fiscal year (01.01.2015 - 31.12.2015), without the amount corresponding to the provision to offset the Security of Supply Levy and interest on late trial payments (for which a corresponding provision was made in the previous fiscal year), recorded a decrease by 0,20%, compared to 2014. More specifically:

- The personnel cost decreased by 3,73%, compared to the previous fiscal year of 2014.
- The third party expenses recorded a drop by 0,93%, compared to the previous fiscal year of 2014.
- The third party benefits increased by 1,16% compared to the previous fiscal year of 2014.
- Tax and other levies expenses increased by 26,15% compared to 2014. This significant increase is mainly due to the levy on land registration of real estate.
- Miscellaneous expenses decreased by 10,37% compared to 2014. Said decrease was achieved from the further expense rationalization (travel expenses, donations & grants, promotion and advertisement expenses, etc).
- Interest and other related expenses in the amount of 12.068,95 recorded an increase by 5,45%, compared to the amount of 11.445,22 thousand euros of the corresponding year 2014. Said increase is mainly due to the reduced amount of loan interest capitalization.

The extraordinary and non operating expenses of the fiscal year (01.01.2015-31.12.2015) amounted to **1.135,40** thousand euros, compared to 2.559,23 thousand euro of the previous year.

Finally, Interest and other related expenses (including the State guarantee and other fees) amounted to 14.068,95 thousand euros, compared to 11.445,22 thousand euros of the previous year.

The revenue from gas balancing and operational gas (cost of gas procurement) amounted to **34.448,52** thousand euros. Said revenue is offset by an equal amount of operating expenses. The revenue from the Security of Supply Levy amounted to **5.348,81** thousand euros and is also offset by an equal expense provision amount.

In the table below, the company's financial Income Statement for the year 2015 is displayed.

P&L (in '000s €) YTD December 2015	ACTUAL YTD December 2015	ACTUAL YTD December 2014	Δ (YTD) ACT 2015 vs ACT 2014	% (YTD) ACT 2015 vs ACT 2014
Revenues	159.432,45	194.955,79	-35.523,34	-18,2%
Regulated activities	104.015,91	104.086,42	-70,51	-0,1%
Non-Regulated activities	3.749,80	3.577,06	172,74	4,8%
Electricity sales	1.595,43	2.295,45	-700,02	-30,5%
Other operating revenues	10.273,99	5.678,00	4.595,99	80,9%
Balancing & Operational Gas Revenues	34.448,52	77.432,37	-42.983,86	-55,5%
Revenue from Security of Supply Levy	5.348,81	1.886,48	3.462,33	N/A

Operational Expenses	77.533,25	118.804,57	-41.271,33	-34,7%
Personnel cost	13.363,42	13.818,07	-454,65	-3,3%
Cost of DESFA outsourced personnel	13.773,72	13.897,47	-123,76	-0,9%
Third Party Expenses	7.712,88	7.619,54	93,34	1,2%
Non Income Taxes & Levies	6.585,28	2.835,82	3.749,46	132,2%
Miscellaneous Expenses	3.627,34	4.039,30	-411,96	-10,2%
Extraordinary Expenses	1.132,24	2.582,35	-1.450,11	-56,2%
Provision for Personnel	723,59	746,56	-22,98	-3,1%
Consumables	1.135,15	10.052,60	-8.917,45	-88,7%
Balancing & Operational Gas Cost	33.945,27	77.188,09	-43.242,82	-56,0%
-MINUS own-production cost	-4.465,63	-13.975,23	9.509,60	-68,0%

EBITDA*	81.899,20	76.151,21	5.747,99	7,5%
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Depreciations	56.776,91	54.665,65	2.111,27	3,9%
Grants Amorization	-12.622,27	-12.768,10	145,83	-1,1%

EBIT	37.744,56	34.253,67	3.490,89	10,2%
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Interest Income	1.400,32	4.670,42	-3.270,11	-70,0%
Total Financing Cost**	-14.068,95	-11.524,75	-2.544,21	22,1%

Forex	68,95	24,25		
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EBT	25.144,88	27.423,59	-2.278,71	-8,3%
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The company assets and financial receivables /payables changed in relation to the outstanding balances of the previous year as follows:

- New investments in fixed assets in 2015 amounted to 48.044,59 thousand euro plus the amount of 1.239,71 thousand euro from the interest capitalization during the construction period, totaling overall in the amount of 49.284,30 thousand euro, compared to the amount of 71.641,28 thousand euro in 2014 plus the amount of 3.587,20 thousand euro from interest capitalization, amounting to a total of 75.228,48 thousand euro.
- Inventories decreased by 2,319 thousand euro, and the receivables (clients invoices) decreased by 11.494 thousand euro.
- The total payables as appear in the cash flow statement (loans, workers rights based on actuarial valuation, unamortized grants, suppliers, income tax, etc.) decreased to **9.297** thousand euro.
- The cash flow during the year increased by **1.332** thousand euro, hence the cash flow and cash equivalent at the end of the year amounted to **65.601** thousand euros, compared to **64.268** thousand euros in 2014.

