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Annual Compliance Report 2015-2016

on the adoption of measures set out for the implementation of the Compliance programme in the Company DESFA S.A.

Disclaimer on the English Translation

The present Annual Compliance Report is an unofficial English translation for convenient purposes only. Accordingly, any prospective reader should also refer to the official Greek version, which is the prevailing document for all purposes.

The present report was conducted based on the material provided by the Hellenic Gas Transmission System Operator S.A. to the company's Compliance Officer in the course of his duties for the period of 2015-2016.

According to law 4001/2011, as amended and applicable, the annual report is being published on the official corporate website of DESFA (www.desfa.gr) within five days from its submission to the Greek Regulatory Authority for Energy (RAE), with a final completion date on 31st March, each year.

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Acronyms

DEPA: Public Gas Corporation S.A.

DESFA: Hellenic Gas Transmission System Operator S.A.

DG COMP: Directorate-General (DG) for Competition

ENTSOG: European Network of Transmission System Operators for Gas

EPA: Gas Distribution Company

HELPE: Hellenic Petroleum S.A.

HRADF: Hellenic Republic Asset Development Fund

ITO: Independent Transmission Operator

IDEA: Independence of DESFA, Data confidentiality, Equal user treatment, Adoption of transparent procedures

ITO: Independent Transmission Operator

LNG: Liquefied Natural Gas

NNGS: National Natural Gas System ¹

NNGTS: National Natural Gas Transmission System ¹

RAE: Regulatory Authority for Energy

SOCAR: State Oil Company of Azerbaijan Republic

VIU: Vertical Integrated Undertaking ²

¹ The NNGS includes, also, the LNG facility, while the NNGTS does not include the LNG facility.

² DEPA is considered to be the VIU at the moment of the current annual report implementation.

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Chapter I

1 Introduction

This report has been conducted in accordance with the European Directive 2009/73/EC “Concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC” (law 211/2009) and provisions of law 4001/2011 (Government Gazette A’ 179/22.8.2011), as amended, “For the operation of Energy Markets in Electricity and Natural Gas for Hydrocarbons Research, Production and Transmission Networks and other provisions”, (article 63H par. 3b and par. 7). This work has been pursued by Dr. Eleftherios Amoiralis, Ph.D. in Industrial Engineering and Management, (hereinafter referred to as Compliance Officer) and addresses measures to be applied by DESFA for the implementation of the Compliance programme, approved by RAE (Decision No 184/25.04.2013).

Dr. Amoiralis was appointed under Decision No 9/20.05.2014 of the Supervisory Board of DESFA and approved under RAE’s Decision No 280/22.05.2014 (Government Gazette 8048/04.08.2014).

The implementation of the annual report is based on the statutory responsibilities of the Compliance Officer, in reference to the Compliance programme, as established by DESFA and pursuant to its obligations as an ITO. The Compliance programme is also valid for the LNG facility at the island of Revithoussa, as part of the NNGS, (law 4001/2011, article 67 par. 1b), where equal access of new Users shall be guaranteed.

The annual report 2015 – 2016 describes the most significant measures, adopted for the implementation of the Compliance programme in the period of 01.03.2015 to 29.02.2016, based on the following principles: (a) a non-discriminatory behavior towards NNGS Users and other institutions of the natural gas market, (b) DESFA’s independence, (c) data confidentiality managed by DESFA, and (d) adoption of transparent procedures.

The Department of Safety, Management Systems and Compliance programme, as an in-house competent unit (according to the company’s organizational structure) for coordinating independent audits, provides assistance to the Compliance Officer for monitoring of the implementation of the Compliance programme, which is ultimately subject to an independent audit of the Compliance Officer.

2 The Company

The Hellenic Gas Transmission System Operator S.A. (Greek initials: DESFA S.A.) is an Incorporated Company, 100% subsidiary company of the Public Gas Corporation S.A. (DEPA). The Hellenic Republic Asset Development Fund (HRADF) holds 65% of DEPA, with the remaining percentage held by Hellenic Petroleum S.A. (HELPE).

DESFA, the owner and operator of the NNGS, consists of the National Natural Gas Transmission System (NNGTS) and the Liquefied Natural Gas (LNG) Station at the island of Revithoussa. Under these terms, DESFA has the sole responsibility and authority for the operation, maintenance, development and exploitation of the NNGS, functioning under the ITO model standards and in conformity with Directive 2009/73 and law 4001/2011, as applicable.

Currently, DESFA is under the procedure of transferring 66% of its share capital (HELPE's participation being 35% and HRADF's participation 31%) to the State Oil and Gas Company of Azerbaijan (SOCAR), pursuant to an international competition conducted by HRADF. The remaining 34% of its equity capital will be preserved under public sector. The completion of the transaction is subject to approval by the Directorate General for Competition (DG COMP) of the European Commission, which is currently conducting an in-depth investigation on the matter.

Within the framework of DG COMP evaluation of the aforementioned acquisition, a new due diligence procedure has been initiated, resulting in formation of a final consortium, as follows: Hellenic Republic- 34%, SOCAR- up to 49% and companies with no trading activity in natural gas or electricity supply- at least 17%.

