

# 2006

## ANNUAL REPORT









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## MESSAGE FROM THE CHAIRMAN

At a time when the international community is rapidly gravitating towards an economy increasingly dependent on energy resources, where natural gas is gradually taking over from oil and at a time when the promotion of renewable energy sources constitutes a central pillar of European energy policy, Greece is seeking to play a leading role. The geographical position of the country in South Eastern Europe enables us to offer a new international energy route, linking the major centres of production with the points of consumption.

In an age marked by serious, on-going energy-related evolution and geo-political realignments, DEPA is helping to reshape Greece's energy future.

With our core message "Connecting energy, connecting development", with our strategic objectives, planning and crucial initiatives and with the support of the Ministry of Development we seek to promote Greece's geo-political role and to contribute to the growth of the national economy.

2006 was a landmark year for DEPA. Besides the outstanding financial results achieved by both the company and the Group as a whole, these important twelve months were also marked by the 10th anniversary of the arrival of natural gas in Greece. An important year indeed, during which a new organisational and operational framework was developed towards considerable growth over the coming decade.

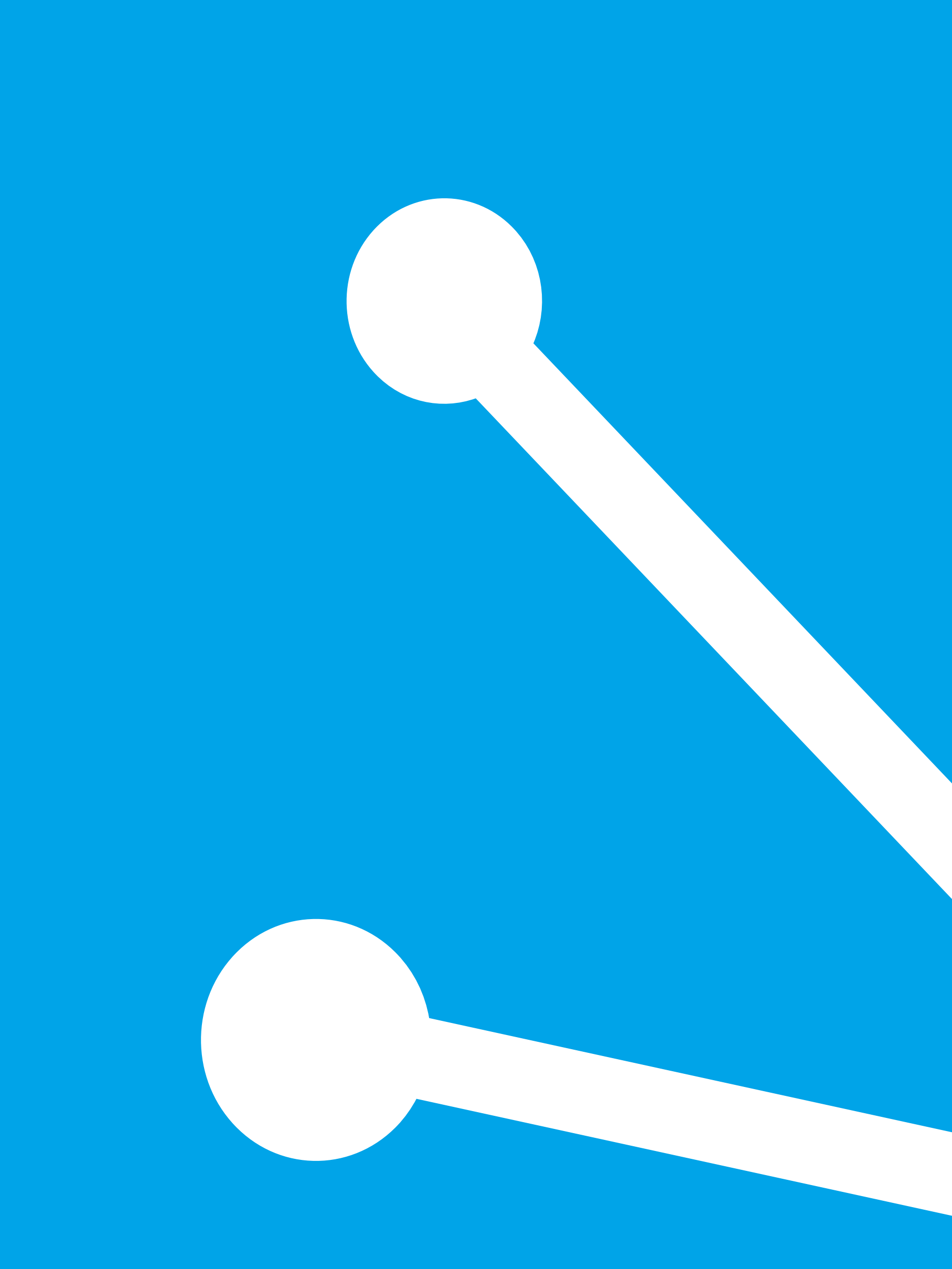


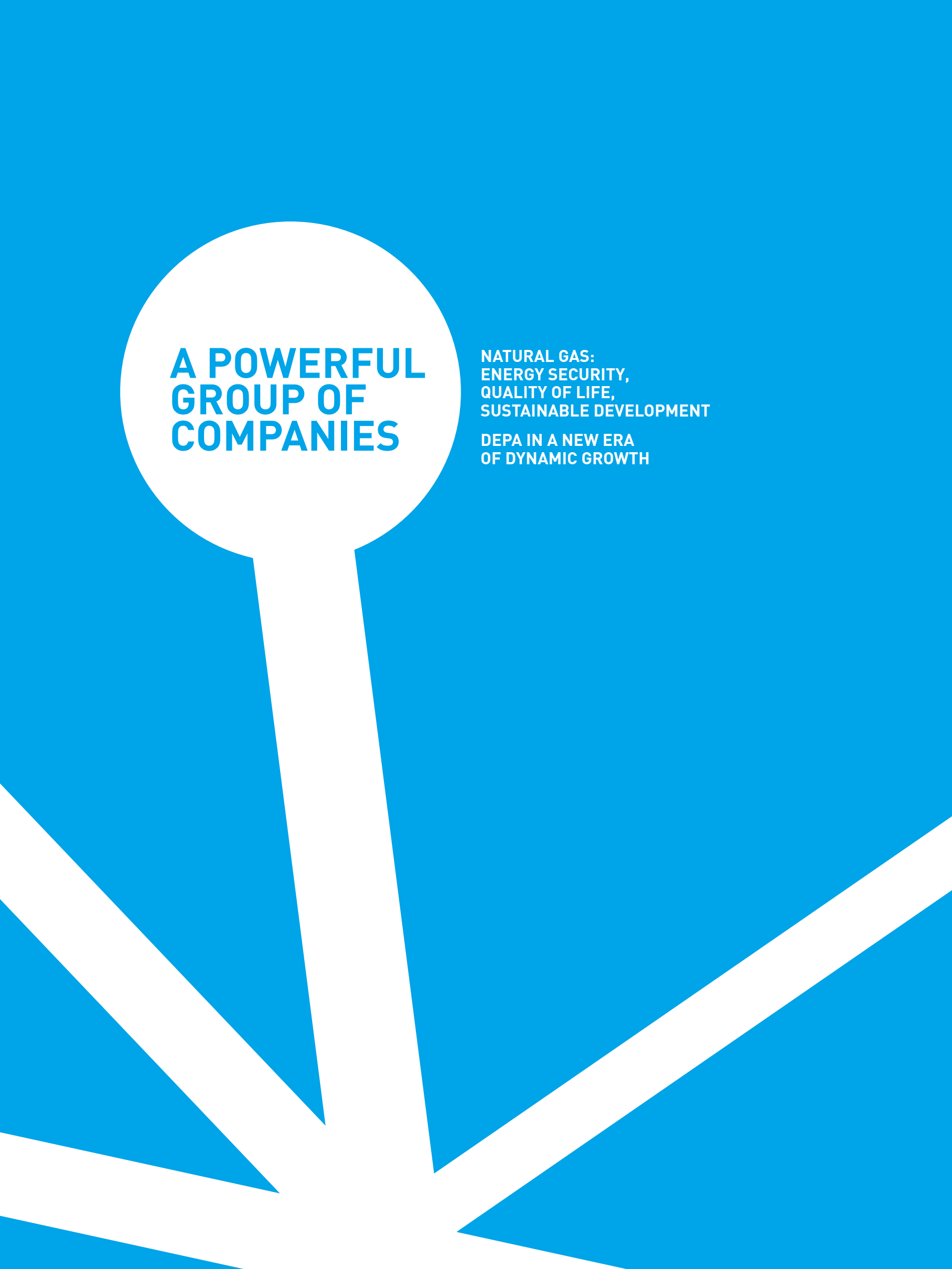
As one of the leading investors in the country, with investments expected to exceed €1.5 billion by 2010, undertaking essential work on the natural gas infrastructure and extending its use, through competitive agreements, we as a Group are fulfilling our national and social role of bringing Greece to the fore as an energy corridor for the whole of Europe.

The year now upon us is one of creative challenge but at the same time of remarkable opportunities for further development. With the setting up and operation of DEPA S.A. Group of Companies and with our focus on maintaining our steady, dynamic course of growth, we are pursuing our strategy in full compliance with the National Energy Policy.

A handwritten signature in dark ink, appearing to read 'Asimakis Papageorgiou', written in a cursive style.

**Asimakis Papageorgiou**  
Chairman of the Board of Directors and CEO





# **A POWERFUL GROUP OF COMPANIES**

**NATURAL GAS:  
ENERGY SECURITY,  
QUALITY OF LIFE,  
SUSTAINABLE DEVELOPMENT**

**DEPA IN A NEW ERA  
OF DYNAMIC GROWTH**



## NATURAL GAS: ENERGY SECURITY, QUALITY OF LIFE, SUSTAINABLE DEVELOPMENT

In view of the environmental and climatic changes, coupled with developments on the international energy market, natural gas stands out as the most significant energy fuel for the 21st century.

Embracing alternative, cleaner and cheaper forms of energy is opening up new horizons for the global community and is conducive to the shaping of a common environmental policy for billions of people around the world.

Crucial to the reshaping of the international energy landscape within this framework was the liberalisation of the European energy markets for electricity and natural gas in implementation of the respective EU Directives, as well as the signing of the Treaty for the Energy Community of South - Eastern Europe.

At a time of transition, which is seeing new networks being created and new inter-state regional markets set up, Greece in her location at the south-eastern tip of Europe is being called upon to play a vital role in future energy developments.

Under the strong need for large energy markets and regional cooperation, Greece is forging close friendships and cooperation-based ties and putting these to good effect, ensuring sufficient energy supplies for future growth and strengthening its position as an international energy corridor.

Within this energy context, DEPA's reputation for reliability and credibility as the main agent for allowing natural gas to penetrate Greece has meant that the company has managed to ensure that natural gas is claiming an ever-greater share of the country's energy balance.

Implementing a highly ambitious plan and undertaking one of the biggest development projects in the country in constructing a transport and supply network stretching the length and breadth of mainland Greece, DEPA is successfully meeting the National Energy Policy's basic objective of increasing natural gas penetration levels.

**connecting  
natural gas  
with sustainable  
development**



The current on-going expansion of the natural gas network is providing active support to the aim of prompting regional development throughout the country, promoting major fresh investment, introducing new professions and creating new jobs, whilst at the same time radically diversifying Greece's energy balance.

## DEPA IN A NEW ERA OF DYNAMIC GROWTH

### Connecting Greece to the energy of the 21st century

As a core pole for expanding the use of natural gas and connecting the country to the energy fuel of the 21st century, DEPA is seriously strengthening its position and establishing itself as a protagonist in developments coming about in Greece, whilst providing a dynamic response to the tough challenges in the international energy arena.

Through what was essentially an internal and organisational reshuffle, DEPA has transformed itself into a dynamic and competitive group of companies with a powerful vision and clear strategic planning and is striding forth into the new energy age in implementation of the National Energy Policy. It is contributing decisively to the growth of the Greek economy, implementing projects to expand the use of natural gas in the production of electricity, in industry, in trade and at home.

In 2006 in accordance with the new legislative framework governing deregulation of the natural gas market (Law 3428/05), procedures were got underway to create DESFA S.A. (the National Natural Gas System Administrator S.A.), a 100% subsidiary of DEPA, which is now responsible for the transport, storage and liquefaction of natural gas as well as the re-gasification of liquefied natural gas within Greece.

Following its creation on 30th of March 2007, DESFA took over responsibility for the running, administration, exploitation and development of the National Natural Gas System (ESFA). As such, DESFA controls and operates the infrastructure for the transportation and storage of natural gas, i.e. the central pipeline, the high pressure branch pipelines and corresponding above ground installations, as well as the Liquefied Natural Gas Receiving Terminal in Revythoussa, thus ensuring equal, non-discriminatory access for third parties to ESFA in order to promote competition on the natural gas market.

