



MANAGEMENT REPORT OF THE BOARD OF
DIRECTORS OF SOCIETE ANONYME NAMED THE
“HELLENIC GAS TRANSMISSION SYSTEM OPERATOR
S.A.”

on the Yearly Financial Statements of Year 1.1.2018-31.12.2018

May 2019

To
the Yearly General Assembly of the Shareholders (or Shareholders' Assembly)

Sir and Madam Shareholders, we have the honor to submit to you the Yearly Report of the Board of Directors according to the statute and article 150 of L. 4548/2018, the financial statements of year 2018 and to inform you about major financial information of it and request for your approval.

1. Analysis of the development & the performance of DESFA's activities and the company's position

a. Business model summary

By Presidential Decree 33 (G.G. A' 31 / 20.02.2007) the Societe Anonyme under the name of "Hellenic Gas Transmission System Operator S.A.", whose purpose is the operation, maintenance, management, exploitation and development of the National Natural Gas (NNGS) system, as defined in Article 68 of Law 4001/2011 (Government Gazette A' 179 / 22.08.11), and its interconnections, in order for the NNGS to be cost-effective, technically sound and complete and in order for the needs of the Users for natural gas to be served in a safe, adequate, reliable and economically efficient way.

The company's headquarters are in Athens, 357-359 Mesogion Ave. and operates in the energy sector.

The National Natural Gas System

The National Natural Gas System is composed of the **National Natural Gas Transmission System (NNGTS)** and the **Liquefied Natural Gas Terminal (LNG Terminal) in Revithoussa**.

The National Natural Gas Transmission System transports gas from the Greek-Bulgarian border (upstream TSO BULGARTRANGAZ) and the Greek-Turkish border (upstream TSO BOTAS) as well as from the LNG Entry Point (Agia Triada) to consumers in continental Greece.

It consists of:

- The main gas transmission pipeline and its branches;
- The Border Metering Stations at Sidirokastro, near Serrers and at Kipi, near Evros River;
- The Compression Station at Nea Mesimvria, Thessaloniki;
- The Natural Gas Metering and Regulating Stations;
- The Natural Gas Control and Dispatching Centers at Patima Magoulas near Athens and at Nea Mesimvria near Thessaloniki;
- The Operation and Maintenance Centers of Sidirokastro Border Station, Northern Greece, Eastern Greece, Central Greece and Southern Greece; and
- The Remote Control and Communication System.

The Revithoussa LNG Terminal is one of the most important infrastructures of the country. The Terminal is located on the islet of Revithoussa, 500 meters approximately from the coast of Agia Triada, in the gulf of Pahi at Megara, 45 km west of Athens. Designed and operating in accordance with the strictest safety standards both for its employees and for the residents of the surrounding areas, the Terminal uses the most environmentally friendly technology. The LNG technology procedures and operations used are environmentally friendly and strictly compliant with Greek and European legislation. The highest safety standards and its respect for the environment are constantly verified and certified by independent operators as the Terminal is certified according to the standards OHSAS 18001 and ISO 14001.

During its 18 years of operation, more than 500 LNG cargoes have been received and temporarily stored in the two tanks with a total capacity of 130.000 LNG m³. Afterwards, the LNG is gasified by the special cryogenic equipment of the installation (Cryogenic Boil-Off Gas Compressors, Open Rack Vaporizers, Submerged Combustion Vaporizers) and supplies the National Natural Gas Transmission System.

The 2nd Upgrade of the LNG facility in 2018 is going to increase the total storage capacity of the Terminal to 225,000 m³, the gasification rate by 40% and will allow the docking of larger LNG cargoes.

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 regulatory perspective, said revenue reduces the total costs of the LNG facility.

C. Balancing and Operational Gas Services of NNGTS (profit neutral activities)

The services for Gas Balancing and 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 according to Law 4001/2011. 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 as well as through the balancing platform (from July 2018).

D. Security of Supply in the Natural Gas market (profit neutral activities)

With its Decision no. 344/2014 (as this was amended by no. 1211/2018 RAE Decision), *“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 of natural gas, as a minimum to the Protected Users in case of emergency situations.

Based on the aforementioned decision, DESFA is responsible for managing said account (Security of Supply Account). From this account, DESFA will compensate the power producers for the alternative fuel installations they maintain and their readiness to use this fuel in case of Crisis, as well as the Gas Suppliers for the disruption of supply of their interruptible clients in case of Crisis. 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. Additional Services included in regulated revenues and expenses

With RAE's letter O-62313 / 13.10.2015 entitled "Guidelines for accounting separation of natural gas companies", revenues (and expenses) of certain activities are considered as income (and costs) of regulated activities for Transportation and use of LNG Facility, respectively, as

indicatively for the Transmission System: gas odourization services, services at border metering stations and for LNG Facility: nitrogen infusion and cooling-down services for LNG ships. The abovementioned services is expected to be determined in detail after the publication of the 4th Amendment of the Tariff Regulation.