3 Compliance programme and Audit Methodology

DESFA, as an Independent Transmission Operator, establishes and implements a Compliance programme, according to law 4001/2011, as applicable. This program sets out measures adopted by the Company to ensure its independence, eliminate discriminatory behavior and enforce appropriate policies to monitor the Company's managing bodies and employees' compliance to the current Compliance programme.

More specifically, checkpoints of the Company's basic principles of operation are described by the Compliance programme, in conformity with the proposed methodology:

- Sampling checks: individual data samplings are taken,
- Thorough checks on the total number of cases that are related to each checkpoint,
- Meetings and additional interviews with designated personnel, especially in cases of deviation from the demands of the Compliance programme and need for further clarifications.

Subsequently, annual scheduled audits³ for the proper implementation of the Compliance programme commenced in November 2015 and were completed by the end of February 2016, in accordance with the principles of international auditing standards. These audits aimed to evaluate the Operator's compliance level through observation and documentation in a systematic, independent and evident way (e.g. files, statements or other information relevant to the audit criteria). In addition, the above mentioned audits were conducted by the Compliance Officer, taking into consideration standards' principles (International Standard ISO 19011) and best practices, as follows:

- Ethical conduct: *The foundation of professionalism*
(Trust, integrity, confidentiality, and discretion are essential to auditing)
- Fair presentation: *The obligation to report truthfully and accurately*
(Audit findings, audit conclusions and audit reports reflect truthfully and accurately the audit activities)
- Due professional care: *The application of diligence and judgement in auditing*
(Auditors exercise care in accordance with the importance of the task they perform and the confidence placed in them by audit clients and other interested parties.)

³ Beyond scheduled audits, impromptu audits also took place during the year, whenever required.

- Independence: *The basis for the impartiality of the audit and objectivity of the audit conclusions,*
- Evidence-based approach: *The rational method for reaching reliable and reproducible audit conclusions in a systematic audit process.*

Audits took place in the auditees' offices and included the following phases:

1. inaugural meeting,
2. on-site audit,
3. interview,
4. sampling,
5. documentation,
6. final meeting and audit completion.

The four pillars of ensuring basic principles of operation, based on which audits were designed and implemented, according to the acronym **IDEA**, were the following:

- Independence of DESFA,
- **D**ata confidentiality,
- **E**qual user treatment,
- **A**doption of transparent procedures.

4 DESFA Fundamental Principles of Operation

DESFA, as founding member of the European Network of Transmission System Operators for Gas (ENTSOG) and as ITO of the NNGS, has a decisive role in the gas market, ensuring the operation of the internal gas market in the European Union, based on European and National regulatory requirements. An essential prerequisite is that DESFA shall remain independent from the VIU or any other related undertaking during the decision making process while ensuring impartiality and transparency in performing its duties, and preserving strict principles to ensure free competition.

These prerequisites are significant regulatory demand for DESFA and their attainment is a primary concern for the company. It is therefore crucial every operating unit of the Company to comply with the four basic principles of operation, according to the acronym IDEA.

4.1 Equal User Treatment

4.1.1 DESFA Information Technology (IT) Systems

DESFA has undertaken a series of measures regarding transparency issues and equal treatment of Users concerning the amount of information demanded to be published and in conformity with the regulatory and legislative framework.

The Operator has taken all necessary measures for the proper application and publication of certain information on its official corporate website (checkpoint 4.1 of the compliance programme). On February 17, 2016 DESFA upgraded its website (www.desfa.gr), giving emphasis on how to better promote and manage information, as well as to comply with the strict security measures concerning the company's information systems. Following an audit, the company's Management Decision for appointment of DESFA's website administrator as well as responsible users per thematic unit are still pending (checkpoint 4.1.3). The Company has prepared a draft Working Directive, regarding its website management, which is due to be published in mid-March 2016.

Guidelines and ideas for the best possible implementation of the regulatory framework and Compliance issues on the new corporate website have been proposed by the Compliance Officer, in collaboration with the Company, and they have been already implemented. It is noted that the natural gas Operator, following the Compliance Officer's suggestion, will maintain the old website for at least six months from the official launch of the new one, and in that way address any potential malfunctions.

In addition, the Company is obligated to develop information technology systems and electronic means of communication to provide sufficient data to network users and simplify transactions, such as gas capacity contracts and gas capacity transmission rights (checkpoint 4.2).

Subsequent to the audit, currently these actions are being implemented with the aid of a pilot information system, which was developed in-house, while it is also confirmed that there has been no malfunction in the aforementioned system and no complaints have been filed by any NNGS Users. The Company has launched an International Open Tender Competition (No 368/13) regarding the implementation of an Integrated Information System for the NNGS, which has been cancelled under Decision No. 284/03/05.11.2015 of the BoD, (Board of Directors) due to significant change in the contractual object⁴. According to the Company's BoD Decision, it has been foreseen that the aforementioned competition will be re-announced, in-line with the necessary adjustment of the institutional framework to the extent that this would allow the provision of new technical specifications.

4.1.2 [NNGS Development: Development Study, Ten Year Network Development Plan, List of Small Scale LNG Projects, Third-Party Access to the NNGS](#)

The Company's Compliance programme provides checkpoints on equal treatment of NNGS Users.