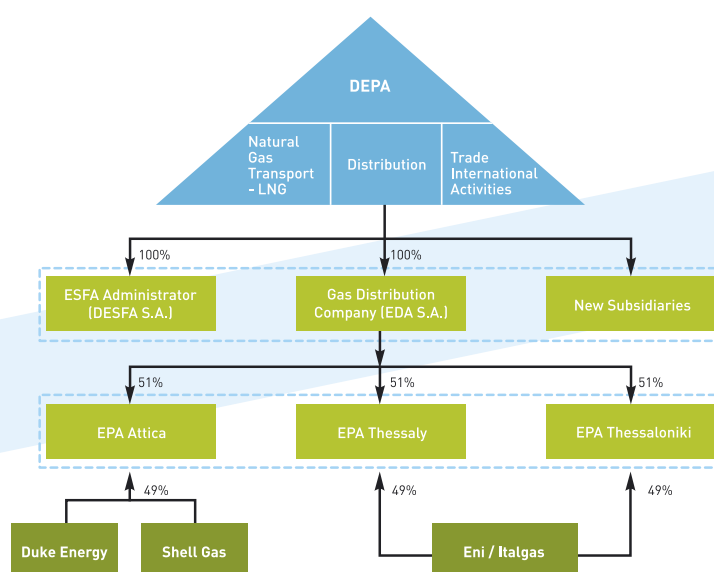
In this new format DEPA (65% of whose shares continue to be held by the Greek State, the remaining 35% by Hellenic Petroleum S.A.), covers the trading aspects of the natural gas business and at the same time is involved in operations extending beyond the purely commercial to include other natural gas related trading and investment activities, thus setting the scene for continued growth.

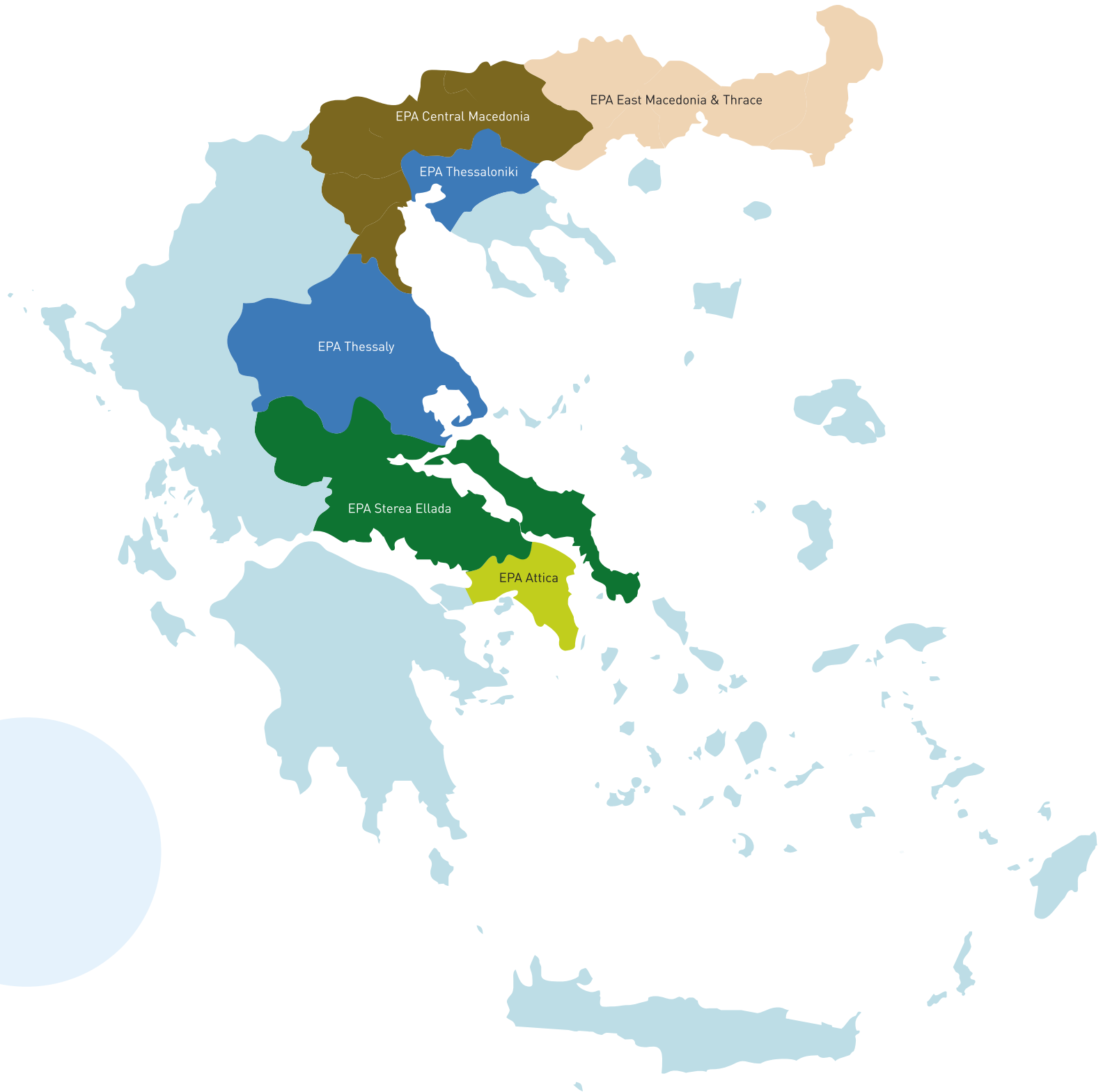
Similarly, through another 100% DEPA subsidiary now known as EDA S.A. (the Gas Distribution Company) -which came into being in 2006 when EDA Attica took over what were formerly EDA Thessaloniki and EDA Thessaly- DEPA holds 51% of shares in the regional EPAs (Gas Supply Companies). These companies are responsible for extending the "urban networks" as well as taking gas into homes, businesses and industry in certain geographical areas. The remaining 49% of shares in the EPAs are held by strategic investors who are also responsible for the management of the companies.

EPA Thessaly and EPA Thessaloniki currently operate with Italy's Italgas as a 49% strategic partner, as is the case with EPA Attica and the Duke Energy - Shell joint venture (49%). Meanwhile, DEPA is in the process of setting up three new Gas Supply Companies to cover Central Greece, Central Macedonia and Eastern Macedonia-Thrace.

As a major energy body with an important mission and responsibilities in many fields, DEPA is constantly striving to enhance its organisation, operations and workforce and is preparing to effectively shoulder its national and growth-related responsibilities in order to successfully face up to the challenge of market deregulation.

DEPA S.A. GROUP OF COMPANIES



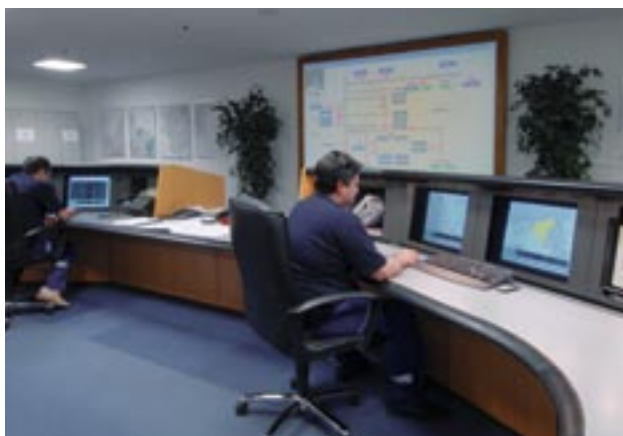


**GAS SUPPLY COMPANIES (EPAs) IN OPERATION**



## Human Resources

With such a key role to play in achieving the company's objectives and fulfilling its vision and mission, the people working in DEPA are obviously central to its strategy and success. At the close of the 2006 financial year, DEPA had a staff of 340. By mid 2007 following completion of the legal separation procedures and the setting up of DESFA S.A. to which most of the workforce was transferred, DEPA was employing a permanent staff of 67. These are mostly energy specialists, comprising a high percentage of college graduates, as well as post-graduates. DEPA invests heavily in skills enhancement and career advancement for its workforce. At the same time, by fostering a climate of fertile dialogue it is also seeking to shape and develop a framework for creative cooperation, mutual trust and understanding.



## Participation in business associations

As a member of the international energy community, DEPA is a member of various international and Greek chambers and professional associations. It is a member, of Eurogas (European Union of the Natural Gas Industry), of GIE (Gas Infrastructure Europe), of IGU (International Gas Union), of Marcogaz (Technical Association of the European Natural Gas Industry responsible for technical legislation and standardisation), of OME (Mediterranean Energy Observatory), of GIIGNL (International Group of Importers of Liquefied Natural Gas), the FGI (Confederation of Greek Industries and Enterprises), etc. and also participates with representatives in working groups formed by those associations on energy issues at European level.

A POWERFUL GROUP OF COMPANIES



## The National Natural Gas Transportation System

Since its very creation, DEPA's fundamental mission has been to develop the necessary infrastructure for the safe and smooth transportation of natural gas in Greece.

Creating the gas transportation network is one of the major development projects being undertaken in the energy sector.

There are two points of entry to the transportation system. The first is on the border between Greece and Bulgaria, where gas from Russia enters the main natural gas pipeline.

The second point of entry is at Revythoussa in the Pachi-Megara bay, where liquefied Natural Gas from Algeria is stored and re-gasified before then being fed into the central pipeline. Construction of the Revythoussa Liquefied Natural Gas (LNG) Receiving Terminal was completed in December 1999. Work to upgrade the Terminal's capacity is now under completion, which will result in its current potential being tripled. A third point of entry is planned for the near future (during 2007) at Kipoi on the Greek-Turkish border where natural gas will enter Greece from the East. According to Law 3428/2005, the National Natural Gas System (ESFA) comprises:

1. The National Natural Gas System within the borders of Greece currently composed of:

- A central high pressure (70 bar) gas pipeline with a total length of 511 km, stretching from the Greek-Bulgarian border to Attica.
- A high pressure branch pipeline towards Eastern Macedonia and Thrace, Thessaloniki, Volos, Oinofyta and Attica, total length 440 km.
- An 87 km long high pressure branch pipeline between Komotini, Alexandroupolis and Kipoi (on the Greek-Turkish border), which will comprise the Greek section of the joint Greek-Turkish natural gas pipeline. Construction of the pipeline is due for completion in the summer of 2007.
- A high pressure branch line over 43 km to reach the Corinth area, due for completion in the final quarter of 2007.
- A high pressure branch pipeline towards Antikyra, Aliveri and Western Thessaly with a total length of 147 km, due for gradual completion between the third quarter of 2007 and mid 2009.
- A metering station for deliveries of imported natural gas from Russia at Sidirokastro near the Greek-Bulgarian border.
- A metering station for imported natural gas at Kipoi near the Greek-Turkish border.
- Thirty one metering and/or regulating stations to measure gas off-takes and/or regulate pressure.

