



**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 2016

(Unofficial Translation)

February, 9th 2017

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 2016.

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I. INTRODUCTION

Dear Shareholders,

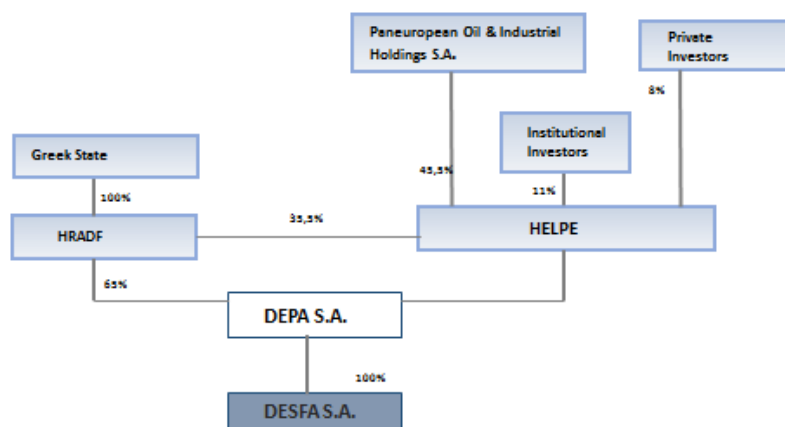
This management report issued by the board of directors relates to the period of twelve months of the fiscal year (1.1.2016-31.12.2016). The report was prepared in line with the relevant provisions of Law 2190/1920 as in force. The Financial Statements were prepared in accordance with the International 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 System 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 Natural Gas System (NNGS), as stated under the provisions of the 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, adequate, reliable and financially efficient way.

DESFA S.A is a wholly owned (100%) subsidiary of DEPA S.A. and its shareholders structure on 31.12.2016 is shown below:



Pursuant to its Decision 201 / 15.2.2012, the Ministerial Committee for Restructuring and Privatization of the Greek State decided to proceed to the sale of the shares of the Greek state in DEPA Group (65%), excluding participation of 34% in DESFA which will be kept by the Greek State, together with the participation of the Hellenic Petroleum SA ("HELPE") in the same group (35%), and authorized the Hellenic Republic Asset Development Fund SA (HRADF) to design and implement the procedure for the sale of such participation. On February 16, 2012, the HRADF and Hellenic Petroleum entered into a binding memorandum of understanding on the joint sale of their respective shares (i.e. the HELPE shares corresponding to 35% of the total issued share capital of company DESFA and the HRADF shares corresponding to 31 % of the total issued share capital – total 66%). After the pre-qualification phase and the international tendering process in two stages in relation to the DEPA Group, SOCAR (the State Oil & Gas company of Azerbaijan) submitted a binding offer for the acquisition of 66% of the issued share capital of DESFA. On August 1, 2013 the Board of Directors of Hellenic Petroleum decided to sell its shares in DESFA to SOCAR and the decision was adopted on September 2, 2013 by the GA of shareholders of HELPE. On October 18, 2013, the Court of Audit issued Act no. 201/2013, completing the pre-contractual audit. On 21.12.2013, the share purchase agreement between, on the one part HRADF and HELPE and on the other part SOCAR, was signed, under the condition of successful completion of appropriate investigations by the competent bodies (the European Union, Regulatory Agency for Energy, etc.).

After submission by SOCAR of the relevant file to the Commission's Directorate-General for Competition, the latter expressed serious reservations on the grounds that the entity that

would result after the completion of the transaction, might attempt the closing down of the natural gas market in Greece and promote the interests of SOCAR at the expense of its competitors. In order to proceed with the transaction, it was suggested, as the safest solution, the conformation of the contractual relations between the parties, with the share of SOCAR's participation in the transaction to fall to a level not higher than 49%, as well as with the participation in the transaction of a European company operating in the natural gas transportation sector. As a result, following SOCAR's appeal to interested parties, an interest was expressed by parties coming from member-states of the European Union, which, to this aim, concluded Confidentiality Agreements with the potential Sellers and DESFA within the framework of the same aforementioned competition: the Joint Venture company of SFPI FUND, FLUXYS, MARGUERITE FUND, MARGUERITE ADVISER SA, ENAGAS INTERANATIONAL SLU and another European company, SNAM S.p.A. On November 30, 2016, according to official announcements of the Ministry of Development, the SOCAR-SNAM shape discontinued participation in ongoing negotiations with potential Sellers and SOCAR did not renew its letter of guarantee. Following the above DESFA put onhold its Virtual Data Room (virtual database for the company's due diligence purposes), awaiting further decisions by the shareholders regarding the privatization of the company.

Following the provisions of Greek Law 4001/2011 (O.G. A' 179/22.08.2011) as in force, which incorporates Directive 2009/73/EC, DESFA is a certified Independent Transmission Operator (ITO). 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. RAE's decision essentially certifies the adequacy of DESFA's resources (infrastructure, manpower and financial resources) in executing its duties, as well as the company's independence from the Vertically Integrated Company during the performance of said duties.