After completion of the audit, the following can be noted:

1. Under decision No 276/02/09.07.2015 of the DESFA's BoD, the Forecasting Load and Demand Allocation Study 2016-2025 has been approved. Development Study 2016-2025 has been also approved under decision No 276/03/09.07.2015 of the BoD, which was instantly posted to DESFA's official website (with a relative time drift, according to prerequisites set by the Compliance programme, par. 5.1 -indicative date 30.06.2015).
2. According to the NNGS Network Code, the Development Plan 2016-2025 has not been posted for public consultation on 30.06.2015, and the Ten Year Network Development Plan 2016-2025 is still pending. DESFA requested from RAE to approve the matching of the Development Plan 2014 – 2023 with the Development Plan 2015 – 2024, so as to eliminate a new time drift for the Development Plan 2016-2025. This request was not granted approval by RAE. However, the development Plan 2015-2024 has been approved under RAE's Decision No 458/27.11.2015. At present, internal consultation procedure is due to be completed concerning the Draft Development Plan 2016-2025, to be later approved by the Company's BoD and uploaded to the corporate website for public consultation (checkpoint 5.2).

⁴ The competition was based in procedures and provisions of the regulatory framework that is in force, subject to significant reforms in the coming period, in order to administer all relevant European Regulations (984/2013, 703/2015, 312/2014).

It is noted that a detailed briefing has been requested by the Compliance Officer from the organizational unit in charge regarding the implementation progress of all projects included in the Draft Development Plan 2016-2025 (article 93 of the NNGS Network Code). The competent unit stated that all projects are being implemented based on provisions of the current Development Plan, excluding two time delays on scheduled projects [project par. 2.2.1.1 (expected to be completed 12/2016 instead of 07/2015) and project par. 2.2.1.11 (expected to be completed 12/2016 instead of 01/2016) Government Gazette B' 2753/18.12.2015].

3. The implementation and revision procedure of the Small Scale Projects' List has been met, according to checkpoint 5.3 of the Compliance programme.
4. The Company, in line with the approved Development Plan 2014-2023, has submitted to RAE in May 2015 a relevant monitoring report (Ref. No. 83868/15.05.2015), along with the Draft Development Plan 2016-2024 (checkpoint 5.4). It is observed relevant time drift on this matter.
5. On 23.12.15 ELVAL S.A. (Oinofyta, Voiotia) submitted an Application for Reservation of Future Capacity to the Operator. DESFA followed the procedure as this is set out in the NNGS Network Code and Compliance programme (checkpoint 5.5).
6. In regard to checkpoints 5.6 and 5.7 of the compliance programme, no action deemed necessary within 2015.

4.1.3 Transmission Services

The Compliance programme and the Network Code provide terms and conditions for gas Transmission Services, in line with the IDEA principles. In particular, detailed and consistent procedures for the Provision of Gas Transmission Services are included in the NNGS Network Code, as a checkpoint. In Chapter 8 of the Compliance programme, a relevant audit has been foreseen and the following can be noted:

1. Transmission capacity commitment (checkpoint 8.3.1) at the NNGS between Users and DESFA is implemented (Article 8 of the Network Code). During the audit, it was found that the binding request response time for all requests [one thousand seven hundred and forty one (1741) requests in 2015] lies within the time limits proposed in the network code. Moreover, the Compliance Officer's random checks reported an equal treatment for all NNGS Users.
2. In 2015, the Operator acted in accordance with the existing legal framework regarding the following: shift in the Binding Transmission Delivery/Reception Capacity (checkpoint 8.3.2), Release of Transmission Capacity (checkpoint 8.3.3), Transmission Allocation Capacity (checkpoint 8.3.4) and Natural Gas Resell (checkpoint 8.3.5), Annual Maintenance Plan for the year 2016 (checkpoint 8.3.13).
3. The competent organizational unit reported that one thousand eight hundred and sixty seven (1867) Initial and Final Gas Quantity Allocations took place in 2015. The Operator acted in accordance with the existing legal framework (checkpoint 8.3.6).
4. No actions deemed necessary by the Operator in 2015, regarding checkpoints 8.3.7 (Weekly Reports) and 8.3.14 (Unscheduled Maintenance works).
5. In 2015, the Operator conducted three thousand seven hundred and seventy four (3.774) Approval Acts and one hundred and thirty (130) Rejection Acts of Daily Nominations of Natural Gas (checkpoint 8.3.8), where it was found that these were handled according to provisions of the NNGS Network Code (article 27).