F. Non regulated activities

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.

RAE, with the no 1108/2018 Decision determined that 100% of the revenues from the maintenance of the TAP pipeline will be added to the actual regulated Transmission System revenue. DESFA submitted on 11/1/2019 a request for revision of the aforementioned decision. It is expected that the status of these services will be determined by RAE with the 4th Amendment of the Tariff Regulation.

G. Connection fees

DESFA collects connection fees in accordance with Articles 5 and 5A of the Tariff Regulation for projects upon request of Users to connect their facilities with the Transmission System. These fees correspond to the cost of relevant projects which are not included in the RAB.

H. Financial revenues

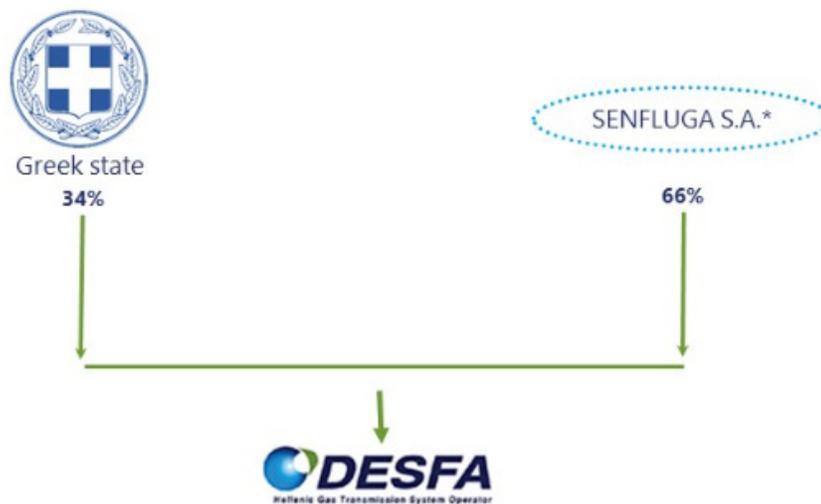
DESFA has additional revenues from the management of its cash reserves. This management is carried out according to a procedure established by decision of the Board of Directors of the company (Regulation for Managing Reserves - decision of the Board of Directors 348/03 / 24.10.2017). In 2019 this Regulation was amended (BoD decision 387/03/16.04.2019).

"Potential Customers" of DESFA are the Users registered in the NNGS Users Register (Number of Users: 66, 31/12/2018).

Advertising of services is through:

- Report and description on the corporate website (www.desfa.gr)
- By creating printed material (brochures, etc.)
- Advertisements (printed or electronic) in various media (newspapers, websites, coke) of energy interest
- Through sponsorships at relevant energy conferences and the exploitation of the relevant compensatory benefits of our participation (corporate logo presentation at the conference, print and electronic communication of the conference, through promotional entries in the guide and / or the conference form, etc.)
- By organizing marketing events (eg 3rd tank inauguration)
- By creating videos and viewing them through our website, youtube, etc.
- Talking executives at conferences

The Company's shareholding at 31.12.2018 is shown in the following table:



* *Senfluga S.A. is a consortium of the companies Snam Enagas and Fluxys.*

while the Management Team of the company is comprised of Nicola Battilana- Chief Executive Officer, Dimitrio Karodmatea- Division Director for Strategy & Development & Chief Financial Officer (CFO), Niko Katsi - Operation Division Director, Sotirio Bravo- Commercial Division Director, Ioanni Chomata- Project Management Division Director, Petro Theodoraki- Administrative Services Division Director & Head of Public Relations & Communications, Sophia Michelaki- Legal Affairs Division Director, Georgio Priba- Department Manager of Internal Audit Unit, Serafeim Ioannidi - Coordinating Department Manager of Quality & Safety & Alexio Giannakopoulo- Division Director, in charge of the risk management department.