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

A. Use of the National Natural Gas System (NNGS: Transportation System and LNG Facility)

The two main regulated 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 LNG regasification charges, respectively, under the Tariff Regulation and the Decision approving the tariffs for use of the National Natural Gas System.

These two services are the main source of regulated revenue of the company.

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.

C. Balancing and Operation Gas Services of NNGTS

The services for Balancing of gas network and Supply of Operational Gas for the NNGTS arise from the DESFA's role 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 of the Protected Users in case of emergency situations.

Based on the aforementioned decision, DESFA is responsible for managing said security of supply account, 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

Pursuant to RAE Letter no. O-62313/13.10.2015, RAE informed the Natural Gas System Operators on its decision with regard to the Guidelines of accounting separation of Natural Gas Activities of each System Operator. According to the above decision, revenues (and expenses) of the following activities are considered as income (and costs) of regulated activities for Transportation and use of LNG Facility, respectively:

For the Transmission System: gas odourization services, services at border metering stations, metrological services, polyethylene (PE) weldors certification services

For LNG Facility: nitrozen infusion and cooling-down services for LNG ships.

F. Non Regulated Services

In parallel, 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, technical review of studies for internal installations of gas, O&M services to medium and low pressure systems, CNG facility services, IT services, other consulting services. Services relating to the technical and operational support of any other Transmission or LNG Facility system, such as TAP pipeline for instance, will be included under the same category.

II. SIGNIFICANT EVENTS IN THE 2016 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 2017 global outlook¹ implies a generally subdued baseline for growth, but also substantial uncertainty about future economic prospects, following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. These developments have put further downward pressure on global growth (GDP, expressed in real terms), which was projected to slow to 3,1 percent in 2016 before recovering to 3,4 percent in 2017.²

According to the October IMF Report, unlike other years when global slowdown in emerging economies was counterbalanced by growth in developed economies, the opposite is expected in 2017. This is attributed to the fact that, although financial market reaction to the result of the U.K. referendum has been contained, the increase in economic, political, and institutional uncertainty and the likely reduction in trade and financial flows between the United Kingdom and the rest of the European Union over the medium term is expected to have negative macroeconomic consequences, especially in the United Kingdom. As a result, the 2017 growth forecast for advanced economies has been marked down to 1,8 percent, only 0,2 points above the 2016 levels.³

On the other hand, growth in emerging markets and developing economies is expected to strengthen slightly in 2017 to 4,6 percent, higher by 0,4 points than 2016 levels.⁴ Financial market sentiment toward emerging market economies has improved with expectations of lower interest rates, reduced concern about China's short-term prospects following support policy for growth, and some tightening of commodity prices. But prospects differ sharply across

¹Source: IMF World Economic Outlook Update, October 2016, available at: <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>, p. XV of the Executive Summary.

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

³As above, IMF World Economic Outlook Update, Table 1.1., p. 2.

⁴As above, IMF World Economic Outlook Update, Table 1.1., p. 2.

countries and regions, with emerging Asia in general and India in particular showing robust growth and sub-Saharan Africa experiencing a sharp slowdown.⁵

The corresponding growth rates⁶ for the USA are equal to 2,2% (from 1,6% in 2016) and for Japan equal to 0,6% (from 0,5% in 2016). China maintains a lower growth rate of about 6,2% (versus 6,6% in 2016), while the Russian economy demonstrates a slight positive growth rate of 1,1% (from -0,8% in 2016). The course of the economy in the Eurozone continues to record a positive, but declining, sign for 2017, as well, with a GDP growth of 1,5% (versus 1,7% in 2016).

With regard to Greece, according to the Introductory Note on the 2017 State Budget, the carry-off effects of year 2015, due to the liquidity situation in the economy, especially following the capital control measures, are diminishing.⁷ Similarly, the Greek economy is projected to intensify its recovery process in 2017, following signs of recovery, especially during 2nd half of 2016.⁸ However, such fragile recovery process is highly dependent on the outcome of the second assessment negotiations between Greece and the Eurogroup.

According to the State budget for 2017, the annual growth rate of real GDP is expected to be equal to 2,7%, well above the -0.3% in 2016.⁹ This development is based on the consistent application of the support program, the gradual withdrawal of capital controls, as well as on the progress with regard to reforms and servicing of “bad” loans. Such factors, which are expected to be accompanied by a decrease in unemployment rates, are in turn assumed to increase trust in the Greek economy, hence allowing such level of GDP growth in 2017.¹⁰

B. Natural Gas Market

The gas market has recorded a significant increase of demand in 2016. The volumes transported to the NGTS exits amounted to over **3.835.318.225 Nm³**, as opposed to **2.960.018.567 Nm³** in 2015 (an increase of **29,57%**). In energy terms, **43.143.546,775 MWh**

⁵ As above, IMF World Economic Outlook Update, p. XV of the Executive Summary.

⁶ As above, IMF World Economic Outlook Update, Table 1.1., p. 2.

⁷ Source: Introductory Note on the State Budget of 2016, p.11, available at: <<http://www.hellenicparliament.gr/UserFiles/c8827c35-4399-4fbb-8ea6-aebdc768f4f7/9808984.pdf>>., pp. 20-21.