6. There have been some cases on Gas Delivery/Reception exceeding Requirements (checkpoint 8.3.9) in 2015, which were dealt in conformity with the existing regulatory framework. Similarly, there have been cases of Entry Point Minimum Violation (checkpoint 8.3.10) at the NNGTS Entry Points “Sidirokastro” and “Kipi”, for which all involved Network Users were notified.
7. An Emergency Crisis case has been reported in September 2015 (checkpoint 8.3.11), where it was found that the Operator acted in conformity with all relevant provisions (Chapter 10 of the NNGS Network Code and the corporate Emergency Plan).
8. Fifty seven (57) Days of Limited Natural Gas Flow (checkpoint 8.3.12) have been recorded in 2015. Announcements have been posted at the Operator’s webpage and dealt in accordance with all provisions of the Network Code.
9. The Compliance Officer confirmed that the Operator complies with the Programme in the following checkpoints: drafting and publication process for the Annual Program of the NNGTS Calibration for the Equipment Measurement (M/P⁵ και M⁶) in 2016 (checkpoint 8.3.15), the NNGTS Calibration for Metering Stations’ Equipment Measurement during year 2015 (checkpoint 8.3.16), and the NNGS Operation Report for the year 2014 (checkpoint 8.3.17).
10. Procedures concerning checkpoint 8.3.18 were in full compliance with Metering Regulation and the NNGS Network Code.

The competent Organizational Units for the execution of checkpoints, described in Chapter 8, declared that until today they are not aware of any relevant complaints in respect to the aforementioned points.

4.1.4 Working Meeting at the island of Revithoussa

On 15.09.2015 a working meeting took place among the Operator, DEPA and the Hellenic Ministries of Finance and Environment, focusing on the legal framework and equal Users treatment regarding provision of services for LNG vessels cooling down.

4.1.5 LNG Facility Service

The Compliance programme and the Network Code provide terms and conditions for the LNG Facility Services, in line with the IDEA principles. In particular, detailed and consistent procedures for the Provision of the LNG Facility Services are included in the NNGS Network Code, as a checkpoint. In Chapter 9 of the Compliance programme, a relevant audit has been foreseen and the following can be noted:

1. In 2015, the Operator functioned according to the existing legal framework regarding Re-Gasification Capacity Reservation (checkpoint 9.3.1), Additional LNG Facility Storage (checkpoint 9.3.4) and LNG Uploading Planning (checkpoint 9.3.5).
2. No action was required by the Operator within 2015 regarding checkpoints 9.3.2 (Re-Gasification Capacity Allocation) and 9.3.3 (Re-Gasification Capacity Discharge),.
3. Non-scheduled LNG Uploading took place in 2015 (checkpoint 9.3.6), while LNG Users Agreements for Trading LNG were submitted to the Operator and were granted approval (checkpoint 9.3.7). In all cases, the Operator followed procedures, as foreseen in the Network Code.
4. The Operator performed a study for LNG Losses Factor for 2016 (checkpoint 9.3.8), and acted accordingly with the NNGS Network Code. This study was granted an approval by

⁵ M/R: Metering/Regulating Station

⁶ R: Regulating Station

RAE under Decision No 436/2015 (Government Gazette B' 2748/17.12.2015), and it has been posted to DESFA website.

The competent Organizational Units for the execution of checkpoints, described in Chapter 9, declared that until today they are not aware of any relevant complaints in respect to the aforementioned points.

4.1.6 Non-Regulatory Services

The framework of Non-Regulatory Services (checkpoint 10.1 of the Compliance programme), grants DESFA with ability to conduct non-regulatory services contacts with clients that wish to benefit from such services. A detailed list of these services is available on the Operator's official webpage.

Having completed the audit, it was found that these services are provided under the same terms and conditions, with no discrimination, to all Network Users through standardized contract agreements. The standardized contract agreements, the methodology for calculating the tariff for the service contract agreement, as well as the specific non-regulatory services provided are available on the Operator's official website. In particular, DESFA has closed relevant agreements with the VIU and its affiliated undertakings (article 63B par. 1 case c of Law 4001/2011). These contracts have been conducted within the legal framework of standardized contract agreements and have been sent to RAE. It is noted that two active agreements, between DESFA and the VIU, are to be reassembled based on standardized contract agreements (relevant templates have been sent to approval to RAE)

4.2 Transparency in Procedures

4.2.1 Financial Transparency

The Compliance programme provides terms and conditions for distinct budget allocation of the following: (i) Regulated Asset Base and depreciation of fixed assets for every Basic Activity (checkpoint 6.7), (ii) operational cost of non-regulatory services (checkpoint 6.8) and (iii) DESFA's regulatory operational expenses (checkpoint 6.9).

Following an audit on randomly selected invoices, regarding the aforementioned checkpoints, it was ascertained that the Company has taken all necessary measures for the financial transparency and discrete distribution of invoice per requested service.

4.2.2 Procedures related to purchasing gas by DESFA

Terms and procedures related to purchasing gas have been defined.

After completion of the audit, the following can be noted:

1. The Annual Planning for Load Balancing for year 2016 (check point 7.1), as well as the Operator's proposal regarding NNGS capacity were submitted to RAE on 30.04.2015 (DESFA Ref. No. 083287/30.04.2015), in accordance with Network Code and Compliance programme requirements. RAE, under Decision No 219/21.05.2015, approved the aforementioned, notifying DESFA on 30.06.2015 (DESFA Ref. No. 0161613/01.07.2015), followed by publication of the approved annual planning on load balancing on the Operators' corporate webpage. In 2015, RAE sent email to the Operator (DESFA Ref. No. 01657291/02.11.2015), notifying that it would be appropriate to re-submit its proposal on the adjustment of the Annual Load Balancing Plan for the year 2015. According to article 46 of the NNGS

Network Code, the Operator made three (3) adjustments on the approved Annual Balancing Plan, which were sent to RAE to grant approval. RAE, under Decision No 459/27.11.2015, approved the Operator's proposal (Ref. No. 088673/10.11.2015), followed by publication of the Annual Load Balancing Plan for the year 2015 on the Company's official website.