The Board of Directors comprises of the following members:

ZITOUNIS Theodore	Chairman of the BoD
URRESTARAZU Luis Romero	Vice Chairman
RUGGERI Elio	Member
SCHIZZI Michela	Member
DI FINO Ferdinando	Member
OGLIALORO Luca	Member
VENNEKENS Erik	Member
SAMOULIDIS Ioannis	Member
MANOLOPOULOU Kiriaki	Member
KALLIGAS CASTIELLA Fernando Alejandro	Member
TAMBOURLOS Panagiotis	Member

The term of office for the Board of Directors is 3 years, namely reckoned from 20.12.2018 to 20/12/2021, inclusive.

b. Goals, basic values and main strategic goals

Values

We operate and develop, guided by our corporate values, which are the cornerstone of our culture and philosophy, but also a benchmark for every business activity:

- Integrity
- Responsibility
- Collaboration
- Pursuit of excellence

Main Strategic Goals

- Expanding in new services and products
- Creation of new natural gas markets through small scale LNG applications
- Development of processes and infrastructures for the efficient operation of a natural gas wholesale market with a regional scope
- Promotion and development of international partnerships

- Continue to provide top level services to all Users.
- Continuous training of our employees with a strong emphasis on Safety, Quality and the Environment.
- Sustaining and further increasing DESFA's high technological capabilities, which guarantee safety and efficiency and the optimal operation of its infrastructures.
- The enhancement of new partnerships of the National Natural Gas System with the transport networks of neighboring countries, and to continue all partnerships with the related Operators, aiming at the completion of the peripheral natural gas market in the Balkan region.
- Promoting an open natural gas market with the provision of new options for all User (e.g. the interconnection with TAP).
- Enhance security of supply through NNGS infrastructure and facilities.

c. Administration principles and internal management systems

The management of the Company provides direction, leadership and an appropriate environment for its operation to ensure that all its available resources are fully engaged in the achievement of its objectives. The Company's policies at the stages of its productive and operational activity emphasize to:

- a) The operational safety of the installations
- b) Providing high quality services
- c) Respect for the environment
- d) Implementing procedures based on transparency and equal treatment of Users / Customers
- e) To safeguard the confidentiality of commercially sensitive and personal data
- f) To avoid all kinds of discrimination
- g) Corporate Social Responsibility.

The Company has "Regulations", which have been approved by the Management of the Company: "Labor Code", "Code of Conduct", "Organization Chart", "Internal Control Unit Operation Regulation".

d. A description of past performance, value chain and tangible and intangible assets.

da) Past Performance

The following table shows the main figures that reflect the company's performance in previous years.

Income Statement Actual 2018 vs Actual 2017 (in '000 €)	Actual Ytd December 2018	Actual Ytd December 2017	Difference Act 2018 vs Act 2017	Act 2018 vs Act 2017 (%)
Operating Revenues	203.877,78	283.271,60	-79.393,82	-28,03%
I. Revenues from profit making operations	195.066,35	241.834,77	-46.768,42	-19,34%
I.1 Regulated Revenues	189.200,57	225.030,60	-35.830,02	-15,92%
Revenue from use of NNGS	186.791,75	222.285,63	-35.493,88	-15,97%
Sale of Electricity	1.557,14	1.893,93	-336,79	-17,78%
Additional Services	851,68	851,03	0,65	0,08%
I.2 Income from Non Regulated Services	3.200,70	2.883,89	316,82	10,99%
I.3 Connection Fees	587,26	2.378,68	-1.791,42	-75,31%
I.4 Other Revenues (regulated & non-regulated)	2.077,81	11.541,61	-9.463,80	-82,00%
II. Revenues from profit neutral operations	8.811,43	41.436,83	-32.625,40	-78,74%
II.1 Sale of Balancing & Operating Gas	7.082,02	38.556,50	-31.474,47	-81,63%
II.2 Security of Supply fees	1.729,41	2.880,33	-1.150,93	-39,96%
Operating Expenses	54.663,04	105.850,56	-51.187,51	-48,36%
I. Expenses for profit making operations	45.851,61	64.413,83	-18.562,22	-28,82%
Personnel Costs	13.464,26	13.596,52	-132,26	-0,97%
Third Party Expenses - Outsourced Personnel	11.329,68	11.089,43	240,25	2,17%
Third Party Expenses - Other	4.039,57	3.898,57	141,00	3,62%
Third Party Benefits	8.430,64	8.965,49	-534,85	-5,97%
Non Income Taxes/Levies	563,42	642,62	-79,20	-12,33%
Miscellaneous Expenses	4.671,74	4.036,53	635,21	15,74%
Extraordinary Expenses	1.967,87	2.009,79	-41,92	-2,09%
Provisions for Litigations and Claims	0,00	16.440,00	-16.440,00	N/A
Provisions Bad Debts	4.963,31	6.573,97	-1.610,66	-24,50%
Personnel Provisions	109,67	122,35	-12,68	-10,36%
Stored materials consumption	760,00	739,67	20,32	2,75%
MINUS Own Production Costs	-4.448,55	-3.701,11	-747,44	20,20%
II. Expenses for profit neutral operations	8.811,43	41.436,72	-32.625,29	-78,74%
II.1 Purchase of Balancing & Operating Gas	7.082,03	38.556,39	-31.474,36	-81,63%
II.2 Security of Supply compensations/provisions	1.729,41	2.880,33	-1.150,93	-39,96%
EBITDA	149.214,73	177.421,04	-28.206,31	-15,90%
Depreciation	55.357,15	55.293,36	63,80	0,12%
Grants Amortisation	-11.282,91	-11.354,75	71,85	-0,63%
EBIT	105.140,49	133.482,44	-28.341,95	-21,23%
Interest Income	2.704,82	2.069,89	634,94	30,68%
Interest and Other Related Expenses	-8.245,34	-9.589,57	1.344,22	-14,02%
Exchange Rate Differences (Revenue)	63,37	66,01	-2,65	-4,01%
Exchange Rate Differences (Expense)	-55,44	-89,04	33,60	-37,73%
EBT	99.607,89	125.939,73	-26.331,84	-20,91%
Income Tax	24.775,54	35.362,25	-10.586,71	-29,94%
Deferred Tax	1.382,50	4.941,85	-3.559,35	-72,02%
Profit After Tax	73.449,85	85.635,64	-12.185,78	-14,23%