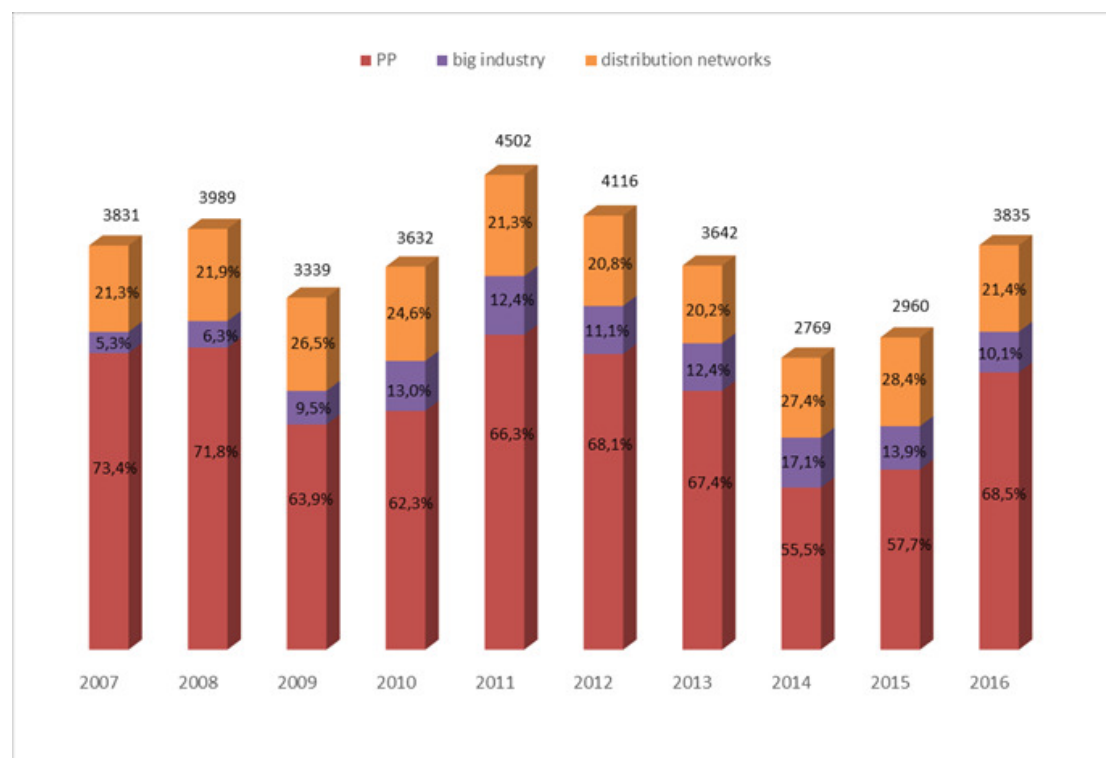
⁸ As above, Introductory Note on the State Budget of 2016, pg. 21.

⁹ As above, Introductory Note on the State Budget of 2016, p.27.

¹⁰ As above, Introductory Note on the State Budget of 2016, p.27.

of Gas was transported in 2016, as opposed to **32.998.735,296 MWh** over the previous year, an increase of **30,74%**. The comparatively largest increase observed in energy terms is due to the higher average calorific value of natural gas in 2016 as a result of greater share of LNG in the transported gas (19,35% versus 18,38% in 2015). 2016 also saw an increase of the actual peak demand by 8,2%. The following graph shows the development of the natural gas consumption in the country between 2007 and 2016, by sector.

Graph 1- Consumption Rates of Natural Gas 2007 – 2016 (mil.Nm³)



Analyzing the growth trend from 2015 to 2016 by sector, it appears that this upward trend is due to the significant increase of 53,9% showed by the generating sector. The consumption of natural gas distribution networks (small industry and household and commercial consumers) decreased by 2,4%, while the large industry (consumers connected directly to the transmission system other than electricity generators) recorded a decrease in consumption by 6,2 %. It is obvious that industrial consumption and the consumption of household and commercial consumers is affected by the economic downturn and corresponding decrease in disposable incomes, despite the fact that there is expansion of the distribution networks with new connections.

In the power generating sector, many factors affected the final outcome in gas consumption.

In the first half of 2016, the growing trend in gas consumption for electricity generation is attributed to the fall in oil prices, which in turn is affecting the gas supply price and this in turn affects the costs of thermal power units, making them more competitive with thermal lignite plants. Note that the price decrease in the oil affects the price of gas with a time lag of 6 months, since such an arrangement is usually included in the formulas for calculating gas prices in long-term supply contracts.

A significant increase was observed in the last months of 2016 due to increased demand in power generation caused by the reduction of production of the nuclear power plants in France, which has had an impact across Europe. The electricity produced, on one hand replaced imports and on the other hand was exported. This trend continues in January 2017 as well.

It should be noted that despite the decline observed in the distribution networks during the year, natural gas consumption considerably strengthened in this sector in November and December (increase by 28,5%) due to the low temperatures this winter, a trend that continues in January 2017, as well.