2. The procedure for conducting contracts regarding balancing gas supply (checkpoint 7.2) and operational gas supply (checkpoint 7.4) for 2016 has not been completed yet, with relevant time drift. In particular, under DESFA's BoD Decisions No 272/02/28.05.2015 and No 272/03/28.05.2015 the Operational and Balancing Gas supply for the year 2016, respectively, have been approved, following an international tender procedure, according to provisions of Directive 2004/17/EP. On 16.11.2015, DESFA forwarded to the Official Journal of the European Union the corresponding tenders related to the Operational and Balancing Gas contracts, which due to Budget drafting issue, have been forwarded to the competent authority (Court of Audit) on 23.02.2016 for conducting a preliminary check.
3. The Operator forwarded to RAE the Annual Operational Gas Compensation Study for the year 2016 (checkpoint 7.3) in line with the Network Code provisions. This study has been approved, under RAE's Decision No 256/10.07.2015 (Government Gazette B' 1728 /18.08.2015) and was posted to DESFA's official website.

Considering the aforementioned incidents and in order to ensure the NNGS operation for the first trimester of 2016, a three-month extension for the contractual duration of existing balancing gas supply and operational gas contracts has been granted by the Operator.

4.3 Confidentiality of Commercially Sensitive Information

4.3.1 Educational Actions

Pursuant to paragraph 3.1 of the Compliance programme, the Company shall carry out various educational actions with the aim of informing all employees on regulatory obligations and legal operational framework of DESFA.

The audit's results reported that the competent organizational unit carried out distance learning programs and educational actions for awareness, information and comprehension of the company's entire personnel (checkpoint 3.1). The competent organizational unit prepared a relevant annual report for the year 2015, including performance indexes of the cooperated manpower on relevant issues.

4.3.2 Information Technology (IT) Systems

DESFA shall ensure security for its IT systems to safeguard confidentiality, integrity and availability of the business information, using the best available technology and through international best practices, with the aid of specialized devices, while protecting the Company's IT systems and corporate intranet from Internet threats.

The audit's results reported that the competent organizational unit applies advanced methods, for identification and treatment of IT systems vulnerabilities, so as to ensure their effective protection and security. For optimal monitoring of the IT systems, the Operator uses a specialized software platform for continuous monitoring and assessment of the IT security, however, development of Information Technology (IT) Systems Security Framework would prove beneficial to increase system security. In this regard, the Compliance Officer proposed creation of a reporting database, which will include incidents and document security situation

of existing IT systems by external rating agencies and enable adequate information on a regular basis to be used by other auditors.

4.4 Independence of the Company

4.4.1 DESFA's Certification as an Independent Transmission Operator

DESFA S.A. was certified under RAE's decision No 523/2014 (Government Gazette B 2572/26.9.2014) as a natural gas ITO company. This certification applies to both the current ownership status (100% subsidiary of DEPA) and the company's future ownership structure (66% SOCAR - state oil and gas company of Azerbaijan, 34% Greek State), including the following conditions:

- In case of change of DESFA's ownership status, the Company shall inform RAE in writing within three working days from the completion of the process.
- In case of change of DESFA's ownership structure, the Company shall draw up, in consultation with RAE and its shareholders, and propose a specific plan, subject to RAE's approval, within six months since the completion of the process. This plan shall ensure that the Company is able to provide working positions, covered by the Company's own human capital on a permanent basis, essential for the fulfillment of the company's obligations.
- All technical, commercial and financial agreements with TAP A.G. or any other documents, relating to natural gas transmission TAP pipeline, shall be submitted to RAE for approval.

Under these conditions, DESFA has been certified on the adequacy of its resources (infrastructure, human capital and financial resources), performing its duties on transmission of natural gas, as well as its independence from the VIU and its affiliated undertakings.

4.4.2 Independence of Management and Administrative Bodies

The Company is managed by a Board of Directors, which currently consists of eight Members, assigned and revoked by decision of the Supervisory Board, and approved by RAE, in conformity with provisions of Law 4001/2011, as applicable, and notwithstanding the provisions of Law 2190/1920. The Managing Director is the chief executive officer of the Company. Further, in accordance with Law 4001/2011, as applicable, and notwithstanding provisions of Law 2190/1920, a Supervisory Board is formed under RAE's approval, which currently consists of seven Members whose responsibilities are further described in the Company's Articles of Association (corporate charter). Moreover, in conformity with relevant provisions of Law 4001/2011, the Compliance Officer is appointed under the decision of the Supervisory Board and RAE's approval as an independent institutional body referring directly to RAE. The Members of the Board of Directors, the members of the Supervisory Board, as well as the Compliance Officer of the Company have all been appointed under the requirements, as set by the Law and the Company's Articles of Association.