The total revenue of the company during the twelfth fiscal year amounted to **203.877, 78** thousand Euros, compared to 283.271,60 thousand Euros of the previous fiscal year, analyzed from a general accounting point of view in operating income of 199.485 thousand Euros (company's turnover) and other (extraordinary) revenues amounting to 4.393 thousand Euros. From the aforementioned revenues, 195.065,35 thousand € come from profit making operations showing a decrease of 19,34% vs previous year, although gas transported volumes were decreased by 1,8% only. This is attributed mainly to the reduction of tariffs from 1/5/2018, to the smoother (less peaky) demand of natural gas as well as to better planning of the use of the system by the Users as a result of a new system for balancing introduced in July 2018.

The **operating expenses** for the fiscal year 2018, including extraordinary expenses but without the expenses that refer to profit neutral activities (purchase of balancing gas & operational gas and security of supply compensations/provisions), amounted to 45.851,61 thousand Euros, compared to 64.413,83 thousand Euros in 2017. The difference is attributed mainly to provisions that took place in the fiscal year 2017 in relation to extraordinary expenses stemming from trial of court decisions.

Operating profit before tax, depreciation and amortization (**EBITDA**) amounted to **149.214,73** thousand Euros compared to 177.421,05 thousand Euros of the previous year, showing a decrease of **15,9%**.

The Profit before tax for the fiscal year 2018 is equal to a profit of **99.608** thousand € compared to profit of 125.940 thousand € of 2017 showing a decrease of 26.332 thousand € or as a percentage of 20,91%.

In 2018 the Net Profit decreased by 14,13% due to the decrease of revenues, taking into consideration that the company's opex are completely inelastic in respect to the transported natural gas volumes.

Regarding the **assets** of the company on 31 December 2018, the balance sheet (in Euros) is presented below:

BALANCE SHEET in ('000 €)	BALANCE SHEET 31.12.2018	BALANCE SHEET AT END OF PREVIOUS YEAR (31.12.2017)	Difference	Difference (%)
ASSETS				
Fixed Assets				
Tangible assets	1.217.096,19	1.227.629,91	-10.533,72	-0,86%
Intangible assets	13.776,25	13.917,14	-140,89	-1,01%
Investments in associates	355,00	355,00	0,00	0,00%
Investments in other entities	350,00	0,00	350,00	N/A
Long-term receivables	260,56	260,56	0,00	0,00%
Total Fixed Assets	1.231.838,00	1.242.162,60	-10.324,60	-0,83%
Current assets				
Inventories	22.305,13	19.764,74	2.540,39	12,85%
Trade and other receivables	88.998,19	80.117,84	8.880,35	11,08%
Cash and cash equivalents	217.864,08	227.775,66	-9.911,57	-4,35%
Total current assets	329.167,40	327.658,23	1.509,17	0,46%
TOTAL ASSETS	1.561.005,40	1.569.820,83	-8.815,43	-0,56%
LIABILITIES				
Equity				
Share capital	639.051,02	639.051,02	0,00	0,00%
Statutory Reserves	25.292,86	25.292,86	0,00	0,00%
Profit (Loss) carried forward	285.493,45	257.428,93	28.064,51	10,90%
Total Equity	949.837,32	921.772,81	28.064,51	3,04%
Long-term liabilities				
Borrowings	174.583,44	197.021,24	-22.437,79	-11,39%
Employee rights	3.994,77	3.972,43	22,34	0,56%
State grants	256.564,38	256.880,84	-316,46	-0,12%
Other provisions	61.268,89	57.989,66	3.279,23	5,65%
Other long-term liabilities	145,00	145,00	0,00	0,00%
Deferred tax liabilities	19.419,63	18.124,87	1.294,76	7,14%
Total long-term liabilities	515.976,10	534.134,03	-18.157,93	-3,40%
Short-term liabilities				
Suppliers and other liabilities	46.512,92	47.599,92	-1.087,00	-2,28%
Borrowings	22.437,79	25.801,43	-3.363,64	-13,04%
Short-term tax liabilities	26.241,26	40.512,64	-14.271,38	-35,23%
Total short-term liabilities	95.191,97	113.913,99	-18.722,02	-16,44%
Total liabilities	611.168,08	648.048,02	-36.879,95	-5,69%
TOTAL EQUITY & LIABILITIES	1.561.005,40	1.569.820,83	-8.815,44	-0,56%

Total Equity of the company on 31.12.2018 was 949.837,32 thousand €, increased by 3,04% in comparison to 31.12.2017. Total Borrowings of the company on 31.12.2018 was

197.021,23 thousand € and the gearing ratio was 17,18% compared to 19,47% on 31.12.2017.

The cash and cash equivalent as of 31/12/2018 decreased by 4,5% and are equal to **217.864,1** thousand € compared to 227.775,7 thousand € on 31/12/2017.

db) Tangible and intangible assets

Investments for year 2018

In 2018, the Company has executed and completed very significant investments. The most important of these is the completion of the 2nd Upgrade of Revithoussa of total budget of € 142,35 million. With the addition of the third tank, the total storage capacity increased from 130,000 m³ to 225,000 m³ and the available storage space for Users will be increased from 110.000 m³ to about 200.000 m³ (i.e. 82%). The installation of the 3rd tank will enhance the safety in the case of a cut-off for the northern entry points. The technical solution that is chosen to be constructed is the one with the highest safety standards and the minimum visual disturbance. The marine works will enable the mooring of larger ships with a capacity of up to 260.000 m³ (Q-max) in comparison to the up to date capacity equal to 140.000 m³. As a result, it will be feasible the mooring of all types of ships. The project will include the installation of cryogenic equipment that will increase the rate of gasification in normal conditions (Sustained Maximum Send-out Rate) (i.e. without the use of backup equipment), from 1.000 Nm³/h LNG¹ that is today, to 1.400 Nm³/h LNG (i.e. an increase of 40%).

In addition, important electrical and electronic equipment for upgrading NNGS systems is underway.

Value of tangible and intangible assets

The value of tangible and intangible assets, as well as their changes in the year 2018, is shown in the relevant "Table" of the Attachment of the Financial Statements.

2. Main risks

The Company continuously monitors developments with the aim of minimizing as far as possible the possible negative effects that may arise from various events. The usual financial and other risks to which the Company is exposed are:

¹ 1 m³ of LNG= 570 Nm³ of Natural Gas

a) Reference to the supply chain with reference to the main Suppliers of the system and the rules of cooperation between them - Supply chain

The Company's key suppliers are from the European market. The cooperation rules are defined by bilateral agreements and are in line with the current regulatory framework. There are no overdue debts to the Suppliers (in addition to debts that are in dispute) or other breaches in relation to the contracts signed.

There are also no suppliers whose termination of cooperation would jeopardize the operation of the Company and the Company maintains an adequate stock of materials in the event of a temporary failure to provide it with the suppliers

-Safety of stock:

The Company minimizes the risk and possible losses due to loss of gas stock due to natural disasters or other causes (terrorist acts, unintended actions by third parties). In particular, the company covers through an insurance contract the gas stock in the pipelines (the stock of materials related to the infrastructure of the NNGS is not insured).

b) Future prospects and how they are affected by the existing one regulatory framework.

Regulatory Risk

2018 taking into consideration that is a year of tariffs calculation, started the process for the regular tariff review for the regulatory period 2019-2022. DESFA submitted its proposal in the beginning of September 2018, while on 10/5/2019 submitted its amended proposal based on the directions of RAE. RAE decision is pending.