II.2 Business Developments

The major Business Developments were:

- The continued successful operation, management and maintenance of the NNGS, according to the provisions of the NNGS Network Code.
- The completion of an investment program amounting to € 25,121 million, which amounts to € 31,535 million when including the interest during construction, with most important developments the progress in the construction of the 2nd Upgrade of Revythousa and the successful completion of the M/R stations connecting the Transmission System with the power stations of Thisvi, Protergia and Korinthos Power, respectively.
- The revision of the Tariff Network and Tariff Decision: Following DESFA's recommendation, RAE adopted the revised Tariffs Regulation with its decision no. 339/2016 (Government Gazette B 3181 / 04.10.2016) and no. 349 / 2016 (Government Gazette B 3235 / 07.10.2016), which amended the former. Then, RAE

approved the Tariffs for the use of the NGTS for the years 2017 and 2018 with its decision no. 352/2016 (Official Gazette B 3513 / 01.11.2016), after, with its decision no. 344/2016 (Gov. B 3235 / 07.10.2016), had approved the amount of Recoverable Difference for the period 2011-2015 in accordance with Article 61 of law n.4409 / 2016 (Government Gazette 136 / 28.07.2016), as amended and in force.

- The completion of the draft of 3rd Revision of Network Code, whose approval by RAE is expected in early 2017. The third revision of the Code includes, among others, provisions for the harmonization of the legal framework with European Codes on Capacity Allocation Mechanism, on Balancing and Interoperability (CAM, BAL, INTER).
- The signature in 24.6.2016, and entering into force on 1.07.2016, of the Interconnection Agreement between DESFA and BULGARTRANGAZ, which applies at the Interconnection Point "Kulata / Sidirokastro" pursuant to the provisions of the European Interoperability Code (INT NC). An update of the above Agreement in order to be fully compatible with the CAM NC, is at the last stages of drafting by the corresponding working group of DESFA and BULGARTRANGAZ and is expected to be completed within the first quarter of 2017.
- The selection of capacity reservation platform for the interconnection point «Kulata-Sidirokastro". 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. the Hungarian platform "RBP Platform" was considered as the most suitable, taking into account that the same platform has been selected by the upstream TSO (BULGARTRANGAZ). The relevant contract was signed in September 2016. The platform is already in operation and the capacity allocation at this Interconnection Point is already performed through auctions in said platform, taking into account the aforementioned Interconnection Agreement with the upstream TSO.
- Completion, in cooperation with the Belgian Transmission System Operator, Fluxys SA, of the identification of necessary actions to create the Greek gas hub. The next step is considered to be the completion of a balancing platform within 2017 and of a Virtual Trading Point within 2018.
- In particular, with regard to the new projects, the following shall be mentioned:

- The basic design of the Truck Loading Station on Revithoussa was prepared and completed in January 2017. The documents for the tendering of the project construction are already under preparation.

- The technical feasibility and cost estimation study for the development of small-scale LNG facilities was completed. The scope of services for the Basic Design of a new jetty on Revithoussa, which would serve small LNG carriers, and of a similar upgrade of the existing one, is already under preparation.

- DESFA participated in the program “POSEIDON - MED II” for the development of small scale LNG facilities in the Mediterranean in the transport sector (under the program Connecting Europe Facility), where has taken over the role of the Technical Coordinator, while being also a beneficiary of some actions of the program. The program includes the execution of studies, as well as the relevant communication and publicity events, and is co-funded by 50% from EU funds. DESFA’s aforementioned studies for a pilot truck loading station and a new jetty on Revithoussa, have been included in this program. The program continues in 2017, as well.

- The preparation of tender documents for the technical studies for the installation of a boil-off gas (BOG) compressor station on Revithoussa for the purpose of eliminating gas emissions and flare operation (apart from emergencies) was initiated.

- The European Commission approved a grant of 50% of the cost of the study «Front End Engineering & Design (FEED) Metering Regulating station at Nea Messimvria for the interconnection with TAP», under the Connecting Europe Facility. The international tender for the above services has been already launched.

- Based on information received from the Ministry of Development in December 2016, DESFA’s proposals for co-financing of the construction of its new projects was approved by the relevant Monitoring Committee of the “Competitiveness, Entrepreneurship and Innovation” (EPAnEK) Operational Programme, as follows:

- second upgrade Revythoussa (phase B) with 35% grant
- M / R Station in N. Mesimvria for connecting with TAP with 59,14% grant

- LNG Truck Loading Station on Revithoussa with 57,54% grant
- BOG station on Revithoussa with 60.48% grant

The relevant Joint Ministerial Decision is expected.

These grants will allow the implementation of projects practically without burdening the NNGS tariffs.

- An MoU between DESFA and FYROM's TSO MER JSC Skopje was signed on 14.10.2016 in Skopje, for the interconnection pipeline between the two countries (N. Messimvria - Stip). The project has been submitted for inclusion in the new list of European Projects of Common Interest (CPI list) scheduled to be issued in 2017. The project's feasibility study is already under preparation.