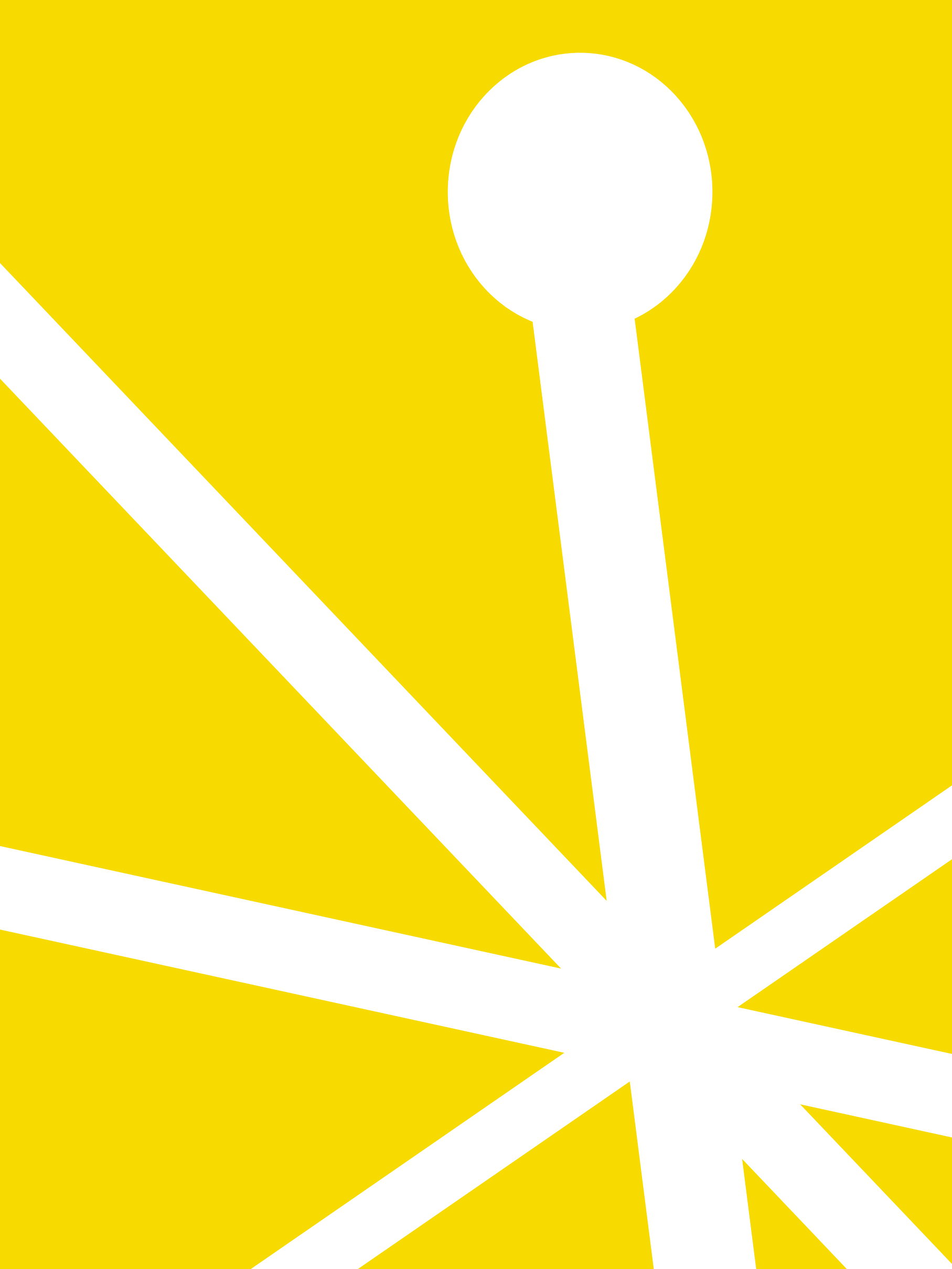


- A remote control system, facilities to monitor operations and communication facilities (SCADA).
  - Operation and maintenance centres in Attica (Patima Eleusinas), Thessaloniki (Nea Mesimvria), Thessaly (Ampelia Farsalon) and Xanthi (Vistonida).
  - A central control room in Patima, Eleusis, which uses a SCADA system to oversee, control and operate the National Natural Gas System around the clock.
2. The liquefied natural gas Receiving Terminal on Revythoussa island in the gulf of Megara, Attica.
  3. Auxiliary installations and infrastructures for the transportation system.

In line with its safety policy, in 2006 DEPA carried out all the required maintenance work to ensure the smooth operation of the (high pressure) natural gas transportation system and the (low pressure) supply system under its responsibility.

Over the past year, investment in the construction programme to extend the National Natural Gas System amounted to €75.5 million.







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2006 REVIEW

## 2006: ANOTHER LANDMARK YEAR ON A COURSE OF DYNAMIC GROWTH

### Annual Review 2006

Throughout 2006, DEPA continued work on the Greek section of the 34 km long Komotini-Alexandroupolis gas pipeline, intended to link up the Greek and Turkish Natural Gas Systems.

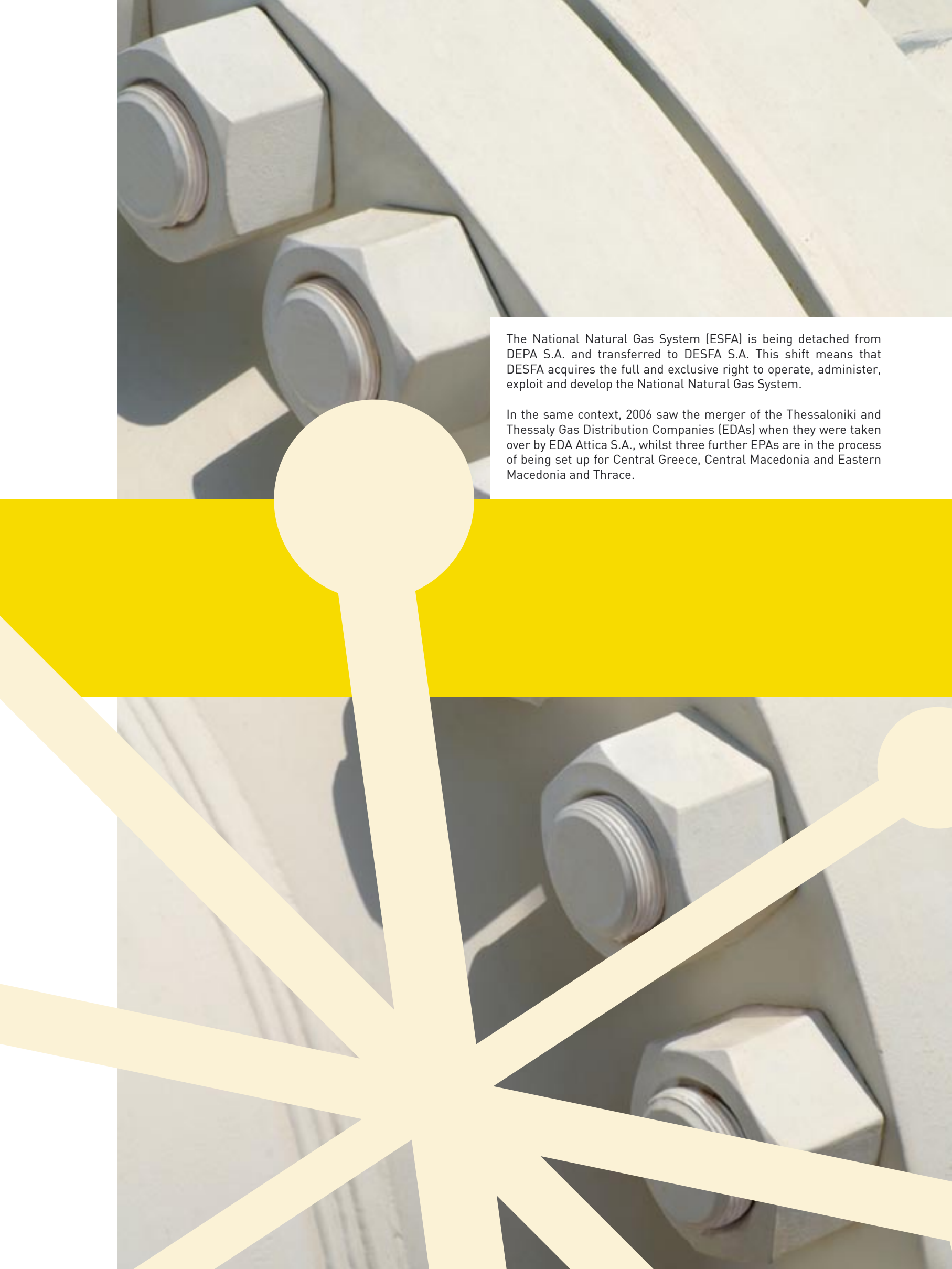
At the same time it continued upgrading work on the Revythoussa LNG Terminal. Contacts with Natural Gas companies in the wider South-Eastern European and Mediterranean region were also maintained. Within the same context, work on connecting the Greek and Italian Natural Gas Systems proceeded between DEPA, EDISON (Italy) and BOTAŞ (Turkey).

The construction programme to extend the National Natural Gas System also continued. 2006 saw the construction of the Natural Gas pipeline to the Corinth area assigned. This will mark the beginning of future Natural Gas supplies to the Peloponnese and will extend the current central pipeline to the Corinth area, initially feeding the MOTOR OIL refinery. Support continued to be given to the three existing Gas Supply Companies (Attica, Thessaloniki and Thessaly) to complete their programme and tendering procedures went ahead for selecting investors to set up three new Supply Companies (EPAs) for Central Greece, Central Macedonia and Eastern Macedonia and Thrace.

As for the company's trading activities, 2006 saw a continuation of DEPA's upward course with a further twenty six (26) contracts being signed for the sale of natural gas to industry. The focus here was on new areas as well as supplying eighteen (18) new clients.


This upward trend is also reflected in the company's financial results, which show a sharp upturn of sales amounting to some 17% in quantity terms (up to 3.12 billion Nm<sup>3</sup> in 2006 from 2.7 billion Nm<sup>3</sup> in 2005) and a 44% rise in revenues.

Particular emphasis was placed over the past year on promoting deregulation of the natural gas market in Greece. This came about through the legal separation of DEPA S.A. with the creation of a new subsidiary company -DESFA S.A.- which henceforth is responsible for the transport, storage and liquefaction of natural gas, as well as the gasification of Liquefied Natural Gas within Greece.



The National Natural Gas System (ESFA) is being detached from DEPA S.A. and transferred to DESFA S.A. This shift means that DESFA acquires the full and exclusive right to operate, administer, exploit and develop the National Natural Gas System.

In the same context, 2006 saw the merger of the Thessaloniki and Thessaly Gas Distribution Companies (EDAs) when they were taken over by EDA Attica S.A., whilst three further EPAs are in the process of being set up for Central Greece, Central Macedonia and Eastern Macedonia and Thrace.



## Maintaining a dynamic course

The year 2006 saw DEPA taking decisive steps on the back of its development policy to boost natural gas penetration in Greece, proceeding with some major projects, extending network presence in the country, entering into new business deals and investing with an eye to consistent growth and enhanced quality of life.



### Inauguration of the second bus refuelling station

The second bus refuelling station has come on-stream in Anthoussa. It was inaugurated on the 7<sup>th</sup> of January 2006 by the Prime Minister K. Karamanlis.



### Upgrading of the LNG Terminal

Work has continued on upgrading the facilities at the Revythoussa LNG Terminal, so that its re-gasification capacity may be tripled.



### Greece-Turkey interconnector

Construction of the 34 km long Komotini-Alexandroupolis pipeline is expected to reach completion in 2007, this being part of the Greece - Turkey interconnector.



### 10 years of natural gas

Greece is celebrating the 10th anniversary of the arrival of natural gas.



### Extending over mainland Greece

Preparation of a tender and setting up of a further three Gas Supply Companies for Central Greece, Central Macedonia and Eastern Macedonia and Thrace.





**€75.5 million invested to develop the national network**  
In 2006, €75.5 million were invested to cover the construction programme for extending the National Natural Gas System in Greece.



**New business deals**  
26 new gas supply contracts signed with industrial clients in new areas and 18 new customers supplied.

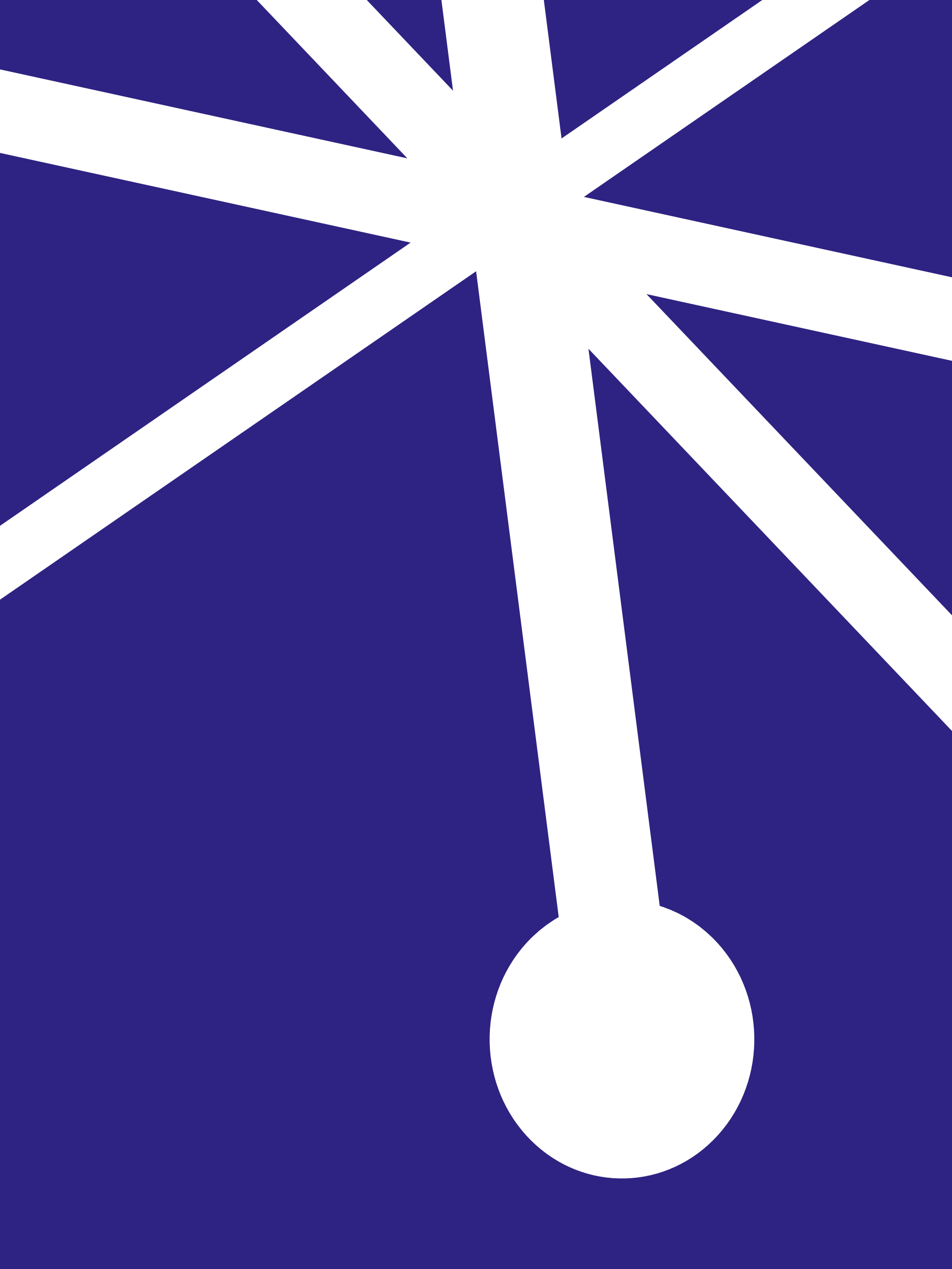


**Impressive financial performance**  
As an example of a profitable business under Greek State control, in 2006 DEPA showed a 44% increase in turnover, with profits of 43.2 million euros.