Meanwhile the procedure for the harmonization of the Tariff Regulation with the European Regulation (EU) 2017/460 OF 16 march 2017 establishing a network code on harmonized transmission tariff structures for gas started. DESFA submitted to RAE its proposal in September 2018 which was set in public consultation from RAE up to 31.01.2019. RAE on 25/4/2019 set in public consultation proposal for Tariff Regulation that was composed by the Regulator. The consultation lasted until 10 May 2019. DESFA is in cooperation with RAE to finalize the document.

Market Risk

A. 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 in comparison to lignite, as well as to a reduction in demand for transported gas quantities. The inability to predict the 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 70 \$ / bbl.

B. CO₂ prices. These prices affect the demand for gas in the same direction, as higher CO₂ prices enhance the competitiveness of gas against lignite. The CO₂² values fluctuated in 2018 between 5,5-23,4 Euros / tn CO₂ and the trend is upward. Indicatively in the beginning of May the price was appr. 25 Euros / tn . Therefore, this risk is not important.

C. Competition from RES and the fossil fuel dependence: This is recognized as a long-term risk, although DESFA believes that gas will continue to be part of the energy balance of Greece and Europe in the foreseeable future. Therefore, in the short to medium term, however, there is no significant risk - lignite decommissioning as well as switching to cleaner fuels in transport and especially in shipping is considered to increase demand for natural gas provided that crude oil prices and gas taxation, which have a decisive impact on final gas prices, will continue to fluctuate at reasonable levels.

Risk of dependence on a limited number of Users

Main risk in principle is the high dependence of the company from a single customer, DEPA SA, since 43,47% of the company's total operating revenues in 2018 (compared to 51,45% in 2017) come from the latter. Specifically, 43% of operating revenues from usage of NNGS came from DEPA (compared to 51% in 2017). Furthermore, 43.92% of operating revenues from additional services and 78,18% from non-regulated services came from DEPA and DEDA. This is due to the dominant position of DEPA in the natural gas supply market. This risk though is not important due to the financial soundness and reliability of DEPA. Besides, the dependence factor has been decreasing.

In general, the market risk is not borne by DESFA in accordance with the Tariff Regulation as there is a mechanism for adjustments and revisions of tariffs. Nevertheless, the existence of a

² <https://www.eex.com/en/market-data/environmental-markets/auction-market/european-emission-allowances-auction/european-emission-allowances-auction-download>

natural gas market with upward prospects in Greece and the neighboring area (as foreseen in the Development Study 2019-2028 published on the DESFA website) ensures the stability of DESFA's operations and creates new investment opportunities.

c) Other risks that are related to the activity or industry that the company is developing

Risk of the development of Macroeconomic Parameters

The main significant risk remains the course of the Greek economy, including developments in the restructuring program of the Greek debt. Of course, it is widely recognized that this risk is from the beginning until at least 2022. The different scenarios and the various ways of dealing with them can by no means be predicted to their totality. Meanwhile the Company monitors the developments closely and adjusts its operation and its planning depending on those developments.

It is also noted that the Tariff Regulation greatly mitigates the impact of any adverse developments in this area.

Financial risk

A. Interest rate risk: Interest rate risk arises from long-term and short-term borrowings. On 31.12.2018 the total sum of long and short term borrowings was fixed rate loans. Therefore, the company does not face an interest rate risk.

B. Foreign exchange risk: The company does not face a currency risk, as the total assets and loan liabilities are denominated in Euros.

C. Banking risk: Due to the large amount of deposits (218,9 million Euros as of 31.12.2018 without the security of supply account), the company is exposed to the risk of an eventual capital deficiency of banks where they are deposited. This risk is addressed by spreading deposits to all banking institutions that have completed their recapitalization and have an acceptable level of financial reliability (systemic banks). For this purpose, the company adopted a new Regulation on Cash Reserves Administration Policy in 2017 following a relevant study.

D. Loan risk: Since the company's gearing ratio, i.e. the ratio of total loans to the sum of total loans and total equity, on 31.12.2018, was equal to 17,19% (compared to 19,47% in the end of 2017), 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 (par. 3 of Art. 6 of the Tariff Regulation).

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. Generally, no problem occurs in the collection of the company's receivables. A special exception to the rule is certain invoices of LAGIE and DEPA, which were disputed by the contractors and are under legal claim. Please note that there are recent LAGIE invoices that remain unpaid due to the disputed past invoices issued.