- Throughout 2016, the DESFA and TAP cooperation continued, in accordance with the relevant Cooperation Agreement, between the corresponding Working Groups set up for this purpose, with the final aim to formulate the Operation & Maintenance Agreement for the operation and maintenance by DESFA of the Greek section of the TAP pipeline.
- In the context of the EU CESEC initiative, DESFA, BULGARTRANGAZ, TRANSGAZ and UKTRANSGAZ signed in Budapest on 09.09.2016 a Memorandum of Understanding (MoU) for the study of the required works and actions in order to realize the bi-directional gas flow from Greece to Ukraine through the existing transmission network. At the same time, a similar MoU between an enlarged group of companies involved in the Vertical Corridor, is currently being developed.
- DESFA participates in the European Network of Transmission System Operators for Gas (ENTSOG) established by the European Regulation 715/2009, as well as in the Association of the Gas Infrastructure Operators GIE (Gas Infrastructure Europe), and within this framework, he coordinates action with other EU TSOs to optimize the development and implementation of the relevant European regulatory framework. Also, he has developed close working relationships with all Balkan TSOs, while, in particular, on 20.09.2016, he signed an agreement with Romanian TSO TRANSGAZ.

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 tenth fiscal year (2016), the International Financial Reporting Standards (IFRS) and the applicable Greek tax legislation were implemented.

The Earnings Before Taxes according to IFRS amounted to **49.785,71** thousand Euros, compared to 25.144,88 thousand Euros of the previous fiscal year, presenting an increase of **98,00%**. The Earnings After Taxes amounted to **34.326,38** thousand Euros, compared to 16.707,03 thousand Euros of the previous fiscal year, presenting an increase of **105,46%**. EBITDA amounted to **104.246,83** thousand Euros, compared to 81.899,21 thousand Euros of the previous fiscal year, presenting an increase of **27,29%**.

The total revenue of the company during the tenth fiscal year amounted to **206.022,50** thousand Euros, compared to 173.527,15 thousand Euros of the previous fiscal year, broken down as follows:

- The company's turnover amounted to 169.652,25 thousand Euros, which together with the other extraordinary revenues amounting 23.023,24 thousand Euros, added up to 192.675,49 thousand Euros.
- The main income, namely the income from the NNGS usage charges, including the income in the amount of 809,43 thousand Euros, which pursuant to RAE Letter O-62313/13.10.2015 for the Guidelines of accounting separation is included in the regulated income, the income in the amount of 1.723,45 thousand Euros from the electricity sale to LAGIE, as well as the extraordinary income which is attributed to the regulated income, amounts to **133.250,43** thousand Euros, compared to 106.529,53 thousand Euros in 2015 (increase by 25,08%). The above-mentioned regulated revenues correspond to 85,13% of the total operating revenues, excluding revenues from sale of balancing gas & operational gas and from security of supply fees.
- Revenues from non-regulated services, which services include, but not limited to, the operation and maintenance of medium and low pressure distribution networks, technical support services for distribution networks, etc. amounted to **2.735,13** thousand Euros, compared to 2.831,61 thousand Euros in 2015, contributing to

1,75% of the total operating revenues excluding revenues from sale of balancing gas & operational gas and from security of supply fees.

- Income from Connection Fees, which according to the Tariff Network are paid by the Users who apply for the connection, whereas the assets corresponding to them are not included in the Regulated Asset Base and their depreciation is not recovered by the tariffs, amounted to 4.972,66 thousand Euros, contributing to 3,18% of the total operating revenues excluding revenues from sale of balancing gas & operational gas and from security of supply fees.
- The extraordinary and other income, which include income from the use of provisions in the amount of 9.782,38 thousand Euros, as well as income due to the capitalization of construction interest that had been accounted as an expense in the P&L of previous years in the amount of 5.099,00 thousand Euros, and other income in the amount of 682,72 thousand Euros, contributed to the remaining 9,94% of the total operating revenues excluding revenues from sale of balancing gas & operational gas and from security of supply fees.
- The revenue from the sale of balancing gas and operational gas amounted to **33.213,14** thousand Euros. The revenue from security of supply fee amounted to **2.940,03** thousand Euros. These revenues are set off by corresponding expenses or provisions for expenses.
- The non-operating income of the company amounted to **11.856,12** thousand Euros (grants amortization for acquisition of fixed assets amounting to 11.675.19 thousand Euros and foreign exchange differences amounting to 180,93 thousand Euros), compared to **12.694,38** thousand Euros of the previous fiscal year.
- The capital income (interest income, interest on pre-payments) amounted to **1.490,89** thousand Euros, compared to **1.400,32** thousand Euros of the previous fiscal year.

The **Operating Expenses** for the fiscal year 2016, without the expenses for the purchase of balancing gas & operational gas and security of supply compensations/provisions, amounted to **53.077,47** thousand Euros, compared to 38.213,39 thousand Euros in 2015. This increase is due to non-recurring costs: (a) for insurance plan with the parallel reduction in provisions made in previous years and increase in the extraordinary revenues due to the use of said provisions, as already mentioned above, so that the impact on earnings was negligible. This expenditure was in the amount of 10.090,11 thousand Euros and is included in the "third parties expenses" account and (b) costs due to the declassification as tangible assets of the

amount paid for studies of unrealized projects. This expenditure was in the amount of 5.141,45 thousand Euros and is included in the "Extraordinary expenses" account. Excluding these non-recurring costs, operating expenses stood at **37.845,91** thousand Euros, showing a marginal **decrease of 0,96%** compared to 2015.