**Establishment of DESFA S.A.**  
In accordance with the new statutory framework, a new company -DESFA S.A.- has been set up as a 100% subsidiary of DEPA S.A. From 2007 onwards it will be responsible for developing, running and controlling the National Natural Gas System.







**A POWERFUL  
GROUP OF  
COMPANIES**

2007 PERSPECTIVES

## 2007: Sights set on continued growth

2007 is being seen as a year of significant developments on essential issues both in the broader energy sector and on issues of strategic importance to the company itself, such as bringing the third gas take-up point on-stream (at Kipoi on the Greek-Turkish border), as well as adapting to the new conditions of the statutory and regulatory framework for deregulation of the gas market.

Particular emphasis will be placed on achieving the company goal of increasing the share of natural gas in the national energy balance, attracting new customers and developing new applications, these being seen as essential to the company's future direction, drawing amongst others on the new supply contracts (with the Turkish gas company BOTAS) and the corresponding interconnection with the gas transportation system.

Of particular importance to DEPA is the Hellenic Transmission System Operator (HTSO S.A.) tender 12/2006 for the new electricity generating plant, partly because of its impact on demand for gas, but also because of the likely repercussions on further deregulation of the Natural Gas market.

Bearing this in mind, 2007 will focus specifically on issues such as:

- Further work on the contractual framework for the gas market deregulation regime, plus reappraisal and adjustment of the company's trading/pricing policy in view of the new circumstances in the statutory-regulatory environment and on the energy market for the various customer groups. The primary concern is amending existing gas supply contracts with the Public Power Corporation (PPC), the EPAs and Motor Oil. Particularly in the case of PPC, the plan to extend the transportation system as far as Aliveri will be taken into account, based on the company's planned construction of new power plants there, using natural gas.
- Enhancing cooperation with the EPAs, focusing on meeting increased demand for gas.
- Negotiating with candidate Independent Power Producers and co-generators, in order to sign corresponding gas supply agreements ("Aluminium de Grèce", "Thessaloniki Energy Company"), as well as with other potential customers to participate in the previously mentioned HTSO S.A. tender for the new combined cycle unit.
- Negotiating with potential new customers with an eye to the signing of new contracts with industrial and other customers, focusing on the major business consumers (hospitals).

- Organising and adapting business activities to the conditions of the new business environment created by deregulation of the energy markets, separating business and transportation activities and flagging up DEPA's advantages over its competitors, focusing on quality provision of services and timely delivery to new clients.
- Ensuring the requisite amounts of gas in the short term for 2007, but also for years to come. Within this context talks will be continued for the possible supply of additional amounts either by pipeline and/or LNG in the future, from existing and/or new suppliers.
- Completion of the procedure to select a vessel to transport Algerian LNG after September 2007.
- Completion of the preparation and announcement of the tender for new EPAs once the European Commission has taken the final decisions.
- Continuing efforts to promote the use of CNG (Compressed Natural Gas) by city buses and other vehicles and approaching other bodies and companies with fleets of vehicles in order to adapt to the new circumstances created under new legislation on gas powered vehicles.

According to budget data, gas sales in 2007 are expected reach 3.7 billion Nm<sup>3</sup>, a 19% increase over 2006. The volume of sales in the electricity generating sector is expected to show a marked increase of 20% due to increased electricity demand, as well as 25% in the EPAs as more households and businesses connect to natural gas.







# **STRATEGIC OBJECTIVES**

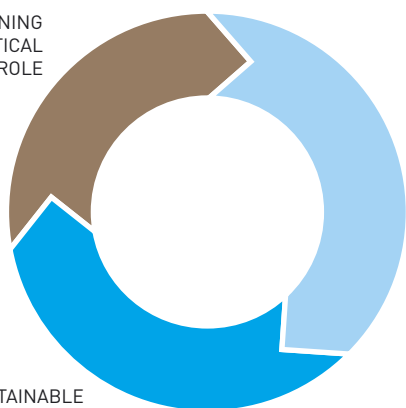
**ENHANCING GREECE'S POSITION  
ON THE WORLD ENERGY MAP**

## DEPA'S THREE - FOLD STRATEGY

In full accordance with the National Energy Policy on reducing dependency on oil and seeking alternative forms of energy, DEPA is making a substantial contribution to resolving the country's energy issue, consistently implementing its three-fold strategic plan:

- **Strengthening Greece's geopolitical role in transporting and distributing natural gas.**
- **Enhancing the availability and use of natural gas in Greece.**
- **Contributing to sustainable development.**

STRENGTHENING  
GREECE'S GEOPOLITICAL  
ROLE



SUSTAINABLE  
DEVELOPMENT

DEVELOPMENT  
OF NATURAL GAS  
ACTIVITIES

**connecting**  
Greece with  
world energy

## GREECE'S GEOPOLITICAL ROLE IN THE TRANSPORTATION AND TRANSIT OF NATURAL GAS

Over the past three years, through a series of major energy projects of international significance, Greece has been developing into an International Energy Route, upgrading her strategic position on the global energy map. A basic pillar of this strategy is the Turkey-Greece-Italy natural gas interconnector which is being developed in two phases: the first phase being the construction of the Greece-Turkey pipeline (Greece-Turkey Interconnector, GTI) and the second phase being the construction of the Italy-Greece pipeline (Italy-Greece Interconnector, IGI).



## PROJECTS TO ENHANCE GREECE'S GEOPOLITICAL POSITION

### The Greece-Turkey interconnection project:

Construction continued in 2006 on the Greek section of the 34-km high-pressure branch to connect Alexandroupolis with Kipoi Evros on the Greek-Turkish border, with the aim of interconnecting the Greek and Turkish natural gas networks. 2006 also saw the completion of negotiations with Sroytransgaz, the Greek-Russian Joint Venture, on the direct awarding of the construction contract for the Komotini-Alexandroupolis pipeline under the Greek-Russian inter-state Agreements. The technical and tendering procedures for the construction and installation of the natural gas metering station on the Greek-Turkish border were also completed, as was the Operational Agreement for the Greek-Turkish pipeline, under which DEPA will collaborate with BOTAŞ. Meetings and cooperation with the competent EU bodies were further continued towards the 50% funding of the technical design and detailed engineering studies of the project (both Greek and Turkish sections) by the Trans-European Network Programme, as well as towards securing 29% EU funding under the Third Community Support Framework (CSF III) towards the construction costs for the Greek section of the interconnector (Komotini - Greek - Turkish border). This would be based on monitoring the processing of the required Large Scale Project File with all supporting documents.

Every year, DEPA makes significant investments in order to achieve its strategic objectives, rendering it a force to be reckoned with in the development and strengthening of Greek economic activity and in the creation of new jobs throughout the country, as well as boosting regional development. At a time which is critical for the protection of the environment, DEPA is playing a vital role, through providing abundant, safe, cleaner and cheaper energy.

## STRATEGIC OBJECTIVES

### Revythoussa Liquefied Natural Gas Terminal

Work continued intensively in 2006 on increasing the gasification capacity of the Liquefied Natural Gas Receiving Terminal on Revythoussa island (from 277 m<sup>3</sup>/h to 1,000 m<sup>3</sup>/h), a project that is completed in 2007. Following its upgrading, the Revythoussa LNG Terminal will be one of the largest in Southeast Europe and one of 10 similar LNG terminals operating in the entire Mediterranean.





### Greece-Italy Interconnection Project:

Discussions between DEPA and the Italian company EDISON continued in 2006 on the interconnection of the Greek and Italian natural gas networks. The two companies also expanded their framework agreement for cooperation and finalised a joint programme of preparatory works required in view of the final investment decision and start of the construction phase. The 590-km land-based section of the pipeline between Komotini and Stavrolimenas will be constructed by DESFA S.A. and will be incorporated into the National Natural Gas System under regulated access status.


All of the basic design studies – including environmental impact studies, approvals and permits from competent authorities, mapping of the underwater route of the pipeline between the two countries, etc. – for the 217 - km underwater section linking Stavrolimenas and Otranto at a depth of 1,450 m have been completed, thus opening the way for the final investment decision. The pipeline will be constructed by a company ("Poseidon") to be set up specifically for this purpose by DEPA and Edison on a 50%-50% basis. Close



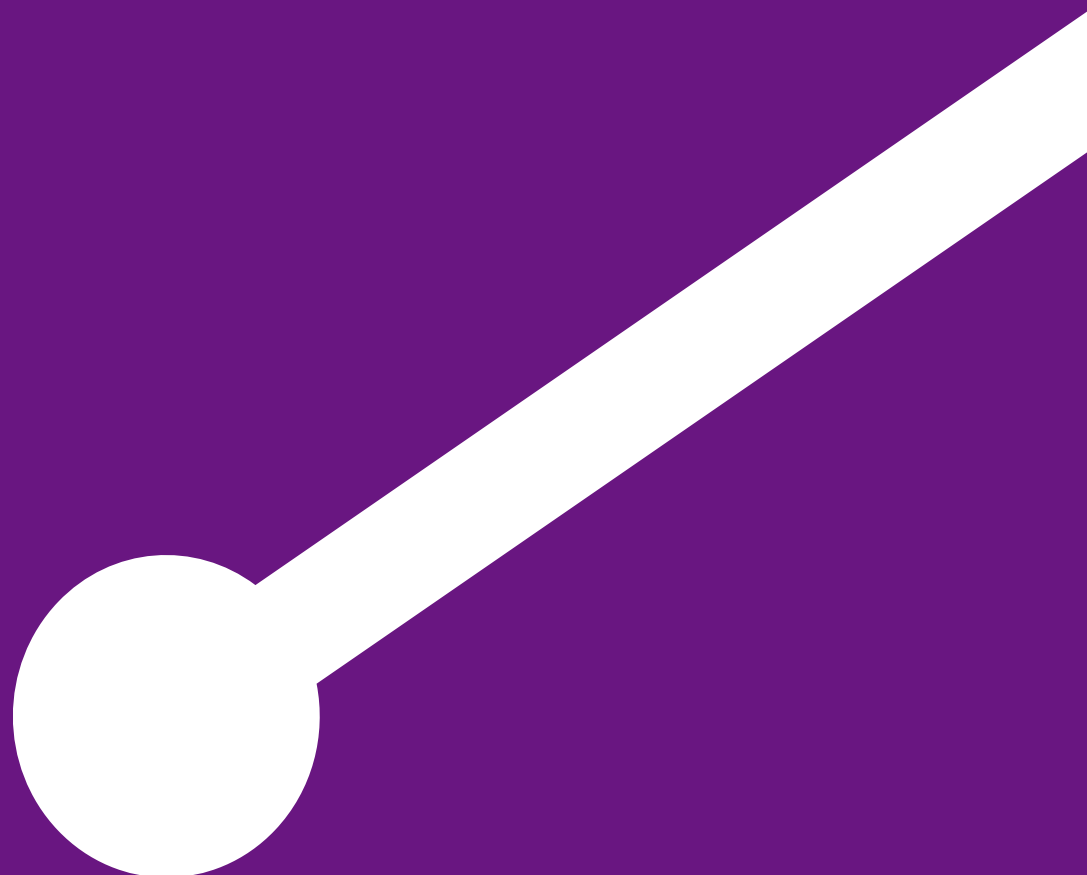
cooperation with the competent EU bodies also continued on the inclusion and 50% co-funding of all technical studies and basic design of the project by the Trans-European Network Programme. Moreover, consultations continued with prospective natural gas suppliers towards securing the necessary quantities of natural gas in accordance with the operational timeframe for the project, as well as with officials from neighbouring countries, in order to reach agreements on their interconnection and supply with natural gas via Greece.

On 31<sup>st</sup> January 2007, within the framework of the signing of the Protocol for the supporting of construction of the Greek-Italian interconnector and in order to ensure the viability of the investment, the two countries completed the arrangements and finalised an agreement clearing the way for a decision precluding third-party access to the underwater section of the pipeline. The relevant EU decision granting the exclusion to the underwater section of the pipeline for 25 years was issued on 22 May 2007.





This pipeline is a supplement to the Greek-Turkish natural gas pipeline and is intended to transport gas from the Caspian region to the West via Turkey and Greece. The Greek-Italian pipeline significantly strengthens the market position of DEPA in the wider region, creates the conditions for supplying Central and Western Macedonia and Epirus with natural gas, enhances energy security and makes Greece a transit route for natural gas.