Liquidity Risk

The liquidity risk is kept at low levels through the availability of sufficient cash and credit limits. To ensure this there is a respective provision in the Tariff Regulation (par. 6 of article 4 of Tariff Regulation) and in the Regulation on Cash Reserves Administration Policy of the company. The cash retained by DESFA exceed this requirement.

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.

Accident risk

Plant safety is the first priority for companies like DESFA. It is ensured by the adoption of strictest safety standards when designing systems, by certifying the application of the specifications during the construction by an independent accredited certification company and by the application of preventive inspection and maintenance protocols as well as the continuous training of operating staff. Measures are also taken for the security of the company's IT systems.

From the above it is concluded that DESFA is a low risk company. However, in order to ensure that, the company 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.

3. Environmental Issues

The company recognizes its obligations towards the environment and the need to continuously improve its environmental performance so as to achieve a balanced economic development in harmony with environmental protection. Its environmental policy focuses on the following:

- Recognize environmental parameters in all its activities and incorporate them into daily decisions.
- Prevention and avoidance of pollution, control and reduction of the environmental impact of its operation, including emissions of gaseous, solid and liquid waste, as well as the rational use of natural resources and energy.
- Managing more general issues for environmental protection, such as sustainable resource use and the protection of biodiversity and ecosystems.
- Compliance and, where possible, overcompensation of environmental legislation requirements.
- Raise awareness of staff, customers, suppliers and builders on environmental issues.
- Provide appropriate training to staff and constant consultation with them on issues related to environmental protection.
- Strict control of the implementation of the Environmental Management System, its periodic review and continuous improvement of environmental performance.
- Monitor the development of new environmental technologies with a view to adopting them.
- Taking initiatives and actions with positive environmental impact

a) Actual and potential impacts of the entity on the environment

The company has Certificate ISO 14001: 2015 (Certificate Number 04014152 / 02.08.2018) by the Certification Body TÜV AUSTRIA HELLAS, in the following fields:

- Management, Operation and Maintenance of the National Natural Gas Transmission System and Liquefied Natural Gas Installations
- Managing the Construction of a Natural Gas Network and Supporting Facilities and Infrastructures
- Managing European co-funded projects

- Marketing of additional services within and outside the Natural Gas sector, according to the relevant RAE decision.

According to the Environmental Management System the Company:

- ✓ Identifies the resources required for its operation
- ✓ Identifies the Environmental Sides arising from its Activities
- ✓ Assesses the Environmental Impact and Risk of any activity
- ✓ Proceeds with alternative waste management (hazardous and non-hazardous) and cooperates to this end with licensed operators
- ✓ Defines an Environmental Management Officer at each location
- ✓ Checks compliance with the legislation and the requirements of the Standard
- ✓ Reviews its Annual Environmental Performance
- ✓ Submits Annual Waste Production Report to the Waste Electronic Register of the Ministry of Environment

b) Notification of the procedures applied by the entity for the prevention and control of pollution and the environmental impact of various factors

The Company participates in the European Greenhouse Gas Emissions Monitoring and Management System (ETS). For this purpose, the Company:

- Submits to the relevant department a Declaration of Activity Data of the installations that implement a Greenhouse Gas Emissions Management System (ETS) as required by the relevant European legislation.
- Carries out Annual Emissions Verification Inspections of the LNG Terminal and the Compressor Unit in New Messimvria by the Independent TÜV AUSTRIA HELLAS Verification Body without any findings (observations or noncompliance) that affect the accuracy and reliability of the calculated emissions, and the results are submitted to the relevant department.
- Issues Carbon Footprint & Sustainability Report for the 7th consecutive year, covering data and consumption of the previous year. The Carbon Footprint Report is in agreement with the Greenhouse Gas Protocol (GHG) as an internationally accepted Greenhouse Gas calculation methodology and compatible with other international calculation standards such as ISO 14064: 2013, which allows the immediate integration of the results in the National and International Greenhouse Gas Registers.

c) Reference to the development of green products and services, if any.

The Company does not develop "green" products

d) Awards

The Company has been repeatedly awarded for its performance and innovation by environmental stakeholders

(e) Occupational Safety and Occupational Safety Officer

The provisions of Law 3850 / 02.06.2010 apply.

4. Employment Issues

Promoting equal opportunities and protecting diversity are key principles of the Company. The Company encourages and recommends to all employees of the Company to respect the diversity of each employee or associate of the Company and not to accept any conduct that may be discriminatory in any form.