4.4.2.1 Supervisory Board

Following the audit (checkpoint 1.1), it was found that in the records of the competent organizational unit there are formal declarations, in conformity with law 4001/2011 (article 63E) of at least three out of seven members of the Supervisory Board, stating solemnly that they do not fall under law restrictions, thus ensuring the independence of the Members of the Supervisory Board.

4.4.2.2 Board of Directors

As previously stated in the report, the composition of the Board of Directors of DESFA remains to eight members and has not been reformed until the date of release of this report.

Having completed the audit (checkpoint 1.2), it was found that in the records of the competent organizational unit there are formal declarations, in conformity with law 4001/2011 (article 63D) of all Members, stating solemnly that they do not fall under law restrictions, ensuring the independence of the Members of the Board of Directors.

4.4.2.3 Administrative Bodies Meetings

From March 1, 2015, up to February 29, 2016, the Company's Administration has participated in the following Meetings:

- one (1) Annual General Shareholders' Assembly,
- seven (7) Supervisory Board Meetings,
- twenty five (25) Board of Directors Meetings.

In all of the above mentioned Meetings, the Company's Compliance Officer received an invitation, in conformity with provisions of law and the Company's Articles of Associations, while he was present in thirty two (32) out of the thirty three (33) Meetings that took place.

4.4.2.4 Compliance Officer

Dr. Eleftherios Amoiralis, Ph.D. in Industrial Engineering and Management, was appointed Compliance Officer of DESFA, according to the 20.05.2014 Minutes of the Supervisory Board, and approved by RAE's Decision of 22.05.2014.

The Compliance Officer has submitted all formal declarations to the competent organizational unit, stating solemnly that he does not fall under law restrictions, in conformity with Law 4001/2011 (article 63H), and therefore ensuring his independence.

4.4.2.5 Managing Executives

Managing executives of DESFA, responsible for executing management tasks or performing decisions on daily NNGS management issues and those referring directly to them for issues relating to the operation, maintenance or development of the NNGS shall ensure their independence in performing their duties. Based on paragraph 1.3.3. of the approved corporate Compliance programme, the aforementioned Managing Executives and all executives referring directly to them, are the ones that fall under the rank of the Director, namely they have the rank of the Division Director, the Coordinating Director and the Director, in conformity with the valid corporate Organizational Chart.

The audit's results reported formal declarations of all of the abovementioned entities in the records of the competent organizational unit, as provisioned by law 4001/2011 (article 63D), stating solemnly that they do not fall under law restrictions, thus ensuring their independence.

4.4.3 Financial Independence

The Compliance programme provides terms and conditions for the financial independence of the following: preparation and approval of the company's Business Plan (checkpoint 6.1), preparation and adoption of the Action Plan and Annual Budget (checkpoint 6.2), appointment of Chartered Accountants and Auditors to issue the tax compliance report (checkpoint 6.3), approval of the company's annual financial statements, the amount of dividends distributed to shareholders, remuneration of the Members of the Board of Directors and the Supervisory Board and the management report of the Company's Board of Directors

(checkpoint 6.4), approval for the loans conducted by the company (checkpoint 6.5) and further proposals for increasing share capital (checkpoint 6.6).

After completion of the audit, the following can be noted:

1. In 2014 the Company had decided to postpone the formulation of the Business Plan for years 2015-2024 (checkpoint 6.1), which has resulted in postponement of the Business Plan for the years 2016-2025, deviating from the indicative reference date anticipated in the Compliance programme. The finalization of the proposal for the Transmission and LNG Tariff coefficients for the period 2016-2035, based on which the Operator's regulated revenues are defined, is shortly expected. It is also noted that 2015 has been a year of tactical review regarding Decision on NNGS Tariffs.
2. The Action Plan for the year 2016 has been approved (checkpoint 6.2) under Decision No 290/03/28.01.2016 of the BoD of DESFA, deviating from the reference deadline for the approval of the Action Plan, as proposed in the Compliance programme (31.12.2015).
3. The Corporate Budget for the year 2016 (checkpoint 6.2), is still pending today, sliding from the proposed dates of the Compliance programme (31.12.2015). At present, finalization and approval of the NNGS Tariffs for the year 2016 is expected, whereas the completion of the Annual Financing Program for the year 2016 is still pending.
4. The Contract, between certified public accountant and DESFA (checkpoint 6.3), includes terms and conditions ensuring the contractor's independence from the VIU or its affiliated undertakings and maintaining data confidentiality . However, in case of contract violation, the payment of penalty clause was not included, according to the Compliance programme.
5. DESFA BoD Decision No 291/03/04.02.2016 approved the following (checkpoint 6.4): (a) DESFA S.A. Annual Financial Reports for the ninth corporate use for 2015, according to International Financial Reporting Standards and (b) the proposal on Profit Distribution for the ninth corporate use for 2015. In addition, DESFA BoD Decision No 291/04/04.02.2016 approved the Management Report for the ninth corporate use for 2015, in conformity with the Compliance programme requirements. Afterwards, the Supervisory Board has been informed on the Company's Annual Financial Reports for the ninth corporate use for 2015 during the 20th Supervisory Board Meeting on 24.02.2016, while under Decision No 21/02/08.03.2016 of the Supervisory Board, Profit Distribution proposal has been approved for the ninth corporate use for 2015.
6. The Company applies strictly legislative and regulatory corporate framework procedures for loan procurements (checkpoint 6.5) to finance investments with institutions other than the VIU or its affiliated undertakings. Therefore, for the fiscal year 2015, the Operator's Coefficient of Gearing Leverage did not exceed 0.5, according to RAE's Decision No 594/2012 (Government Gazette B 2093/05.07.12) and the provisions of Law 4001/2011 (article 88), as applicable. Analytically, within the implementation of the 2nd Upgrade in Revithoussa island, DESFA requested an 80 million euros loan from the European Investment Bank. The first loan Agreement for the release of 40 million euros has been approved in 2014 under Decisions 230/05/27.3.2014 and 10/03/3.6.2014 of the Board of Directors and the Supervisory Board, respectively and in conformity with the Company's Compliance programme. On November 3, 2015 an agreement has been signed between DESFA and the