Interest and other related expenses (including loan interest, fees on guarantee letters, exchange rate differences etc) amounted to **10.905,52** thousand Euros, compared to 14.072,11 thousand Euros in 2015, resulting in a **22,50% decrease**.

Depreciation amounted to **56.902,51** thousand Euros, compared to **56.776,91** thousand Euros in 2015 (almost at the same level).

The company's financial Income Statement for the year 2016 is displayed in the table below.

Income Statement (in '000 €)	Actual 31.12.2016	Actual 31.12.2015	Change 2016 vs 2015	Change (%) 2016 vs 2015
Operating Revenues	192.675,49	159.432,45	33.243,04	20,85%
I. Operating Revenues without gas balancing, operating gas and security of supply fee revenues	156.522,32	119.635,13	36.887,19	30,83%
I.1 Regulated Revenues	133.250,43	106.529,53	26.720,90	25,08%
Revenue from NGTS tariffs	128.231,07	104.015,91	24.215,16	23,28%
Sale of electricity	1.723,45	1.595,43	128,02	8,02%
Additional Services ¹	809,43	918,19	-108,76	-11,85%
Extraordinary Income ²	2.486,48	0,00	2.486,48	N/A
I.2. Income from non-regulated services	2.735,13	2.831,61	-96,48	-3,41%
I.3. Connection Fees	4.972,66	6.691,52	-1.718,86	-25,69%
I.4. Other extraordinary income³	14.881,38	2.710,29	12.171,09	449,07%
I.5 Other revenues	682,72	872,18	-189,46	-21,72%
II. Gas balancing and operating gas	33.213,14	34.448,52	-1.235,38	-3,59%
III. Security of Supply fee	2.940,03	5.348,81	-2.408,77	-45,03%

Operating Expenses	88.428,66	77.533,24	10.895,42	14,05%
I. Operating Expenses without gas balancing, operating gas and security of supply fee expenses	53.077,47	38.213,39	14.864,08	38,90%
Personnel costs	13.613,35	13.363,42	249,93	1,87%
Third party expenses	14.132,23	13.773,71	358,52	2,60%
Third party benefits ⁴	17.874,40	7.712,88	10.161,52	131,75%
Taxes/Levies	1.194,80	1.210,70	-15,90	-1,31%
Miscellaneous expenses	3.616,44	3.627,34	-10,90	-0,30%
Extraordinary expenses ⁵	6.456,65	1.132,24	5.324,41	470,26%
Personnel provisions	755,75	723,59	32,16	4,44%
Consumables	826,34	1.135,15	-308,80	-27,20%
MINUS ownproduction costs	-5.392,48	-4.465,63	-926,85	20,76%
II. Gas balancing and operating gas	32.632,91	33.945,27	-1.312,37	-3,87%
III. Security of Supply fee	2.718,28	5.374,58	-2.656,30	-49,42%

EBITDA	104.246,83	81.899,21	22.347,62	27,29%
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Depreciation	56.902,61	56.776,91	125,70	0,22%
Amortisation	-11.675,19	-12.622,27	947,08	-7,50%

EBIT	59.019,41	37.744,57	21.274,84	56,37%
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Interest income	1.490,89	1.400,32	90,57	6,47%
Interest and other related expenses	-10.770,35	-14.068,95	3.298,60	-23,45%

Exchange rate differences (Revenue)	180,93	72,11		
Exchange rate differences (Expense)	-135,17	-3,16		

EBT	49.785,71	25.144,89	24.640,82	98,00%
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Notes:

1. Income from additional services attributed to regulated revenues (RAE Letter O-62313/13.10.2015)
2. Received grant amount for studies attributed to non-realised projects, having been erased from the assets' account
3. Revenue from the use of related provisions (9.782,38 thousand euro) and due to transfer to assets of construction interest which in previous fiscal years has been attributed as expenses to the I/S (5.099,00 thousand euro)
4. Includes non-recurring cost of the insurance program (10.090,11 thousand euro)
5. Includes cost for studies attributed to non-realised projects, having been erased from the assets' account

As far as the company assets and payables and receivables, as of December 31, 2016, is concerned:

New investments in fixed assets for fiscal year 2016 amounted to 25.595,35 thousand Euros plus the amount of 5.941,04 thousand Euros from capitalization of the interest during

construction, totaling overall in the amount of **31.536,39** thousand Euros, compared to the amount of 49.284,30 thousand Euros in 2015 (48.044,59 thousand Euros plus the amount of 1.239,71 from interest capitalization).

The total net (after depreciation) **fixed assets** on 31.12.2016 amounted to **1.267.889,54** thousand Euros, which includes the Tangible and Intangible Assets, Participations to other companies and long-term Receivables, compared to the amount of **1.298.397,45** thousand Euros on 31.12.2015.

Inventories as of 31.12.2016 amount to **17.851,71** thousand Euros, compared to **21.477,68** thousand Euros on 31.12.2015. Such decrease is attributed to the increased demand in natural gas consumption in December 2016.