The Company's policy in this area is based on the OECD Guiding Principles and the International Labor Organization (ILO).

a) A policy of diversification and equal opportunities (regardless of gender, religion, or other aspects)

In 2018, the company employed a total of 215 people, namely 1 Chairman & CEO, 12 Remunerated Advocates and 202 employees of different genders and ages, and the Company's consistent policy is to provide equal opportunities to employees regardless of gender, religion, or other aspects.

The Company's relations with its staff are excellent and there are no work problems.

b) Respect for employees' rights and trade union freedom

The Company respects the rights of employees and is aligned with the Labor Legislation. In the year 2018, no control body attributed any violations of labor legislation. In the company there is a union of employees named: SEDESFA (DESFA Workers' Association)

Education systems, promotion mode, etc.

Selection and recruitment procedures are done on the basis of the qualifications required for the position and without discrimination. The Company systematically trains all categories of its employees, either through "internal" or "external" seminars. In particular, the cost of staff training (training seminars and conferences) in 2018 amounted to € 76,041.5 thousand.

The way of promotions is based on an evaluation system that works in the company. These are subject to the written procedures of the Internal Labor Regulation.

5. Financial and Non-Financial Profitability Ratios and further clarifications

a) Financial and Non-Financial Ratios

The Financial ratios that prove the financial position of the Company are:

a. Economic Structure Ratios			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
1.	<u>Total current assets</u>	%	21,09%	20,87%	329.167	327.658
	Total assets				1.561.005	1.569.821
2.	<u>Total Equity</u>	%	60,85%	58,72%	949.837	921.773
	Total Equity & Liabilities				1.561.005	1.569.821
3.	<u>Total Equity</u>	%	77,11%	74,21%	949.837	921.773
	Total fixed assets				1.231.838	1.242.163
4.	<u>Total current assets</u>	%	345,79%	287,64%	329.167	327.658
	Total Short-term liabilities				95.192	113.914
5.	<u>Working Capital (*)</u>	%	71,08%	65,23%	233.975	213.744
	Total current assets				329.167	327.658
6.	<u>Loans</u>	%	17,18%	19,47%	197.021	222.823
	Loans & Total Equity				1.146.858	1.144.595

b. Profitability Ratios			<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
7.	<u>Net profit</u>	%	7,73%	9,29%	73.450	85.636
	Total Equity				949.837	921.773
8.	<u>Profit before tax</u>	%	10,49%	13,66%	99.608	125.940
	Total Equity				949.837	921.773
9.	<u>Net profit</u>	%	4,71%	5,46%	73.450	85.636

	Total Assets				1.561.005	1.569.821
10.	DSCR (**):					
	<u>Total inflow from operating activities incl. interest and related expenses</u>	%	2,9	4,1	101.628	149.130
	(Interest and related expenses paid+ repayments of loans)				34.498	36.328

c. Management Policy		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
11.	<u>Trade and other receivables (***)</u>	X 360		88.998	80.118
	Sales	= ημέρες	160,61	107,35	199.485

(*) For the purposes of determining the working capital, the current assets are added together. This sum deducts the sum of the short-term liabilities of the liability. The difference (+ or -) represents the working capital of each entity at the end of its determination period.

(**) DSCR ratio stems from the Statement of Cash Flow as reflected in the Notes of the Financial Statements.

(***) The ratio stems from the Statement of Financial Position as reflected in the Notes of the Financial Statements.

b) Non-financial profitability ratios

The following non-financial profitability ratios are used:

- a. The Eco-Management and Audit Scheme (EMAS) - DESFA uses En-ISO 14000
- b. The United Nations (UN) Global Compact, specifically on environmental issues
- c. The framework of the Coal-related Agency (CDE) - DESFA uses ETS Emissions Management
- d. The framework of the Organization of Environmental Footprint (OEF) framework - DESFA uses the Carbon Footprint

c) There are no significant or extra funds, which require particular analysis or

commentary, (additional explanations) beyond the information provided in the Financial Statements.

6. Expected evolution of the entity

The company expects to continue its upward trend in its results through the expansion of its services and new markets, the upward trend in gas consumption and the regulatory stability that is expected to be achieved in the coming years.

Note that: Until the preparation of this report, there are no significant events that have occurred since the end of the financial year and which may have a significant impact on the Company's financial structure or business performance.

7. Information relating to the acquisition of shares

No "own shares" were acquired during the year 2018.

8. Branches of the Company

The company does not have branches

9. Use of "financial instruments"

The Company does not use "financial instruments".

Halandri , 06/06/ 2019

For the BoD

The Chairman

Theodoros E. Zitounis

Member of BoD

Panagiotis D. Tampourlos