European Investment Bank (EIB) for releasing the second installment of the initially approved loan. Approvals from the BoD of DESFA (Decision No 283/03/29.10.2015) and the Supervisory Board (Decision No 18/29.10.2015) had been preceded, according to provisions by the Company's Compliance programme.

7. The Company have never modified the share capital, which remains the same as it was at the outset, namely 639.1 million Euros (checkpoint 6.6).

4.4.4 Operational Independence

Operational independence (checkpoint 3.2) refers, on one hand, to human, technical or any other kind of resources that are essential for the company to effectively perform its duties and, on the other hand, to a series of prohibiting the use and/or provision of services to the VIU, ensuring thus confidentiality on commercially sensitive and classified information.

The company employs personnel, who is not connected to the VIU or its affiliated undertakings in any type of working relations. Moreover, DESFA receives administrative, financial and technical support services from a human resources pool. Following an inspection on these contracts, it was found that these are compatible with the provisions of the Compliance programme (relevant clause of confidentiality and exclusivity is included).

At the same time, it was ascertained that DESFA does not share common hardware and software systems with any part of the VIU or its affiliated undertakings (EPA Attikis, EPA Thessalias and EPA Thessalonikis) and does not cooperate with the same advisors or external contractors for hardware, software and security systems. Clauses of confidentiality and exclusivity are included in the signed contracts with the aforementioned companies, ensuring confidentiality on commercially sensitive and classified information.

Finally, it was found that DESFA provides services to the VIU and its affiliated undertakings, however, these services are available to all Network Users on the same terms and conditions (in conformity with article 63B par. 1 case c of Law 4001/2011, as amended).

4.4.5 Independence of the Corporate Identity

DESFA receives and implements appropriate measures to ensure its independence from the VIU or its affiliated undertakings (checkpoint 2.1). In addition, services of DESFA should be located in different buildings from those in the Vertically Integrated Company or affiliates or other Companies that supply natural gas (checkpoint 2.2).

After completion of the audit, the Company has an approved Corporate Identity Policy (BoD decision No 232/02/10.04.2014). However, the Compliance Officer suggested revision of the abovementioned policy, in order to declare more precisely relevant guidelines based on the Compliance programme requirements. The competent organizational unit has drafted a Directive under the title "Corporate Identity & Corporate Communications Policy", which is on the final approval stage.

Furthermore, the competent organizational unit has all relevant lease contracts for DESFA's building facilities in file, according to the provisions of the Compliance programme (checkpoint 2.2).

4.4.6 Commercial Relations between DESFA and DEPA

Commercial relations between DESFA and the VIU, as well as with affiliated undertakings, are subject to strict regulations to ensure independence of the Natural Gas Transmission Operator (article 63B par. 1 case c of Law 4001/2011).

Within the framework of Regulatory Services, DESFA will sign a contract with the VIU for the Supply of Gas for the Operation and Balancing needs of the NNGTS for the year 2016 (see corresponding Tender Agreement), in accordance with predefined contractual provisions.

Within the framework of Non-Regulatory Services, DESFA has signed relevant contracts with the VIU and its affiliated undertakings (see par. 4.1.6).

Following an audit procedure, the provision of the aforementioned services is provided to all Network Users, based on the same terms and conditions, without any discrimination.

Chapter II

5 Compliance Officer's Proposals, adopted for the proper implementation of the Compliance programme

The present section refers to a set of measures taken to facilitate implementation of the Compliance programme, proposed by the Compliance Officer. The aim is to develop and implement a series of actions, in order to raise the sense of corporate culture regarding compliance issues.

5.1 DESFA Compliance Guide

A Compliance Guide was developed under the title "Guide to I.D.E.A. for DESFA S.A.", which was distributed to the Company's employees in February 2015. At present, the first revised edition is in progress.

The aim for the acronym IDEA is to present a modern and updated corporate Compliance Guide aiming to define principles that ought to be followed by all administrative bodies and the Company's personnel during the performance of their duties, ensuring DESFA's compliance with its obligations under the ITO model.

5.2 Upgrade of the Corporate Website of DESFA

Following the European and National legislation and taking into consideration the strict regulating framework, under which the Operator functions, it deemed appropriate to establish a separate section on the official corporate website, under the title "*Regulatory framework/Compliance*", aiming to inform DESFA's employees and third parties on the subject of natural gas. This restructured section has an informatory character and includes significant documentation on Compliance issues, as for example, the Compliance programme, European Directives, National Legislation, Codes and Annual Compliance Reports.