The total **receivables** (Clients and Other Receivables) as of 31.12.2016 amounted to **72.879,42** thousand Euros, compared to **65.806,86** thousand Euros on 31.12.2015. The accumulated Security of Supply fees in the amount of **9.885,54** thousand Euros (dedicated deposit account) are included in this figure. Also, an amount of **14.625,30** thousand Euros out of the Receivables on 31.12.2016 refer to an outstanding company receivable from LAGIE, which is dated back in 2009, and is analysed as follows:

- 11.985,67 thousand Euros overdue amount
- 1.317,30 thousand Euros late payment interest
- 1.322,33 thousand Euros paid in 2017

From the above cumulative receivable amount, an amount of 6.167,45 thousand Euros is disputed by LAGIE.

The cash and cash equivalent as of December 31st, 2016 increased to **145.894,32** thousand Euros, compared to **65.600,70** thousand Euros on 31.12.2015, showing an increase of **80.239,62** thousand Euros.

Net Loans on 31.12.2016 amounted to **249.561,60** thousand Euros and relate to loans received from the European Investment Bank and the National Bank of Greece, compared to **242.258,86** thousand Euros of the corresponding previous year. All loans have been guaranteed by the Greek government. It shall be noted that in 2016, a new loan of 40.000 thousand Euros from the European Investment Bank was received, while loan repayments amounted to **32.697,26** thousand Euros.

Net grants on 31.12.2016 amounted to **260.905,66** thousand Euros, compared to **270.217,28** thousand Euros on 31.12.2015.

The **Other liabilities** (short and long term) amounted to **141.616,65** thousand Euros, compared to **112.612,20** thousand Euros of the previous fiscal year.

Own Equity at the end of the tenth fiscal year (01/01/16 to 31/12/16) amounted to **852.431,09** thousand Euro compared to 826.194,35 thousand EUR at the end of the ninth fiscal year, increased by 3,18%.

III.2 Financial and Profitability Ratios

The financial position of the company on 31.12.2016 is deemed satisfactory. The company's key financial ratios for the years 2016 and 2015 are as follows:

RATIOS 2016 & 2015

A. Economic Structure Ratios

			2016	2015
		(in thousand Euros)		
1	CURRENT ASSETS	= 236.625	0,16	0,11
	TOTAL ASSETS	= 1.504.515		

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

2	TOTAL LIABILITIES	= 652.084	0,76	0,76
	EQUITY	= 852.431		

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

3	EQUITY	= 852.431	0,67	0,64
	FIXED ASSETS	= 1.267.890		

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	=	236.625	=	2,26	1,82
	SHORT TERM LIABILITIES		104.548			

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

5	CURRENT ASSETS (-) INVENTORY	=	218.773	=	2,09	1,56
	SHORT TERM LIABILITIES		104.548			

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

6	OPERATING CASH FLOW	=	106.262	=	2,95	1,68
	SHORT TERM BORROWINGS (+) FINANCING COST		36.018			

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

7	BORROWINGS	=	249.562	=	0,29	0,29
	EQUITY		852.431			

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

8	WORKING CAPITAL	=	132.077	=	0,56	0,45
	CURRENT ASSETS		236.625			

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	=	249.562		22,65%	22,67%
	BORROWINGS & OWN EQUITY		1.101.993			

B. Profitability Ratios

10	OPERATING PROFIT	=	69.329	=	40,87%	25,78%
	TOTAL SALES		169.652			

This index reflects the performance of the financial unit.

11	EBT	=	49.786	=	5,84%	3,04%
	EQUITY		852.431			

This index reflects the return on equity.

12	NET INCOME	=	34.326	=	4,03%	2,02%
	SHAREHOLDERS EQUITY		852.431			

This index reflects the return on equity.

13	NET INCOME	=	34.326	=	2,28%	1,15%
	TOTAL ASSETS		1.504.515			

This index shows the return on invested capital.

14	GROSS PROFIT	=	46.306	=	27,29%	18,89%
	TOTAL SALES		169.652			

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

15	GROSS PROFIT	=	46.306	=	37,54%	23,29%
	COST OF GOODS SOLD		123.346			

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

16	SALES	=	169.652	=	19,90%	18,05%
	EQUITY		852.431			

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

17	INVESTEMENTS	=	25.595	=	32,79%	71,71%
	FINANCING MARGIN		78.065			

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

18	ACCOUNTS PAYABLE	=	67.071	X	360	254,26	152,92
	CREDIT PURCHASES		94.964				

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	=	$\frac{72.879}{169.652}$	X	360		
	CREDIT SALES						
						154,65	158,83

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.

IV. RISK MANAGEMENT

IV.1 Macroeconomic Risk

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 and the specific developments in the energy sector, affect the company's revenues in the period between two tariff reviews.

IV.2 Regulatory Risk

In 2016 the Tariff Regulation, as well as the Tariff Decision, were updated as mentioned above in Section II-2. Pursuant to said RAE Decisions, the Tariff Regulation was adapted to the European practice, while the mechanism that was responsible for ever-increasing recoverable differences was abandoned. At the same time, the multipliers for short-term contracts increased. Additionally, since 2012, when the first Tariff Methodology was issued, DESFA has significantly improved its methodology for gas market predictions, resulting in more realistic projections. Given that tariff calculations were based on these projections, the risk of under-recovery of required revenue has been drastically contained compared to the past.