Own equity at the end of the ninth fiscal year (01.01.15 to 31.12.15) amounted to **826.194** thousand euro, compared to **816.129** thousand euro at the end of the eighth financial year.

III.2 Financial and Profitability Ratios

The financial position of the company on 31.12.2015 is satisfactory. The company's key financial ratios for the years 2015 and 2014 are as follows:

RATIOS 2015 & 2014

A. Economic Structure Ratios

2015	2014
------	------

(in thousand euros)

1	CURRENT ASSETS	152.885	=
	TOTALASSETS	1.451.283	=

0,11	0,11
------	------

This index represents the proportion of funds allocated in current assets.

2	TOTAL LIABILITIES	625.088	=
	EQUITY	826.194	=

0,76	0,80
------	------

This index reflects the economic self-sufficiency (sustainability) of the financial unit.

3	EQUITY	826.194	=
	FIXED ASSETS	1.298.397	=

0,64	0,62
------	------

This index shows the extent of financing the assets of the financial unit from its equity. If the index is greater than one, the financial structure of the company is sound.

4	CURRENT ASSETS	152.885	=
	SHORT TERM LIABILITIES	84.010	=

1,82	1,84
------	------

This index reflects the overall liquidity of the financial unit. Good ratio > 1

5	CURRENT ASSETS (-) INVENTORY	131.407	=
	SHORT TERM LIABILITIES	84.010	=

1,56	1,57
------	------

This index reflects the quick liquidity ratio of the financial unit. Good index > or = 1

6	OPERATING CASH FLOW	76.160	=
	SHORT TERM BORROWINGS (+) FINANCING COST	45.366	=

1,68	2,85
------	------

This index shows the percentage of loans servicing their own resources. Ratios 3-6 are considered good when they are > 1.

7	BORROWINGS	242.259	=
	EQUITY	826.194	=

0,29	0,34
------	------

This index shows the ratio of loans to the equity of the entity. The ratio is good when it is ≤ 1

8	WORKING CAPITAL	68.875	=	=	0,45	0,46
	CURRENT ASSETS	152.885				

This index shows the percentage in the portion of current assets financed by the surplus of the constant capital (equity and long-term liabilities). (When equal to 1 then the total liabilities composed of constant capital, when equal to 0 Working capital is non-existent and when less than 0 portion of assets are financed by short-term borrowed funds).

9	BORROWINGS	242.259	=	=	22,67%	25,20%
	BORROWINGS & OWN EQUITY	1.068.453				

B. Profitability Ratios

10	OPERATING PROFIT	38.449	=	=	25,78%	19,22%
	TOTAL SALES	149.158				

This index reflects the performance of the financial unit.

11	EBT	25.145	=	=	3,04%	3,36%
	EQUITY	826.194				

This index reflects the return on equity.

12	NET INCOME	16.707	=	=	2,02%	2,43%
	SHAREHOLDERS EQUITY	826.194				

This index reflects the return on equity.

13	NET INCOME	16.707	=	=	1,15%	1,35%
	TOTAL ASSETS	1.451.283				

This index shows the return on invested capital.

14	GROSS PROFIT	28.175	=	=	18,89%	16,38%
	TOTAL SALES	149.158				

This index shows the percentage of gross profit on total sales.

15	GROSS PROFIT	=	28.175	=	23,29%	19,59%
	COST OF GOODS SOLD		120.983			

This index shows the percentage of gross profit on cost of sales.

16	SALES	=	149.158	=	18,05%	23,19%
	EQUITY		826.194			

This index shows the recycle of equity during the financial year.

17	INVESTEMENTS	=	48.044	=	71,71%	107,12%
	FINANCING MARGIN		67.002			

This index reflects the degree of coverage of new investment from the annual operating resources.

18	ACCOUNTS PAYABLE	=	47.789	X	360	152,92	106,38
	CREDIT PURCHASES		112.504				

This index shows in days the average debt repayment period of the financial unit with its suppliers on the closing day of the balance sheet.