5.3 Channels of Communications

A communication channel among the Compliance Officer and the Company's employees, as well as any User of the natural gas transmission system, was introduced. The objective is to provide the ability to submit to the Compliance Officer incidents of non-compliance issues that are related to unethical or illegal activities (such as conflict of interest, leak of commercially sensitive information, non-equal treatment to Network Users, non-compliance with the Compliance programme / Corporate Policies) and at the same time to protect the

anonymity of the person disclosing this information. The existing channels of communication are achieved through four different ways:

- electronic form of submission via the corporate website (www.desfa.gr),
- mail,
- e-mail to the address: complianceofficer@desfa.gr,
- fax.

Furthermore, a special section, named “Compliance Officer”, was introduced to the corporate information brochure called “Pipeline Communications”⁷, aiming to inform Management bodies, DESFA employees and any third party in the natural gas market on Compliance issues.

5.4 E-idea Platform

DESFA’s Compliance Officer, in cooperation with the Department of Safety, Management Systems, and Compliance programme, developed and put into operation the new electronic application of the Compliance programme. This application, called e-idea (electronic idea), was developed within a Microsoft Sharepoint environment. It is emphasized that the pursuant monitoring system provides a safe information storage and organization domain for all information deriving from the Compliance programme and it is exclusively used by authorized personnel, according to the Program provisions.

6 Compliance Officer’s Proposals for the proper implementation of the Compliance programme

6.1 Revision of DESFA’s Compliance programme

The Company’s Compliance programme shall undergo revision, due to the following facts:

- Revised edition of the NNGS Network Code (Government Gazette B’ 3131/09.12.2013),
- Under consultation draft of the 3rd revision of the NNGS Network Code,
- Updated Company’s Organizational Chart, according to the most recent Management’s Decision (no 200/01.02.2016), concerning the modification of DESFA’s organizational structure,
- Company’s Compliance Guide, issued in October 2014,
- Email correspondence with the subject “*Review of the Compliance programme of DESFA S.A.*” that has been exchanged among the Compliance Officer, the Division Directors, the Coordinating Directors and the Head of the Public Relations and Corporate Communications Department,
- the current DESFA’s Compliance programme (approved by RAE’s Decision No 184/25.04.2013),

. The Compliance Officer suggested the Company’s Management Team for starting the revision procedure of the Compliance programme, which is currently on-going, however at a slow pace.

⁷ The corporate newsletter “Pipeline Communications” is posted in an electronic format (e-book) at the Operator’s webpage.

6.2 Integration of the Code of Conduct to the Compliance programme

On 27.02.2013 the Company's Board of Directors approved the Code of Ethics for DESFA S.A. regarding the Company's relations with Network Users and the VIU. This Code establishes a behavioral framework for all DESFA's employees.

Taking into consideration the current legal framework (Ministerial Decree D1/A/5815, Government Gazette 464 /19.04.2010, Law 3428/2005, Law 4001/2011, Directive 2009/73/EC), it is suggested to incorporate DESFA's⁸ Code of Conduct to the revised Compliance programme. It is noted that DESFA, as an Incorporated Company, reserves the right to draw up a Code of Conduct in conformity with provisions under Law 2190/1920. This document shall outline the mission and values of the business or organization, the ethical principles based on the organization's core values and the standards to which the professionals shall follow.

6.3 Directive on Information Classification Policy

The Company should adopt and implement an information classification and management system, in order to ensure principle of confidentiality. The specific Directive has been drafted by the competent organizational unit under the title "How to handle corporate mail procedures" and is at the final approval stage from the Operator.

Chapter III

7 Conclusions

- The Independent Transmission Operator (ITO) model, selected by the Company, functions successfully in adopting and implementing the ongoing legal energy framework. Since the adoption of the European legislation in 2009 and certification of the first European Operator in 2011, the European Gas Transmission Operators are implementing relevant legislation at different pace of progression, and in this regard, DESFA has completely aligned with the current legal framework.
- The ongoing engagement of the Company's Compliance Officer, such as receiving information on Energy Trends, preventing, detecting and responding to activities that potentially violate the operation of the Company's institutional framework, has improved the personnel's corporate culture towards compliance, in line with the ITO model.
- Some of the compliance procedures, as described in the pursuant Compliance programme, were delayed, while some others have been partially completed by the Operator (indicatively, please see paragraphs 4.2.1, 4.2.2 and 4.4.3 of the current report). The main reason is the non-finalized proposal on the Tariff Coefficients of Transmission and LNG Invoices for the period 2016-2035, based on which the Operator's regulated revenue is defined.
- Revision on the Compliance programme and its adjustment to new facts (see paragraph 6.1) is essential.

⁸ The existing Code of Conduct of DESFA has the title "DESFA S.A. Code of Conduct as to its relations with Network Users and the Vertical Integrated Undertaking"

- Last but not least, the report notes an excellent cooperation between the Compliance Officer and all organizational units of the Company, the members of the Board of Directors and the Supervisory Board, as well as all company employees.

Athens, 21.03.16

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