Risk is considered to be the two-year period of validity of the new tariffs (thereafter it becomes 4 years), although the provisions of the new Tariff Regulation, as well as RAE's participation in the respective European organizations (ACER, CEER) do largely ensure that the generally accepted European practice with regard to tariffs setting for the use of NNGS will continue to be applied.

IV.3 Market Risk

The evolution of oil prices. DESFA revenues are affected inversely to the price of crude oil. A sharp increase in oil prices would lead to higher gas prices and a consequent loss of gas competitiveness, particularly in the power sector, as well as to a reduction in demand for transported gas quantities. The inability to predict the course of oil prices in the future makes this parameter a significant risk variable, although the prevailing forecasts for the next 2 years converge to the stabilization of oil prices at prices below 60 \$ / bbl.

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 69,05% of the company's total operating revenues, excluding any extraordinary or other non-operating revenues, come from the latter. This is due to the dominant position of DEPA in the natural gas supply market. This risk, however, is not significant due to the financial soundness and credibility of DEPA. Besides, such dependence factor has decreased (it was 89,04% in 2015).

IV.4 Financial risk

Interest rate risk: Interest rate risk arises from long-term and short-term borrowings. On 31.12.2016 the total sum 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.

Banking risk: Due to the large amount of deposits (145,89 million Euros as of 31.12.2016), the company is exposed to the risk of an eventual capital deficiency of banks where they are deposited. The risk is managed through dispersion of deposits in all banks that have completed their recapitalization and present minimum financial reliability.

Loan risk: Since the company's gearing ratio, ie the ratio of total loans to the sum of total loans and total equity, on 31.12.2016, was equal to 22,65%, it is evident that the debt risk of the company is very low. Under the current regulatory framework, this ratio should not exceed 0,50.

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.

Apart from the outstanding amounts receivable from LAGIE which are lagging payment, generally no problem occurs in the collection of the company's receivables.

IV.6 Liquidity Risk

The liquidity risk is kept at low levels through the availability of sufficient cash and credit limits. According to par. 5 of article 4 of Tariff Regulation, the Company must maintain cash at least equal to the budgeted liabilities of the next four months, ie. at least equal to 1/3 of budgeted annual disbursements. The cash retained by DESFA (145.894 thousand Euros on 31.12.2016) exceed this requirement.

Given that the Current Liquidity Ratio (A.4 above) for 2016 equals 2,26 and the Quick Liquidity Ratio (A.5) for 2015 equals 2,09, it is evident that the liquidity risk of the company is very limited (according to the current ratio DESFA can repay its short-term liabilities 2,26 times, while under the Quick Liquidity Ratio by 2,09 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.

Therefore, it can be said that the company faces no liquidity risk, subject of course to the overall situation of the Greek economy.

DESFA follows 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 in force:

VI.1 Transactions with the mother company DEPA SA and other affiliated companies

(in thousand Euros)

	31/12/2016	31/12/2015
Receivables from		
DEPA SA	19.275	17.675
GSC ATTIKIS SA	3.616	26
GSC THESSALONIKIS SA	0	15
GSC THESSALIAS SA	0	31
GDC THESSALONIKIS- THESSALIAS S.A.	2.951	0
	25.842	17.747
Payables to		
DEPA SA	31.599	26.179
GSC ATTIKIS SA	1.651	506
GSC THESSALONIKIS SA	0	631
GSC THESSALIAS SA	0	498
GDC THESSALONIKIS- THESSALIAS S.A.	3.025	0
	36.275	27.815

	31/12/2016	31/12/ 2015
(in thousand Euros)		
Income from		
DEPA SA	117.150	132.806
GSC ATTIKIS SA	8.762	114
GSC THESSALONIKIS SA	0	113
GSC THESSALIAS SA	0	152
GDC	6.932	0
THESSALONIKIS- THESSALIAS S.A.		
	132.845	133.184
Expenses to		
DEPA SA	30.292	32.792

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

VI.2 Board Members Remuneration

(in thousand Euros)

	2016	2015
Compensation & other benefits of the BoD members	114	139

Compensation & Other Benefits of the Supervisory Board members	119	110
Compensation – Other Benefits (€ k)	233	249

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 in a hypnosis state 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 2016, earnings before taxes of the company amounted to € -18,881,13 (loss) and the respective tax was zero. On 31.12.2016 the total equity of the company was € 590.198,75, of which € 710.000 refers to the share capital and € -119.801,25 to the the outstanding amount of losses carried forward. Total assets (and liabilities) was € 603.967,91.

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.

CERTIFIED COPY

Athens, 9/2/2017

By authorization of the Board of Directors

Sotirios Nikas

Chairman of the BoD and Chief Executive Officer

We verified the agreement and correspondence of the content of the Management Report pages 1-31 *[1-33 in the Greek version]* with the Financial Statements for the fiscal year 2016, as mentioned in the Audit Report provided.

Halandri, 13 February 2017

The Certified Public Accountant Auditor

BATSOULIS GEORGIOS

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