The image features a solid purple background. A large white circle is positioned in the lower-left quadrant, containing the text "STRATEGIC OBJECTIVES" in bold, purple, uppercase letters. A thick white line extends from the top of this circle, angled upwards and to the right, ending near the top-right corner. Another thick white line extends from the top of the circle, angled upwards and to the left, ending near the top-left corner. A third thick white line extends from the top of the circle, angled upwards and to the right, ending near the top-right corner. The text "DEVELOPMENT FOR GREECE" is written in small, white, uppercase letters, positioned to the right of the white circle.

**STRATEGIC  
OBJECTIVES**

DEVELOPMENT FOR GREECE

## NATURAL GAS AT THE SERVICE OF DEVELOPMENT

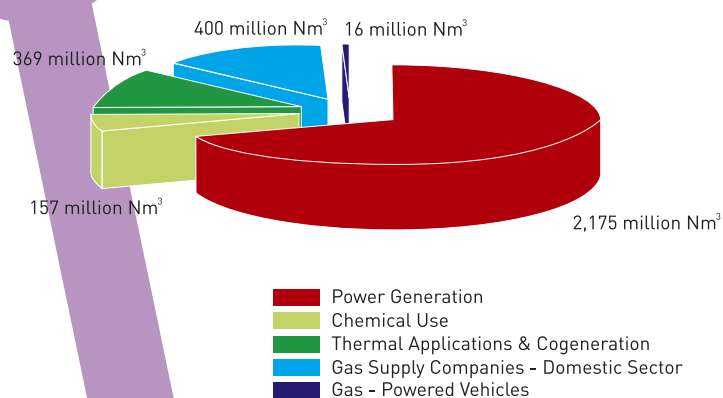
### Developing the commercial activities and use of natural gas in Greece

In compliance with the National Energy Policy, of the Ministry of Development, DEPA continues to link the future of energy with the future of Greece, strengthening the country's role in the new environment of deregulated energy markets. DEPA as a Group implements an extensive investment programme which is expected to exceed €1.5 billion by 2010, extending the infrastructure to prompt the more widespread presence and greater participation of natural gas in our country's energy balance.

At the same time, through its commercial activities it is making natural gas the fuel of the future, bringing the country's production forces and social partners into contact with a fuel which is more environmentally friendly and more efficient, due to its many potential applications and limited losses during use.

In 2006, the volume of sales to DEPA's urban and industrial clients showed a substantial 17% increase, rising to 3,117 billion Nm<sup>3</sup>, while revenues from sales increased by 44% to €820.1 million.

NATURAL GAS USES



More specifically, 2,175 billion Nm<sup>3</sup> were provided for the production of electricity, 157 million Nm<sup>3</sup> were consumed for chemical applications in the industrial sector, while 369 million Nm<sup>3</sup> were provided for thermal applications and co-generation of heat and power. 400 million Nm<sup>3</sup> were provided to Gas Supply Companies and 16 million Nm<sup>3</sup> were provided to special commercial consumers, mainly for powering vehicles.

As for gas prices, in 2006 natural gas procurement prices (in US dollars) were initially higher than in 2005 and reached their highest levels to date, with an average increase for the year for Russian gas of about 38% and 29% for Algerian gas (based on the arithmetic mean). As a result, the consumer price for gas was also significantly higher than in the previous year, the average price for 2006 being about 23% higher than in 2005, mainly due to significantly higher prices for petroleum products.

The contract management sector also grew in 2006, with twenty-six (26) new contracts being signed for the sale of natural gas to industrial consumers – two of whom used the gas for co-generation and the remaining 24 for thermal applications – and supply deals were finalised with eighteen (18) new consumers in the industrial sector in various areas of the country.

Geographically, the new contracts cover areas where there is already a gas network, as well as new areas (Attica, Oino-fyta, Ritsona, Vathi Avlidos, Katerini, Alexandria Imathias, Kilkis, Kavala, Xanthi and Komotini). The new contracts for 2006 include the three-party contract with the Ministry of Environment, Physical Planning & Public Works and EYDAP (the water and sewage utility of Athens) to supply EYDAP's waste treatment centre in Psytalleia. This contract provides for annual consumption that will increase over a three-year period from 7 million Nm<sup>3</sup> to 29 million Nm<sup>3</sup>, for thermal applications (sludge de-watering) and co-generation of heat and power. The construction of the supply network will be carried out by the Attica Gas Supply Company, based on an agreement.

connecting  
energy with  
Greece's  
development



The quantities of gas covered by the new contracts total 32.5 million Nm<sup>3</sup>, thus giving a total contracted quantity of approximately 3.38 billion Nm<sup>3</sup> at the beginning of 2007. The total annual contracted quantities for the 18 new clients supplied in 2006 amount to some 9.8 million Nm<sup>3</sup>.

The process of preparing DEPA for becoming active in a deregulated gas market also continued in 2006, under the provisions of Law 3428/2005 (Deregulation of the Natural Gas Market), Ministerial Decision 4922/2006 (tariffs for the transportation of Natural Gas and the gasification of Liquefied Natural Gas) and the draft transportation contract that was tendered for public consultation in 2006, in implementation of directive 55/2003.

### Natural Gas Supply

The Russian company Gazprom Export – a subsidiary of Gazprom, the largest natural gas producer in the world – and the Algerian company Sonatrach are DEPA's natural gas suppliers.

The contract with Gazprom Export provides for the supply of 2.24 billion cubic meters, with the potential to increase this to 2.8 billion cubic meters by 2016 and covers the bulk of Greek consumers' needs. An interstate agreement also provides a guarantee that Russia will supply DEPA with natural gas for at least a decade after 2016.

The contract with the Algerian company Sonatrach provides for the annual supply to DEPA in the form of Liquefied Natural Gas (LNG) of between 0.51 and 0.68 billion cubic meters of gas until 2021. The gas is transported to Greece by sea and is unloaded at the Liquefied Natural Gas Receiving Terminal on Revythoussa island.

In 2006, a total of 2,552 million cubic meters of Russian natural gas was received and 31 shipments of liquefied natural gas – equivalent to 507 million cubic meters – were purchased under the long-term contract with the Algerian company, supplemented by two shipments on the spot market.

The annual supply of 750 million cubic meters of natural gas from the Turkish company BOTAŞ will play an important role in the supply of natural gas. Delivery of gas is expected to begin within 2007 upon completion of the projects

for interconnecting the Greek National Natural Gas System (ESFA) with its Turkish counterpart. This interconnection is of particular importance because it enables DEPA to diversify its gas supply sources with regard to both this specific contract, as well as other potential, future supply contracts with suppliers in the wider Caspian region. At the same time, it lays the groundwork for the creation and establishment of the "Southern European Natural Gas Corridor" from the producer countries to Western Europe and the Balkans.

### Intensive support for subsidiary companies

In 2006, DEPA continued to support and to monitor the operation of the three Gas Distribution Companies [which later merged into a single Gas Distribution Company -EDA S.A.- following the restructuring of the Group's Companies] on issues of an institutional, management and technical nature, such as the handing over of new networks and the coordination of technical inspections during construction of the networks.

DEPA also continued to supervise the operation of the Gas Supply Companies (EPAs). In 2006, progress was made in developing the EPAs' construction work and efforts to attract new clients were intensified, leading to an upturn in sales. More specifically, EPA Attica showed a 58% increase in active clients, with EPA Thessaly and EPA Thessaloniki showing increases of 72% and 88% respectively.

DEPA also continued to collaborate with a team of Consultants on preparing the call for tenders to attract private investors and set up the new EPAs in Central Greece, Central Macedonia and Eastern Macedonia and Thrace. The preparations involved working on the framework for the call for tenders; promoting the requisite statutory regulations; communicating with the competent European Union services with regard to approval of the derogation status for the new regions and funding status for the three EPAs to be set up.



### Natural Gas-powered Vehicles

In seeking to make a substantial contribution to increasing the use of natural gas to power vehicles – given the growing problem of air pollution – DEPA is systematically promoting the potential for the use of vehicles fuelled by natural gas in select organisations and businesses within the broader public and private sectors. Natural gas for these vehicles is available at DEPA's existing refuelling stations and will also be obtainable from refuelling stations to be opened in the future in Athens and Thessaloniki.

Through a call for tender being conducted by the Ministry of the Interior, Public Administration and Decentralisation,

with funding secured from the Development Ministry under the related funding programme, by late 2007 the current fleet of natural-gas powered vehicles -the Thermal Buses S.A. (ETHEL) vehicles- will be augmented by a further 100 large new vehicles (waste collection trucks) belonging to the Attica basin Municipalities.

Moreover, after examining certain issues concerning gas-powered vehicles, DEPA made a proposal to the Transport and Communications Ministry to amend the legal framework governing gas-powered vehicles.





### Other activities

Various other actions were also undertaken in 2006 in support of the commercial operation and promotion of the company's other activities, including:

- An agreement with EPA Thessaly on extending the natural gas network in Western Thessaly.
- Meetings with potential major clients in the power generation, petroleum and industrial sectors and negotiations towards the signing of natural gas sales contracts.
- Monitoring and formulating the institutional and regulatory framework for deregulating the natural gas market and setting up working groups on adapting the company's activities to the new environment established by Law 3428/2005.
- Collaborating with a specialised consultant to discuss commercial policy and drafting of gas sales model contracts – including pricing policy – in a deregulated market.
- Preparing and publishing the call for tenders for the time chartering of a LNG transport vessel (in the Official Journal of the European Union and in the Greek press).
- Vetting 3,550 design plans for new natural gas installations, as well as carrying out 539 on-site inspections of newly constructed buildings to certify the implementation of approved designs in a total of ten prefectures.

### Operation and maintenance of the transportation system

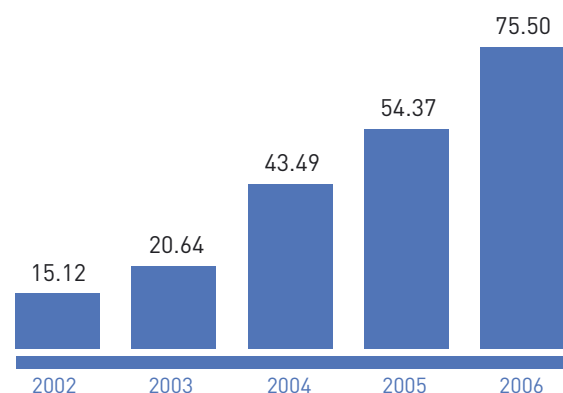
In 2006, the annual preventive maintenance programme was implemented at all the facilities that are part of the transportation system and a series of procedures to ensure the maintenance and smooth functioning of the system were carried out. At the same time, ELOT 1801 and OHSAS 18001 occupational safety standards were implemented.

### Third community support framework

Almost all of DEPA's investments are co-funded by CSF III, through the Operational Programme "Competitiveness" of the Ministry of Development. At the end of 2006, DEPA's budget for projects concerning natural gas infrastructure included in the programme amounted to €391,764,065.25, of which €176,254,968 was Public Expenditure. Following the legal unbundling of DEPA's trading and transport activities and the founding of the subsidiary company DESFA, the budget for DEPA natural gas infrastructure projects included in the programme to date (late July 2007) amounts to €85,293,535, of which €34,713,171.50 is Public Expenditure, half of which is covered by the Greek public sector, the other half coming from the European Union.