19	ACCOUNTS RECEIVABLES	=	65.807	X	360	158,83	147,02
	CREDIT SALES		149.158				

This index shows in days the average time for recovery or settlement of the financial unit's receivables from its customers at the balance sheet date.

VI. RISK MANAGEMENT

IV.1 Risk of development of long term assumptions

The main significant risk remains the course of the Greek economy, including developments in the restructuring program of the Greek debt. The different scenarios and the various ways of dealing with them can by no means be predicted. Meanwhile the Company monitors the developments closely and adjusts its operation and its planning depending on those developments.

Both the macroeconomic developments, as well as specific developments in the energy sector, affect the company's revenues, with the most significant risk being the one of under-recovery of the required revenues mainly due to the lower levels of gas consumption compared to those that are assumed for the calculation of tariffs.

IV.2 Regulatory Risk

The year 2015 is a year of tariff review (with effect in 2016), according to the existing Tariff Regulation. This review will lead to tariff increases, which is due to the non-realization of the natural gas demand forecasts who had been assumed when the existing Tariffs were calculated (2011). DESFA has no ability to control the natural gas demand and, in accordance with European practice, the TSOs are relieved from such risk. This tariff revision is deemed necessary in order to restore the profitability of the company and to ensure its viability. However, this issue is still pending. Thus, the main risks for DESFA on a regulatory level are:

- The adjustment of Capacity and Commodity charges for use of the NNGS to unsatisfactory levels. This development, depending on the final decisions, could have significant impact on the company's cash flow in the coming years, and the return on equity (the ratios no. 11 & 12 show the current return on the equity determined from the financial statements according to the applicable tariffs).
- The multipliers for Short-Term Contracts for the Use of the NNGS. With the revision of tariffs, new Short-Term Contracts multipliers will be established. Based on the principle of equivalent income, these multipliers must also be increased. Any adjustment to unsatisfactory levels will be a risk of under-recovery of required revenue and will lead to increase in the recoverable difference of the subsequent years.
- Under-recovery risk regarding the Required Revenue is also related to the possible non-approval of the provisions proposed in the draft first revision of the Tariff Regulation submitted by DESFA to RAE (the public consultation has been already completed and what is expected is the decision of RAE).

Although the Tariff Regulation contains the Recoverable Difference mechanism for subsequent retrieval of any under-recovery of required revenues, such recovery is envisaged

in the long run, since said tariff revisions occur every four years and recovery is calculated in a 20-year recovery period.

IV.3 Market Risk

- **The evolution of oil prices** (see para. II.1B above). A sharp increase in oil prices in the near future will lead to higher gas prices and a consequent loss of competitiveness of this fuel in the power sector. The inability to predict the course of oil prices for the year 2016 and on, makes this parameter a significant risk variable.
- Risk of dependence on a limited number of Users: a main risk in principle is the high dependence of the company from a single customer (DEPA SA), since 76,5% of the company's total revenues are dependent on the latter. This risk, however, is not significant due to the financial soundness and credibility of DEPA.

IV.4 Financial risk

Interest rate risk: Interest rate risk arises from long-term and short-term borrowings. In 31/12/2015 the total of long and short term borrowings were fixed rate loans. Therefore, the company does not face an interest rate risk.

Currency risk: The company does not face a currency risk, as the total assets and loan liabilities are denominated in euros.

IV.5 Credit risk

The credit risk of the company is small. The clients payments are made to the company by the end of the month of the corresponding invoices, relating to transactions in the previous month. The company's payments to suppliers are generally 45 days after the issuance of the respective invoice, except for the gas procurement for balancing purposes and the procurement of operational gas, which follow the respective deadlines similar to those that DESFA imposes to its clients.

The following table shows a breakdown of the liabilities and obligations to suppliers in accordance with the contractual dates of settlement, and the list of the company's receivables.

Payables (€ k)

On 31/12/2015	From 1 to 2		From 2 to 5	Over 5 years
	Until 1 year	years	years	
Loans	32.697	24.079	59.157	126.326
Suppliers	47.789			

On 31/12/2014	From 1 to 2		From 2 to 5	Over 5 years
	Until 1 year	years	years	
Loans	32.697	32.704	66.999	142.556
Suppliers	51.919			

Clients and other receivables

(€ k)	31/12/2015	31/12/2014
Clients	18.488	39.356
Other receivables	27.808	36.376
Short term receivables from affiliated parties	118	118
Prepays	42	49
Expenses of following years	574	584
Revenues receivables	18.767	818
Other transitional accounts of the Assets Account in B/S	12	0
Total	65.807	77.301

The company's gearing ratio ,i.e. the ratio of total loans for this year to the sum of total loans and total equity for the same year, on 31.12.2015 was 22,7%, it is evident that the debt risk of the company is very low. According to the existing regulatory framework, said ratio cannot be above 0,50.

