

OTE INTERNATIONAL SOLUTIONS SA

**BOARD OF DIRECTORS' REPORT  
OF OTE INTERNATIONAL SOLUTIONS SA  
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS  
WITH RESPECT TO THE 15<sup>th</sup> FINANCIAL YEAR ENDED  
31 DECEMBER 2015**

**OTE INTERNATIONAL SOLUTIONS SA**

**Société Anonyme Registration No 46809/01AT/B/00/365**

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Dear Shareholders,

In accordance with article 43a paragraph 3 of Codified Law 2190/1920, superseded by article 35 of Presidential Decree 409/86, we submit to the General Meeting the following report regarding the performance, the activities and the related financial statements of the Company for its 15<sup>th</sup> financial year ended 31.12.2015 and we request their approval.

**A. GENERAL INFORMATION**

OTEGLOBE is a wholly owned subsidiary of OTE SA under the trade name "OTE INTERNATIONAL SOLUTIONS SA" registered in Athens. It provides wholesale international telecommunication services to telecommunication providers and to multinational companies in the wider region of south-eastern Europe since 2000.

OTEGLOBE has become a significant telecommunication provider in south-east Europe providing an extensive range of integrated data, capacity and international voice services through its own network infrastructure to providers of telecommunication services and to major multinationals both in Greece and internationally.

Following the spin-off from OTE and the parallel absorption by OTEGLOBE of the operations of international infrastructure and cable network on 01/04/07, the Company currently owns two dual path high capacity optical networks, the TBN (interconnection with western Europe via the Balkans) and the GWEN (interconnection with western Europe via Italy), stretching from Greece to western Europe as well as an IP/MPLS (MSP) network with nodes in various business and telecommunication centres in Europe. The Company also has rights on several regional and transatlantic submarine cable systems. In addition, OTEGLOBE manages and develops, both technologically and commercially, the international telephony network of OTE Group – with more than 150 interconnections – which has been recently upgraded with NGN (Next Generation Networks) capabilities.

More specifically, the Company focuses its activities on the following areas:

- Development, planning, implementation and management of international telephony, data and capacity networks;
- Commercial operation of all international services provided to telecommunication providers;
- Provision of integrated and fully managed services (international IP VPN) to large corporate clients through a network of service providers.

## B. IMPORTANT EVENTS IN THE COMPANY'S OPERATIONS

### I. Activities undertaken in financial year 2015

Financial year 2015 has been a successful year for OTEGLOBE as it recorded a steady growth in its core operations, despite the unstable macroeconomic environment and falling prices in the Greek market as well as the greater Balkan region and western Europe, as a result of the increasing competition and the economic crisis in Europe.

More specifically, the company achieved:

- to increase revenue (+10% compared to 2014)
  - increased revenue from international data and internet capacity services
  - further boosted revenue from international telephony services
- to decrease operating costs to an extent not affecting its operations (-18% compared to 2014, note 9 of the financial statements)
- a strong EBITDA margin in the market it operates (2015: 5.4 %)
- to significantly boost its cash flows from operating activities (+83% compared to 2014)
- zero exposure to debt, despite the increase in investments. Cash at 31/12/2015 amounted to €16.5 million.

More specifically, the Company recorded a 10% increase in revenue from 2014 (reaching €315.7 million) and managed to significantly increase its net cash flows from operating activities from 2014 (2015: €27.7 million, 2014: €15.2 million).

Regarding the international data and internet capacity services, in particular, the Company managed to maintain a high level of sales revenue mainly by:

- Expanding the geographical and customer base through targeted cooperation with certain providers with a view to increasing sales to destinations outside the network coverage of OTEGLOBE (*OFF-NET sales*)
- Expanding existing partnerships with customers/partners
- Strengthening demand through the development of fixed and mobile broadband
- Promoting sales in Middle East through the cable station in Chania, Crete, and the recent upgrade of the SMW-3 cable system.

The Company has successfully overcome significant challenges, such as:

- Higher competition in Greece from companies providing international wholesale services through alternative infrastructures connecting the country with neighbouring markets
- Drop in prices in Greece and other markets in which it operates
- Market concentration and cutbacks in important customers' investment plans both in Greece and in the Balkans.
- Delay or even suspension of the implementation of strategic development plans in the markets of Middle East and North Africa due to the uncertain environment and the political instability in certain countries, e.g. Syria, Libya.

As regards the international telephony services, revenues have increased by 11% compared to 2014 despite the adverse financial conditions in Greece and the operational region of the Company. This was driven by the upgrade of the international telephony network with NGN capabilities as well as the focus on hubbing services, strengthening commercial activity and contributing to the expansion to new developing markets such as Africa and Latin America.

The most significant events regarding the Company's activities during 2015 were the following:

- **Participation as a full member in AAE-1 Consortium, one of the largest cable systems in the world.** In January 2014, OTEGLOBE along with 17 other international telecommunication operators signed a construction and maintenance agreement (C&MA) for the new intercontinental, submarine cable system Asia-Africa-Europe-1 (AAE1). AAE1, spanning 25.000 km, is one of the very few cable systems interconnecting Hong Kong and Singapore with Middle East, Africa and Europe. With this route, AAE-1 will be able to transmit telecommunication traffic from Hong Kong and Asia to Europe through a low-latency short route. A significant part of this traffic will pass through Greece as well through the cable station in Chania, Crete. The construction works for the cable have already commenced and are expected to be completed in 2016.
- **Launch of flexible commercial offers in International Telephony and further utilisation of NGN infrastructure in Hubbing services.** The Company recognises its customers' requirements for differentiated products within the highly competitive environment of international telephony and offers new commercial packages utilising the innovative IP technologies which have been used to upgrade its international telephony network.
- **Development of new LTE Roaming & SMS Hubbing services for mobile services providers,** initially to address the needs of OTE Group subsidiaries.
- **Upgrade of Capacity and Functionality of existing privately owned telecommunication infrastructure.** For this purpose, the Company has upgraded its backbone optical network with equipment of the latest technology with 100Gbps transmission capacity, while it has also planned the National and TransBalkan Network upgrade with equipment reaching the capacity of 4 Tbps within the next three years.
- **Participation in the upgrade of the existing submarine cable system SMW3 with 100G technology,** which quadrupled the Chania international cable station's capacity in the system (RFS 3Q15).
- **Strengthening of OTEGLOBE's commercial presence in markets of interest, such as the Middle East and North Africa,** through targeted partnerships with selected providers aiming to reinforce data and voice sales.

## II. Composition of the Board of Directors of the Company

During the period under examination the following changes took place regarding the composition of the Board of Directors of the Company:

	01/01/2015 to 19/11/2015	
<b>Chairman</b>	Christos Katsaounis	Non-executive member
<b>Vice Chairman</b>	Dionysios Mygdalis	Non-executive member
<b>Chief Executive Officer</b>	Konstantinos Andreou	Executive member
<b>Member</b>	Marios Manolopoulos	Non-executive member
<b>Member</b>	Christina Kelaidi	Non-executive member
<b>Member</b>	Ioannis Konstantinidis	Non-executive member
<b>Member</b>	Leonidas Nikidis	Non-executive member

	20/11/2015 to 31/12/2015	
<b>Chairman</b>	Ioannis Konstantinidis	Non-executive member
<b>Vice Chairman</b>	Dionysios Mygdalis	Non-executive member
<b>Chief Executive Officer</b>	Konstantinos Andreou	Executive member
<b>Member</b>	Christina Kelaidi	Non-executive member
<b>Member</b>	Marios Manolopoulos	Non-executive member
<b>Member</b>	Leonidas Nikidis	Non-executive member
<b>Member</b>	Georgios Nikoloudis	Executive member

## C. PRESENTATION OF FINANCIAL RESULTS

### I. Summary – Key financial indicators

Moreover, the Company achieved a significant improvement in its revenues and maintained high levels of operational profitability margins driven by its successful commercial policy in 2015 as well as by the efficient resources management, as reflected in the following key financial indicators:

#### KEY FINANCIAL INDICATORS

(Amounts in Euro thousands)

	2015	2014	Δ %
<b>REVENUE</b>	315,660	287,147	+10%
<b>OPERATING PROFIT BEFORE DEPRECIATION (EBITDA)</b>	17,172	18,375	-7%
<b>OPERATING PROFIT MARGIN (EBITDA)</b>	5.4%	6.4%	
<b>Net cash flows from operating activities</b>	27,724	15,151	+83%

It should be noted that the slight drop in EBITDA margin from 6.4% in 2014 to 5.4% in 2015, as shown above, is mainly due to:

- The increasing competition and the resulting price erosion in telephony and data services in the markets where the Company operates (Core business: Greece & south-east Europe).
- The shift to Hubbing services in international telephony to overcome the significant drop in interconnection rates and in the resulting profit margin.

This drop was expected and requires intensifying operations and repositioning the Company in new developing markets such as Middle East, North Africa and south-east Asia.

## **II. Financial statements**

The financial statements for the year ended 31.12.2015 have been prepared in accordance with International Financial Reporting Standards and reflect, through the statement of financial position, the asset structure of the Company as of that date, while they also include the statements of comprehensive income, cash flows and changes in equity for the period from 01.01.2015 to 31.12.2015 with explanatory information on the accounting principles applied as well as all other items.

## **D. COMPANY PERSPECTIVES**

OTEGLOBE, having as primary mission to support the business plan of OTE Group, will continue to actively operate in the wider region in order to increase sales from international telephony services and to maximise the utilisation of its international cable infrastructure. At the same time, the Company will seek to expand its presence in the developing markets of Middle East and North Africa by reinforcing its interconnection with the aforementioned markets.

In light of the above, the Company's strategic objectives are:

- To secure and maintain its leading role in Greece and in the wider region of south-east Europe.
- To intensify its activity and to reposition the Company in new developing markets such as Middle East and North Africa with a parallel effort to:
  - ✓ Capitalise on and further upgrade the existing infrastructures and align them with the requirements of the new generation AAE1 cable system, but also upgrade the existing SMW3 cable system.
  - ✓ Attract international Transit traffic to interconnect to the telecommunication centres of Europe through Greece and the Company's network infrastructure, aiming to establish Greece, in general, and OTE Group, in particular, as the alternative telecommunication node in the Mediterranean region within the next years.
- To emphasise on its international hubbing telephony services and the development of RCS interconnection services maximising the new NGN capabilities of the international network.
- To achieve a further reduction of operational costs

**Dear Shareholders we hereby call upon you to:**

1. Approve the statement of financial position and the other financial statements of the reporting period 01/01/2015 - 31/12/2015.
2. Discharge the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding their actions during financial year 2015, according to the Law and the Company's Articles of Association.
3. Approve the compensations, fees and expenses paid to the members of the Board of Directors, the Chairman and the Managing Director for 2015 and set those for 2016.
4. Appoint Certified Auditors for the current financial year 2016.

KONSTANTINOS ANDREOU  
MANAGING DIRECTOR