### INVESTMENT PROGRAMME



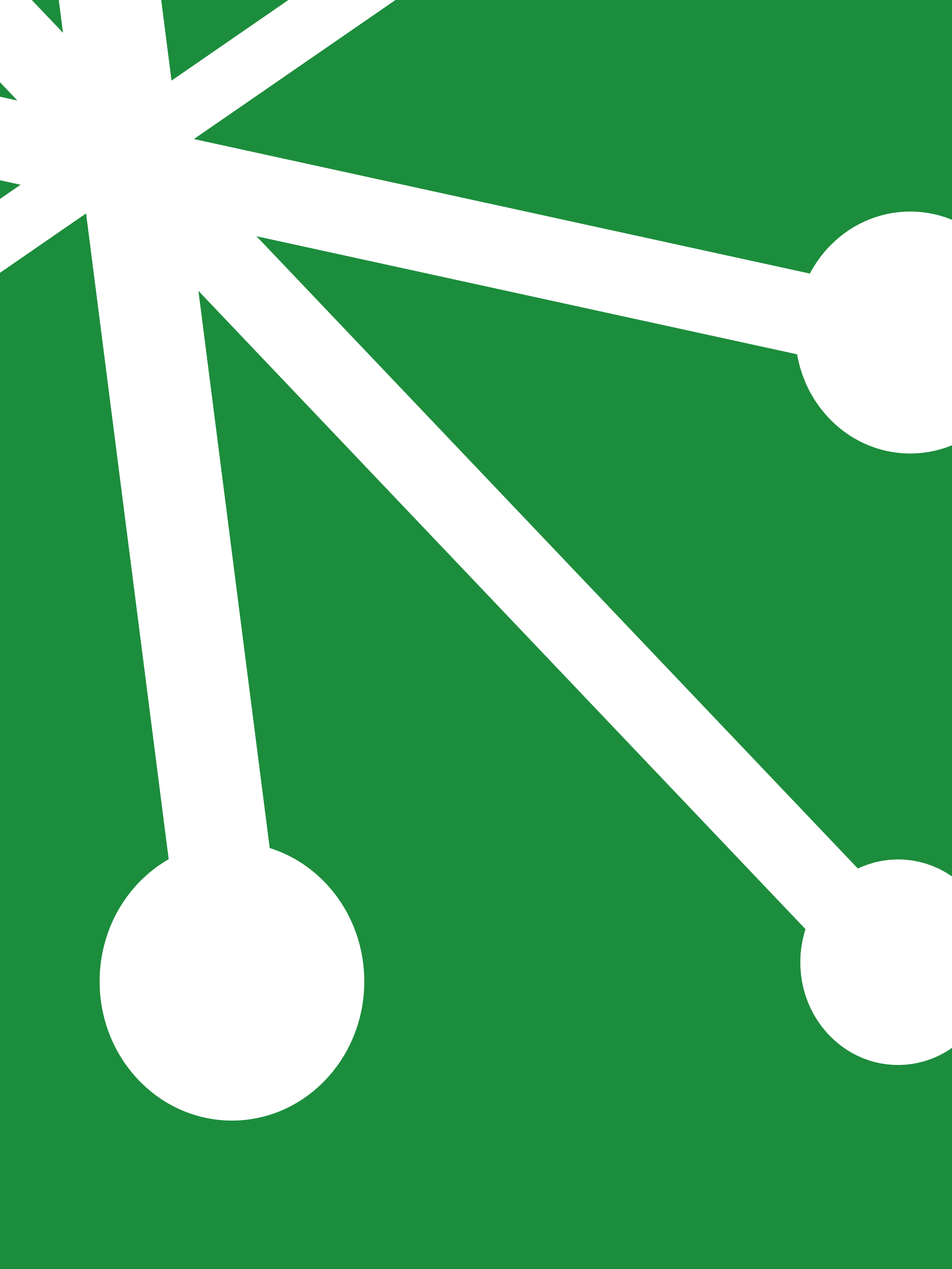
Total investments per year  
(amounts in mil. euros)





# STRATEGIC OBJECTIVES

NATURAL GAS  
FOR SUSTAINABLE  
DEVELOPMENT



## LINKING NATURAL ENERGY WITH SUSTAINABLE DEVELOPMENT

With sustainable development being put forward as a global imperative and sustainability being set as a priority, clean forms of energy such as natural gas are playing a leading role on the international stage, contributing to improving the economy, social prosperity and environmental protection.

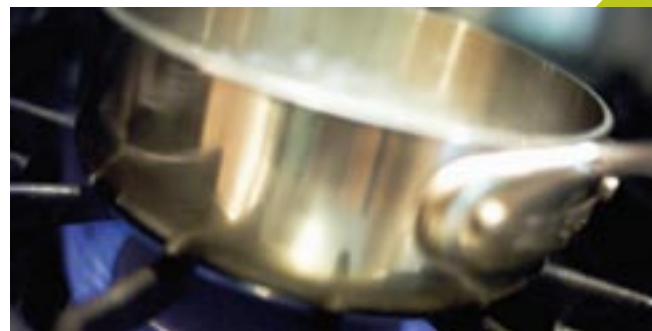
### Economical and Efficient Energy Solution

Combining lower cost – compared with other conventional energy sources in use – with increased energy efficiency, DEPA, along with natural gas, is emerging as an important factor for business and economic growth in Greece. Through tapping into the potential of natural gas, many manufacturing units, businesses, hospitals, educational institutions and organisations are gaining a comparative advantage and enhancing their competitiveness within the framework of a demanding market. In the same way, natural gas is an economical source of domestic heating and energy.

### An Alternative Energy Source for Social Prosperity and Quality of Life

With energy needs increasing apace and fossil fuel reserves gradually being depleted, natural gas is now a safe and reliable alternative solution to the global energy shortage. At the same time, at industrial plants and production centres the installation and use of natural gas is prompting the modernisation of production equipment. Improving quality of life within the framework of domestic use, natural gas ensures self-sufficiency, convenience and safety.

**connecting**  
natural gas  
with quality  
of life



Today, DEPA –the natural gas agency in Greece– is a factor for development, providing an alternative, environmentally friendly, economical and safe source of energy. Striking a balance between industrial activity and protection of the environment, the use of natural gas ensures harmonious, human-centred growth.

High Environmental Performance

Given the greenhouse effect and increasing concerns about climate change, the use of natural gas – one of the cleanest sources of energy – means high environmental performance, low levels of atmospheric pollutants and comprehensive environmental management. DEPA's activities in the natural gas sector enable consumers to make a substantial contribution to protecting the environment.

Boosting the country's development

Through its ongoing business and construction activities, DEPA creates jobs, significantly boosting the country's development, particularly in the Greek regions.

DEPA, along with natural gas, is now playing a substantial social role, offering a natural source of energy for sustainable development, the individual and the environment.







# INFRASTRUCTURE PROJECTS



## CONSTRUCTION PROJECTS

### CONSTRUCTION PROJECTS UNDER DEPA'S RESPONSIBILITY

#### CSF III PROJECTS

In 2006, DEPA was responsible for managing the following projects:

##### Projects in the designing or bidding stage

- Extension of the Distribution Network for Industrial Clients in Oinofyta-Chalkida.
- Improvement of the lightning protection system for the Natural Gas Transportation Pipeline and the Bus Refuelling Station at Ano Liossia.

##### Projects in the construction phase

- Extension of the Distribution Network for Industrial Clients in the greater Komotini area (Komotini B). Planned completion within 2007.
- Installation of a Distribution Network for Industrial Clients in the greater Drama area. This project has been under way since January 2006 and completion is expected in 2007. Gas has been supplied to Drama Greenhouses S.A. since August 2006.
- Installation of a Distribution Network for Industrial Clients in the greater Thiva area. This project has been under way since January 2006 and completion is expected in 2007.
- Installation of a Distribution Network for Industrial Clients in the greater Katerini area. This project has been under way since January 2006 and completion is expected in 2007.
- Installation of a Distribution network in the Alexandroupolis area for Industrial Clients, Domestic Clients and Clients in the Services Sector – Connection with Alexandroupolis Hospital. Projected completion within 2008.

- Installation of a Distribution Network in the Kalamaki/Ag. Theodoroi area of Corinth Prefecture – Connection with the Thiva and Lamia Hospitals. Projected completion within 2008.
- Installation of the basic infrastructure for the construction of low-pressure Networks in the urban areas of Serres, Kilkis and Katerini – Connection with Drama Hospital – Extension of the Distribution Network to the Kavala Industrial Area. Projected completion within 2008.
- Installation of the basic infrastructure for the construction of low – pressure Networks in the urban areas of Thiva, Lamia and Chalkida. Projected completion within 2008.

##### Projects completed by the end of 2006

- Extension of the Distribution Network for Industrial Clients in the greater Serres area (Serres B). The project was completed in March 2006.
- Installation of a Distribution Network for Industrial Clients in the greater Kilkis area. Construction work began in March 2004 and was completed in June 2006.

##### Construction of Natural Gas Vehicle Refuelling Station B in Anthoussa

The Contracts for Detailed Design Plan Screening, Shop Inspection and Supervision of Construction were executed within 2006.

On 20th January 2006, the Mechanical Engineering portion of the Construction Contract was completed subject to a List of Pending Items and on 23rd January 2006 a Delivery Protocol for use was issued by DEPA.

On 23rd January 2007, the final task on the above mentioned Pending List was completed (completion of SCADA system).

##### Projects in the planning and / or tendering phase

- Connection of Serres, Xanthi and Komotini hospitals – Extension of the Distribution Network for Industrial Clients in the Xanthi Industrial Area. Projected completion within 2008.

##### Other Projects

##### Projects completed by the end of 2006

- Extension of the 19-bar medium-pressure Network in the Oinofyta-Schimatari area for connecting the MINERVA Plant.

## DEPA ACTIVITIES IN 2007

DEPA S.A.'s planned activities for 2007 mainly concern the following projects, for which the projected (or actual) starting and completion dates are given below:

[Updated: March 2007]

c/n	PROJECT	START		COMPLETION	
CSF III PROJECTS					
1	IMPROVING THE LIGHTNING PROTECTION SYSTEM FOR THE NATURAL GAS TRANSPORTATION PIPELINE AND BUS REFUELLING STATION AREA AT ANO LIOSSIA	September	2003	June	2007
2	INSTALLING M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE GREATER LAMIA AREA	April	2003	March	2005
3	INSTALLING M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE GREATER KILKIS AREA (including extension towards Kampani)	April	2003	October	2006
4	EXTENDING THE M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN EVIA PREFECTURE	March	2007	March	2009
5	EXTENDING THE DISTRIBUTION NETWORK FOR INDUSTRIAL CLIENTS IN THE AREA OF OINO FYTA-SCHIMATARI RITSONA (PHASE B)	August	2004	January	2005
6	EXTENDING THE M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE GREATER SERRES AREA (PHASE B)	February	2004	March	2006
7	EXTENDING THE M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE GREATER KOMOTINI AREA (PHASE B)	February	2004	June	2007
8	INSTALLING M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE GREATER DRAMA AREA	February	2004	July	2007
9	EXTENDING M-P DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE KAVALA INDUSTRIAL AREA	December	2006	December	2007
10	INSTALLING DISTRIBUTION SYSTEM IN THE ALEXANDROUPOLIS AREA	December	2006	June	2008
11	INSTALLING DISTRIBUTION NETWORK FOR INDUSTRIAL CLIENTS IN THE GREATER KATERINI AREA (including network extension to Platy Imathias)	February	2004	December	2006
12	INSTALLING DISTRIBUTION NETWORK FOR INDUSTRIAL CLIENTS IN THE GREATER THIVA AREA	February	2004	June	2007
13	INSTALLING DISTRIBUTION NETWORK FOR INDUSTRIAL CLIENTS IN KALAMAKI/AG. THEODOROI, CORINTH PREFECTURE	January	2006	February	2008
14	EXTENDING THE NATURAL GAS DISTRIBUTION SYSTEM FOR INDUSTRIAL CLIENTS IN THE XANTHI INDUSTRIAL AREA	January	2006	November	2007
15	TECHNICAL ASSISTANCE – PROJECT MANAGER CONTRACT 1535/06	December	2006	May	2009
16	CONSTRUCTING NATURAL GAS REFUELLING STATION B IN ANTHOUSSA	October	2002	January	2006
17	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE THIVA AREA – CONNECTION WITH THIVA HOSPITAL	January	2006	July	2007
18	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN LAMIA – CONNECTION WITH LAMIA HOSPITAL	January	2006	February	2008
19	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE SERRES AREA – CONNECTION WITH SERRES HOSPITAL	January	2006	November	2007
20	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE XANTHI AREA – CONNECTION WITH XANTHI HOSPITAL	January	2006	November	2007
21	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE KOMOTINI AREA – CONNECTION WITH KOMOTINI HOSPITAL	January	2006	November	2007
22	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE DRAMA AREA – CONNECTION WITH DRAMA HOSPITAL	December	2006	May	2008
23	EXTENDING NATURAL GAS DISTRIBUTION SYSTEM IN THE ALEXANDROUPOLIS AREA – CONNECTION WITH ALEXANDROUPOLIS HOSPITAL	December	2006	July	2008
24	INSTALLING BASIC LOW-PRESSURE DISTRIBUTION NETWORK IN THE URBAN AREAS OF SERRES, KILKIS AND KATERINI	December	2006	May	2008
25	INSTALLING BASIC LOW-PRESSURE DISTRIBUTION NETWORK IN THE URBAN AREAS OF THIVA, LAMIA AND CHALKIDA	December	2006	April	2008



## PROJECTS UNDER DESFA'S RESPONSIBILITY

### CSF III PROJECTS

#### Projects in the designing or bidding phase

- Improvement of the lightning protection system for the Natural Gas Transportation Pipeline and Bus Refuelling Station at Ano Liossia.

#### Projects in the construction phase

- Installation of metering station on the Greek-Turkish border. Execution of the contract for the Design, Procurement and Construction of the project has been underway since July 2005. Completion is expected in 2007.
- Construction of Komotini-Alexandroupolis-Greek-Turkish Border high-pressure pipeline. The construction work on Phase I (Alexandroupolis-Kipoi section) is nearing completion, while Phase II is planned for completion in 2007.
- Remote control of Transportation System valves.
- Upgrading the Strymonochori metering station. Detailed engineering is in progress.
- Construction of Corinth high-pressure pipeline (connection with MOTOR OIL). Projected completion within 2007.
- Installation of Metering Station for supplying MOTOR OIL. The project is part of the 2nd group of Metering and Regulating (M/R) Stations. Projected completion within 2007.
- Installation of M/R Station for supplying the Thiva Distribution Network. The project is underway.
- Installation of M/R Station for supplying the Drama Distribution Network. The project is in the final phase of completion. The station has been supplying gas since August 2006.
- Installation of M/R Station for supplying the Xanthi Distribution Network. The project is underway. Completion of construction within 2007.
- Installation of M/R Station for supplying the Serres Distribution Network. The project is underway. Completion of construction within 2007.
- Installation of M/R Station for supplying the Kilikis Distribution Network. The project is in the final phase of completion.