IV.6 Liquidity Risk

The liquidity risk is kept at low levels through the availability of sufficient cash and credit limits. In the table below the cash and cash equivalent amounts of the company are presented.

	<u>31/12/2015</u>	<u>31/12/2014</u>
Cash and cash equivalents (thousand €)	65.601	64.268

Given the Current Liquidity Ratio (A.4 above) for 2015 equals 1.82 and the Quick Liquidity Ratio (A.5) for 2015 equals 1.56, it is obvious that the liquidity risk of the company is very limited (according to the current ratio DESFA can repay its short-term liabilities 1.82 times, respectively, while under the Quick Liquidity Ratio by 1.56 times).

Regarding the handling of the Security of Supply Account, the company, in cooperation with RAE, has introduced the appropriate safeguards so as to prevent any liquidity risk related to this activity. It can be said that the company faces no liquidity risk, subject of course to the overall situation of the Greek economy and the completion of the tariff review that was mentioned above.

DESFA follows the above possible risk management policies with the aim to apply policies that minimize the negative effects that risks can bring with regards to the financial position and performance of the company. The Company's Management reviews and revises periodically the relevant policies and procedures.

V. TRANSACTIONS WITH AFFILIATED PARTIES

The company's transactions with affiliated parties are as follows, noting that as affiliated companies are considered those referred in the Article 42e, par. 5 of Law. 2190/1920 as amended:

VI.1 Transactions with the mother company DEPA SA and other affiliated companies (€ k)

	31/12/2015	31/12/2014
Receivables from		
DEPA SA	17.675	13.900
GSC ATTIKIS SA	26	27
GSC THESSALONIKIS SA	15	41
GSC THESSALIAS SA	31	45
	<hr/> 17.747 <hr/>	<hr/> 14.013 <hr/>
Payables to		
DEPA SA	26.179	15.539
GSC ATTIKIS SA	506	0
GSC THESSALONIKIS SA	631	0
GSC THESSALIAS SA	498	0
	<hr/> 27.815 <hr/>	<hr/> 15.539 <hr/>
	31/12/2015	31/12/ 20154
Income from		
DEPA SA	132.806	190.055
GSC ATTIKIS SA	114	111
GSC THESSALONIKIS SA	113	82
GSC THESSALIAS SA	152	126

	<u>133.184</u>	<u>190.372</u>
Expenses to		
DEPA SA	32.792	76.731

The above figures include transactions that concern gas balancing and operation gas.

VI.2 Board Members Expenses

	2015	2014
Compensation & other benefits of the BoD	139	142
Compensation & Other Benefits of the SB	110	129
Compensation – Other Benefits (€ k)	249	271

V.3 Participation in subsidiaries

DESFA participates with 50% (the remaining 50% is owned by OAO GAZPROM) in the company «SOUTH STREAM PIPELINE GAS SA" which was established and registered in the Companies Register of the Prefecture of Athens under no.69873/01AT/B/10/198, on 13.07.2010. This company is defunct after OAO GAZPROM by letter on 20.03.2012 informed DESFA that it currently does not intend to proceed with the implementation of the Southern branch of SOUTH STREAM pipeline (which would have passed through Greece). In 2015, earnings before taxes of the company amounted to € -18,881,13 (loss) and the respective tax was zero. On 31.12.2015 the total equity of the company was € 608.633,07, of which € 710.000 refers to the own equity shares and € -101.366,93 to the the outstanding amount of profits (losses) carried forward. Total assets (and liabilities) was € 609.243,70.

The income statement and balance sheet of the company are not incorporated in the financial statements of DESFA, but are consolidated with those of DEPA SA.

VI. SIGNIFICANT EVENTS FROM THE END OF THE FINANCIAL YEAR UNTIL THE DATE OF SUBMISSION OF THIS REPORT

Until the date of this report no other event has occurred that could significantly affect the financial position and the company's course.

Athens, 4/2/2016

By authorization of the Board of Directors

Antonios A. Natsikas

Chairman of the BoD

Konstantinos D. Xifaras

Chief Executive Officer

We verified the agreement and correspondence of the content of the Management Report pages 1-30 with the Financial Statements for the fiscal year 2015, as mentioned in the Audit Report provided.

Halandri, 08 February 2016

The Certified Public Accountant Auditor

BATSOULIS GEORGIOS

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