- Installation of M/R Station for supplying the Lamia Distribution Network.
- Installation of M/R Station for supplying the Katerini Distribution Network. The project is underway. Completion of construction within 2007.
- Extension of the Natural Gas Transport System in Boeotia (towards AdG).
- Installation of a Metering Station to supply AdG.
- Installation of M/R Station for supplying the Alexandroupolis Distribution Network. Projected completion in early 2008.

#### **Projects completed by the end of 2006**

- Upgrading the National Natural Gas Transportation System's Monitoring & Remote Control system.
- Installation of M/R Station for supplying the Larissa Industrial Area. The station has been operating since May 2005.

#### **Projects in the designing or bidding phase**

- Compression Station in Nea Mesimvria, Thessaloniki.
- Extension of the Natural Gas Transportation System towards Aliveri.
- Installation of a Metering Station at the Public Power Corporation Station in Aliveri.

#### **Upgrading of the Liquefied Natural Gas (LNG) Receiving Terminal in REVYTHOUSSA**

- The Contracts for the control of the detailed engineering, Supervision of Construction and Inspection are under way. The Shop Inspections began in May 2006 and were completed in April 2007.

#### **Projects in the planning and/or tendering phase**

- Extension of the Natural Gas Transportation System towards Western Thessaly.
- Construction of the heat and power co-generation Plant on Revythoussa.
- Installation of M/R Station to supply the Distribution Network in the Kalamaki/Ag. Theodoroi area of the Prefecture of Corinth. Projected completion in early 2008.
- Upgrading of the Ag. Triada Metering Station. Projected completion within 2007.
- Upgrading of the Ano Liossia Regulating Station. Projected completion within 2007.

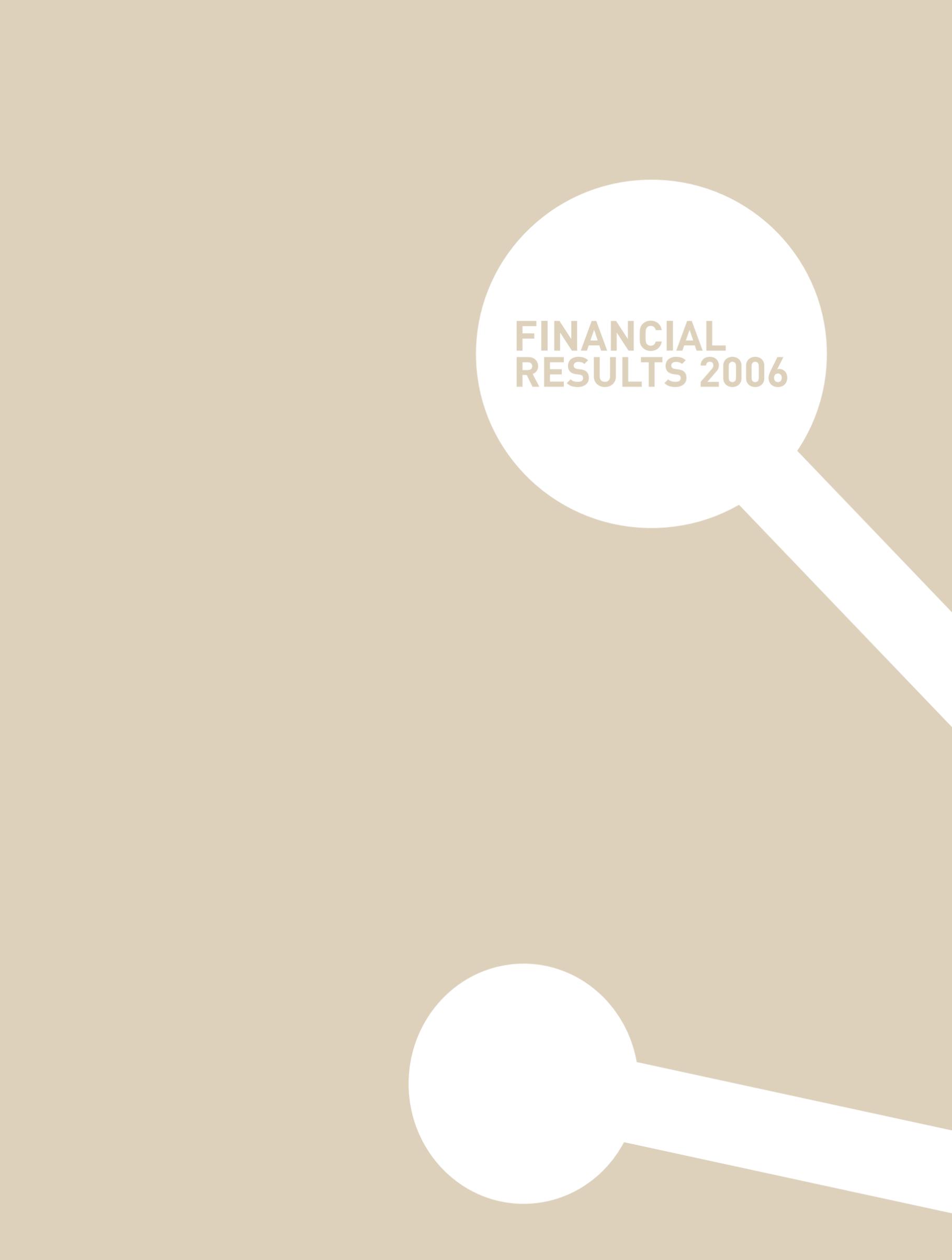
#### **Other Projects**

##### **Projects in the construction phase**

- Linking of the "HERON THERMOELEKTRIKI" Metering Station with SCADA and the Telecommunications System.
- Installation of a Metering Station to supply the "Thessaloniki Energy" Power Station belonging to Hellenic Petroleum. Projected completion within 2007.

#### **Projects completed by the end of 2006**

- Optical Fibre Cable link between the Diavato and Karperi Stations. The project was completed in January 2005.
- Installation of M/R Station in Kokkina to supply SOVEL. Construction work was completed in April 2005 and the station has been in operation since May 2005.
- Relocation of a Temporary 60/90 bar Regulating Station from Ano Liossia to Lamia. The project was completed in March 2005.



**FINANCIAL  
RESULTS 2006**



## Independent Auditor's Report

### To the Shareholders of the Public Gas Corporation of Greece (DEPA) S.A.

#### Report on the Financial Statements

We have audited the accompanying financial statements of DEPA S.A. (the "Company") which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Greek Auditing Standards which conforms with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Basis for Qualified Opinion

Our audit revealed the following:

1. An additional bad debt provision of approximately € 46.5 million should have been recorded to cover against the potential loss that may arise from doubtful debts. Had a provision been recorded, the profit before tax and the net profit for the year would have been reduced by € 30.0 million and € 23.2 million respectively and the deferred tax asset would have increased by € 11.6 million, while € 11.7 million would have been charged against the results of the prior years.
2. As discussed in Note 25a to the financial statements the Company's statutory books and tax returns for the year 2006 have not been examined by the Tax Authorities. As a result, the Company's tax liabilities for this year have not been finalised.

#### Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects the financial position of the Company as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Emphasis of Matter

Without further qualifying our opinion, we draw your attention to the fact that the figures relating to the year ended 31 December 2006 are not comparable with the respective of the preceding accounting period, because as it is mentioned in note 1 of the financial statements, the operations of National System of Natural Gas were spinned off from DEPA S.A. and transferred to the newly formed subsidiary Desfa during 2006.

#### Report on Other Legal and Regulatory Requirements

The information given in the Directors' Report is consistent with the financial statements.

Athens, 5 June 2007

# PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.

Balance Sheet as at 31 December 2006

	Notes	31 December 2006	As at 31 December 2005
(€ in thousands)			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	11	3.606	19.408
Property, plant and equipment	12	82.254	1.165.175
Investment in subsidiaries	13	832.820	203.478
Deferred tax asset, net	15	6.707	9.135
Other non-current assets		85	174
Total non-current assets		<b>925.472</b>	<b>1.397.370</b>
<b>Current Assets</b>			
Inventories	16	9.775	44.310
Trade and other receivables	17	240.222	153.296
Cash and cash equivalents	18	44.243	48.565
Total current assets		<b>294.240</b>	<b>246.171</b>
Total assets		<b>1.219.712</b>	<b>1.643.541</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	19	991.238	990.079
Reserves		31.040	17.863
Total shareholders' equity		<b>1.022.278</b>	<b>1.007.942</b>
<b>Non-Current Liabilities</b>			
Long-term borrowings, net of current portion	20	-	289.939
Provisions	21-22	2.573	6.978
Grants	23	11.378	220.740
Total long-term liabilities		<b>13.951</b>	<b>517.657</b>
<b>Current Liabilities</b>			
Trade and other payables	24	171.532	93.423
Current income tax payable		11.951	18.136
Current portion of long-term borrowings	20	0	788
Derivative financial instrument	20	0	5.595
Total current liabilities		<b>183.483</b>	<b>117.942</b>
Total shareholders' equity and liabilities		<b>1.219.712</b>	<b>1.643.541</b>

Chairman of the Board of Directors & CEO

Asimakis A. Papageorgiou

Vice President of the Board

Michael I. Karamihas

Chief Financial Officer & Subsidiaries

George A. Athanassopoulos

Director of Financial & Administrative Division

Stefanos Economidis

Director of Accounting, Budget, Fiscal Control & Finance

Maria Fantridaki

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Income Statement for the year ended 31 December 2006

	Notes	For the year ended	
		31 December 2006	31 December 2005
		(€ in thousands)	
<b>Sales</b>		<b>820.602</b>	<b>615.027</b>
Cost of sales		(766.778)	(542.854)
Gross profit	5	53.824	72.173
Other operating income		6.433	666
Selling, distribution and administrative expenses	6	(34.725)	(38.605)
Amortisation of grants		4.107	7.945
<b>Operating profit</b>		<b>29.639</b>	<b>42.179</b>
Investment income		136	59
Interest expense and other related expenses		(10.133)	(20.727)
Interest and related income	7	5.383	3.192
Currency exchange losses, net	8	2.956	(1.713)
<b>Profit before tax</b>		<b>27.981</b>	<b>22.990</b>
Taxation – current	15	(13.588)	(11.308)
Taxation – deferred	15	4.070	4.019
<b>Net profit for the year</b>		<b>18.463</b>	<b>15.701</b>

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Statements of Changes in Equity for the year ended 31 December 2006

	Tax deferred, extraordinary reserve and partially taxed reserves	Statutory reserve	Other reserves	Accumulated deficit	Total Reserves	Share capital	Total Shareholders' Equity
	(€ in thousands)						
<b>Balance at 1 January 2005</b>	<b>12.949</b>	<b>4.246</b>	<b>203</b>	<b>(15.121)</b>	<b>2.277</b>	<b>990.079</b>	<b>992.356</b>
Net profit for the year	-	-	-	15.701	15.701	-	15.701
Transfer to reserves	-	586	-	(586)	-	-	-
Effect of change in income tax rate	(115)	-	-	-	(115)	-	(115)
<b>Balance at 31 December 2005</b>	<b>12.834</b>	<b>4.832</b>	<b>203</b>	<b>(6)</b>	<b>17.863</b>	<b>990.079</b>	<b>1.007.942</b>
<b>Balance at 1 January 2006</b>	<b>12.834</b>	<b>4.832</b>	<b>203</b>	<b>(6)</b>	<b>17.863</b>	<b>990.079</b>	<b>1.007.942</b>
Net profit for the period 1 January to 30 December 2006	-	-	-	18.463	18.463	-	18.463
Capitalisation of earnings	-	-	-	(1.159)	(1.159)	1.159	-
Dividend declared	-	-	-	(3.936)	(3.936)	-	(3.936)
Branch distribution (DESFA)	-	-	(191)	-	(191)	-	(191)
Transfer to reserves	-	891	-	(891)	-	-	-
Effect of change in income tax rate	480	-	-	(480)	-	-	-
<b>Balance at 31 December 2006</b>	<b>13.314</b>	<b>5.723</b>	<b>12</b>	<b>11.991</b>	<b>31.040</b>	<b>991.238</b>	<b>1.022.278</b>

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Cash Flow Statement for the year ended 31 December 2006

	For the year ended	
	31 December 2006	31 December 2005
	(€ in thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net profit before taxation	27.981	22.990
<b>Adjustments for:</b>		
Loss/(Profit) on disposal of property, plant and equipment	3	(2)
Depreciation	20.150	38.849
Amortisation of intangibles	594	637
Exchange losses/(gains)-unrealised	(1.694)	(765)
Amortisation of grants	(4.107)	(7.945)
Provisions	972	1.149
Interest expense	10.250	20.727
Interest income	(5.384)	(3.192)
Inventory obsolescence provision	-	2.394
Investment income	(136)	(59)
Accounts receivable impairment provision	-	15.000
<b>Operating profit before working capital changes</b>	<b>48.629</b>	<b>89.783</b>
Decrease/(Increase) in inventories	126	(15.203)
Decrease/(Increase) in trade and other receivables	(86.895)	(60.674)
Decrease/(Increase) in other assets	(3)	7
(Decrease)/Increase in trade and other payables	89.691	29.399
<b>Cash generated from operations</b>	<b>51.548</b>	<b>43.312</b>
Interest paid	(5.499)	(22.440)
Taxation refund/(paid)	(19.774)	6.215
Dividends paid to shareholders	(3.936)	-
<b>Net cash generated from operating activities</b>	<b>22.339</b>	<b>27.087</b>
<b>Investing activities</b>		
Increase in investments	-	(880)
Net payments from the acquisition and disposal of property, plant and equipment	(27.997)	(49.055)
Intangibles acquired	(4.111)	(76)
Grants received	8.671	25.239
Interest received	3.467	3.192
Investment income	136	59
<b>Net cash used in investing activities</b>	<b>(19.834)</b>	<b>(21.521)</b>
<b>Financing activities</b>		
Repayment of bank loans	(827)	(626)
<b>Net cash used in financing activities</b>	<b>(827)</b>	<b>(626)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1.678</b>	<b>4,940</b>
Transfer to Desfa	(6.000)	
Cash and cash equivalents at beginning of year	48.565	43.625
<b>Cash and cash equivalents at end of year</b>	<b>44.243</b>	<b>48.565</b>

## Independent Auditor's Report

### To the Shareholders of the Public Gas Corporation of Greece (DEPA) S.A.

#### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of DEPA S.A. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Greek Auditing Standards which conforms with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Basis for Qualified Opinion

Our audit revealed the following:

1. An additional bad debt provision of approximately € 46.5 million should have been recorded to cover against the potential loss that may arise from doubtful debts. Had a provision been recorded, the profit before tax and the net profit for the year would have been reduced by € 30.0 million and € 23.2 million respectively and the deferred tax asset would have increased by € 11.6 million, while € 11.7 million would have been charged against the results of the prior years.
2. As discussed in Note 26a to the consolidated financial statements the parent company DEPA SA has not been audited by the tax authorities for the fiscal year 2006. Other group companies have not been audited by the tax authorities with respect to various financial years. As a result, the Company's and its subsidiaries' tax liabilities for these years have not been finalised.

#### Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects the financial position of DEPA Group as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Emphasis of Matter

Without further qualifying our opinion, we draw your attention to note 26 of the consolidated financial statements which refer to the fact that as at 31 December 2006 there were claims filed against the Attiki Gas Supply Company SA by contractors for € 45 million for additional construction costs relating to the extension of the gas network for the period 2003 to 2006. Negotiations for these claims are still ongoing and the Group management believes that the eventual outcome will be for an amount substantially less than the original contractor claims. These financial statements do not reflect the additional construction liabilities expected to be finally agreed and settled since these will result in an increase in network assets under construction.

#### Report on Other Legal and Regulatory Requirements

The information given in the Directors' Report is consistent with the consolidated financial statements.

Athens, 5 June 2007

## PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.

Consolidated Balance Sheet as 31 December 2006

	Notes	31 December 2006	As at 31 December 2005
(€ in thousands)			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	11	21.129	19.408
Property, plant and equipment	14	1.593.813	1.480.782
Deferred tax asset, net	15	24.748	22.449
Other non-current assets		349	320
Total non-current assets		<u>1.640.039</u>	<u>1.522.959</u>
<b>Current Assets</b>			
Inventories	16	44.656	49.328
Trade and other receivables	17	211.872	172.649
Cash and cash equivalents	18	129.299	136.514
Total current assets		<u>385.827</u>	<u>358.491</u>
Total assets		<u>2.025.866</u>	<u>1.881.450</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	19	991.238	990.079
Reserves		49.867	12.081
Total shareholders' equity		<u>1.041.105</u>	<u>1.002.160</u>
<b>Non-current Liabilities</b>			
Long-term borrowings, net of current portion	20	294.266	289.939
Provisions	21, 22	9.603	8.346
Grants	23	260.524	249.559
Other non-current liabilities		221.825	194.973
Total non-current liabilities		<u>786.218</u>	<u>742.817</u>
<b>Current Liabilities</b>			
Trade and other payables	24	153.598	110.010
Current income tax liability		20.446	20.081
Current portion of long-term borrowings	20	11.269	787
Derivative financial instrument	20	13.230	5.595
Total current liabilities		<u>198.543</u>	<u>136.473</u>
Total shareholders' equity and liabilities		<u>2.025.866</u>	<u>1.881.450</u>

Chairman of the Board of Directors & CEO

Asimakis A. Papageorgiou

Vice President of the Board

Michael I. Karamihis

Chief Financial Officer & Subsidiaries

George A. Athanassopoulos

Director of Financial & Administrative Division

Stefanos Economidis

Director of Accounting, Budget, Fiscal Control & Finance

Maria Fantridaki

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Consolidated Income Statement for the year ended 31 December 2006

	Notes	For the year ended	
		31 December 2006	31 December 2005
		(€ in thousands)	
Sales		912.893	636.858
Cost of sales		(807.103)	(548.359)
Gross profit	5	105.790	88.499
Other operating income		8.830	2.664
Selling, distribution and administrative expenses	6	(53.722)	(50.066)
Amortisation of grants	23	8.490	8.223
Operating profit		69.388	49.320
Investment income		138	92
Interest expense		(20.228)	(20.748)
Interest and related income	7	8.392	5.542
Currency exchange losses, net	8	3.872	(1.714)
Profit before tax		61.562	32.492
Taxation – current	15	(21.238)	(12.558)
Taxation – deferred	15	2.264	1.675
Net profit for the year		42.588	21.609

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Consolidated Statements of Changes in Equity for the year ended 31 December 2006

	Tax deferred, reserve and partially taxed reserves	Statutory reserve	Other reserves	Accumulated deficit	Total Reserves	Share capital	Total Shareholders' Equity
(€ in thousands)							
Balance at 1 January 2005	13.594	4.373	203	(27.595)	(9.425)	990.079	980.654
Net income for the year	-	-	-	21.609	21.609	-	21.609
Effect of change in income tax rate	(103)	-	-	-	(103)	-	(103)
Transfer to/from reserves	(269)	683	-	(414)	-	-	-
Balance at 31 December 2005	<u>13.222</u>	<u>5.056</u>	<u>203</u>	<u>(6.400)</u>	<u>12.081</u>	<u>990.079</u>	<u>1.002.160</u>
Balance at 1 January 2006	13.222	5.056	203	(6.400)	12.081	990.079	1.002.160
Net income for the year	-	-	-	42.588	42.588	-	42.588
Effect of change in income tax rate	35	-	-	-	35	-	35
Capitalization of reserves	-	-	-	(1.159)	(1.159)	1.159	-
Transfer to/from reserves	480	1.194	-	(1.674)	-	-	-
Direct transfer to reserves	-	-	259	-	259	-	259
Dividends	-	-	-	(3.937)	(3.937)	-	(3.937)
Balance at 31 December 2006	<u>13.737</u>	<u>6.250</u>	<u>462</u>	<u>29.418</u>	<u>49.867</u>	<u>991.238</u>	<u>1.041.105</u>

**PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A.**

Consolidated Cash Flow Statement for the year ended 31 December 2006

	For the year ended	
	31 December 2006	31 December 2005
	(€ in thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net profit before taxation	61.562	32.492
<b>Adjustments for:</b>		
Loss on disposal of property, plant and equipment	(92)	163
Depreciation	47.653	46.517
Amortisation	1.515	637
Exchange losses/(gains) – unrealised	(1.727)	(764)
Amortisation of grants	(8.490)	(8.223)
Provisions	1.257	1.265
Interest expense	20.228	20.748
Interest and related income	(8.392)	(5.542)
Investment income	(138)	-
Impairment provisions (inventories and accounts receivable)	6.374	17.394
<b>Operating profit before working capital changes</b>	<b>119.750</b>	<b>104.687</b>
Increase in inventories	1.361	(14.324)
Increase in trade and other receivables	(41.009)	(64.143)
Increase in other non-current assets	(29)	(10)
Increase in other non-current liabilities	30.815	1.657
Increase in trade and other payables	26.852	43.434
<b>Cash generated from operations</b>	<b>137.740</b>	<b>71.301</b>
Interest paid	(7.455)	(22.462)
Dividend paid	(3.937)	-
Taxation refund/(paid)	(21.455)	6.910
<b>Net cash generated from operating activities</b>	<b>104.893</b>	<b>55.749</b>
<b>Investing activities</b>		
Net payments from the acquisition of property, plant and equipment	(162.569)	(112.716)
Interest & rel. income received	8.392	5.542
Grants received	19.455	26.861
Intangibles acquired	(1.695)	(76)
Investment income received	138	-
<b>Net cash used in investing activities</b>	<b>(136.279)</b>	<b>(80.389)</b>
<b>Financing activities</b>		
Repayment of bank loans	24.171	(627)
<b>Net cash used in financing activities</b>	<b>24.171</b>	<b>(627)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(7.215)</b>	<b>(25.267)</b>
Cash and cash equivalents at beginning of year	136.514	161.781
Cash and cash equivalents at end of year	129.299	136.514

## PUBLIC GAS CORPORATION OF GREECE (DEPA) S.A. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### Basis of preparation

These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Reporting Standards ("IAS") and the interpretations issued by the International Financial Reporting Interpretations Committee, that have been approved by the European Union and IFRS that have been issued by the International Accounting Standards Board ("IASB").

All IFRS issued by the IASB, which apply to the preparation of these financial statements have been accepted by the European Council following an approval process undertaken by European Commission ("EC"), except for IAS 39 "Financial Instruments: Recognition and Measurement". Following this process and as a result of representations made by Accounting Regulatory Committee of the European Council issued the Directives 2086/2004 and 1864/2005 that require the application of IAS 39 by all listed companies with effect from the 1st January 2005, except for specific sections that relate to hedging of deposit portfolios.

As the Group and the Company are not impacted by the sections that relate to hedging of deposit portfolios, as reflected in the IAS 39 approved by the EC, these financial statements have been prepared in compliance with IFRS that has been approved by the EC and IFRS that have been issued by the IASB.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

Moreover, it requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of preparation of financial statements and the reported income and expense amounts during the reporting period. Although these estimates are based on the best possible knowledge of management with respect to the current conditions and activities, the real results can

eventually differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### Consolidation principles

#### (a) Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the Group.

All material intercompany balances, transactions and unrealised gains have been eliminated in the accompanying consolidated financial statements.

#### (b) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

#### Intangible assets

Intangible assets are shown at historical cost and include real estate servitudes (primarily for the main pipeline network). Real estate servitudes are amortised over 40 years as they are considered to be part of the main pipeline network. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

#### Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and any impairment in value. Revaluations undertaken for tax purposes and booked in the statutory financial statements together with the related depreciation were reversed for the purpose of preparing these financial statements in accordance with International Financial Reporting Standards.

Depreciation is computed based on the straight-line method at the higher rates as provided by Presidential Decree 299/2003, which, according to management, approximates average economic useful lives. Property, plant and equipment

are depreciated as follows:

Buildings	20 years
Plant, machinery and equipment	7-40 years
Motor vehicles	5-7 years
Furniture and fittings	3-7 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note on Impairment).

#### **Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **Inventory**

Inventory mainly consists of natural gas and network maintenance materials and spare parts. Inventories are valued at the lower of cost or net realisable value. Cost is determined using the moving weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **Accounts receivable**

Trade receivables, which generally have 10-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of time deposits, REPOS and other highly liquid investments with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### **Long-term borrowings**

All loans and borrowings are recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **Foreign currency translation and transactions**

The Group's functional currency is the Euro. Transactions denominated in currencies other than the functional currency are translated into Euro using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Euro using the rate of exchange ruling at the balance sheet date. The resulting exchange differences during the period and at balance sheet date are stated separately in the accompanying consolidated Income Statement.

#### **Post-retirement benefits and pension plans**

The Group contributes to the Greek State sponsored Social Security Fund (IKA) for the pension payments of its employees upon retirement. This is a defined contribution scheme and there is no additional liability toward this plan.

In addition, local labour law requires that employees be paid a retirement benefit which is determined by reference to a formula based on employees' remuneration and years of service, effectively constituting a defined benefit plan. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation. These gains and losses are recognised over the expected average remaining working lives of the employees.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of

the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

#### Grants

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the Income Statement over the expected useful life of the relevant asset by equal annual instalments.

#### Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### Revenue recognition

The Group bills customers monthly for gas supplied through the end of each month based on actual measurements. At the end of the year, a revenue accrual is created to reflect gas supplied but not yet billed to customers. This amount is included in Accounts Receivable in the accompanying consolidated balance sheet.

#### Leases

All leases of the Group are classified as operating leases in which the lessor retains substantially all the risks and benefits of ownership of the assets. The operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### Derivative financial instruments

Derivative financial instruments are stated at fair value and gains and losses arising from changes in the fair value are included in the profit and loss for the period. These derivative financial instruments do not qualify for special hedge accounting.



