



OTE INTERNATIONAL SOLUTIONS SA

Board of Directors report of OTE International Solutions S.A.
to the annual general meeting of shareholders in respect of
the 8th annual financial year ended 31 December 2008

OTE INTERNATIONAL SOLUTIONS SA

COMPANY REGISTRATION NUMBER 46809/01AT/B/00/365

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This report has been translated from the original Board of Directors report that has been prepared in the Greek language. In the event that differences exist between this translation and the original Greek language report, the Greek language report will prevail over this document.

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**REPORT OF THE BOARD OF DIRECTORS OF OTE INTERNATIONAL SOLUTIONS SA
TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS
REGARDING THE COMPANY'S ACTIVITIES DURING THE 8TH FINANCIAL YEAR
THAT ENDED ON 31 DECEMBER 2008**

Dear Shareholders,

In accordance with article 43a paragraph 3 of Law 2190/1920, as replaced by article 35 of Presidential Decree 409/86, we submit to the General Assembly the following report regarding the actions, the activities and the corresponding financial statements of the Company for its 8th annual reporting period that ended on 31.12.2008, and we ask for their approval.

A. GENERAL

OTEGLOBE, is a wholly owned subsidiary of OTE SA under the company name OTE INTERNATIONAL SOLUTIONS SA registered in Athens. It provides wholesale international telecommunications services to telecommunication providers and to multinational companies in the wider region of South East Europe. The Company is a wholly owned subsidiary of OTE SA and has been operating since 2000.

OTEGLOBE has developed into an important telecommunication centre in the region 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 in the Greek as well as the international markets.

Following the spin off from OTE and the parallel absorption by OTEGLOBE of the international operations and network infrastructure on 1/04/07, the company now owns two, two-way high capacity fibre optic networks, the TBN (connection to Western Europe via the Balkans) and the GWEN (connection to Western Europe via Italy), which extend from Greece to Western Europe as well as an IP/MPLS(MSP) network with 14 loops in Western and South-Eastern Europe. In addition, OTEGLOBE possesses rights to various peripheral and transatlantic underwater cables, international networks of fibre optic cables towards all neighbouring countries and more than 150 interconnections.

More specifically, the company focuses its activities in the following areas:

- Development, planning, implementation and management of international fiber optic networks relating to data, voice, capacity;
- commercial development and management of international services to telecommunications providers;
- provision of integrated services (international IP VPN) to large corporate clients through a network or service providers.

B. IMPORTANT EVENTS IN THE COMPANY'S OPERATIONS

I. Activities during the Financial Year 2008

2008 can be described as a particularly successful year for OTEGLOBE on both commercial and technological grounds in the areas of data services (I.P. data & capacities) and particularly in the area of voice services.

- The company, despite the intensifying competition, but taking advantage of the increased demand in the sector of broadband and due to its domination of the Greek market, has increases its income from data services by +13 % relative to 2007.

Voice services during 2008 increased to very good levels hence achieving a further increase compared to the previous year.

- More specifically, despite the continuing fall in prices and the significant increase of competition within Greece from alternative providers, wholesale revenues of the OTE Group reached €181 million compared to €157 million in 2007 (increase of 15%) that also resulted in an improvement in margins for the Group.
- The use of the voice mail technology over MPLS which is exclusively operated by OTEGLOBE and with the use of the NGN technology Soft Switch in 2008, presented an increase of 37%(€68 million in 2008 from €50 million in 2007).

The most significant events regarding the company's activities during 2008 were as follows:

- **Completion of the Trans-Balkan Network (TBN)**, the new international infrastructure of the Group for the connection of the Balkans with Western Europe resulting in the implementation of 4 international loops. The Trans-Balkan Network will constitute an alternative geographical route of GWEN (Greece, Italy, Western Europe) and it will meet the increased needs of broadband in our country and the wider region.
- **Entry into the international MPLS network of OTEGLOBE's NGN Soft Switch technology**, with an aim of optimizing new generation voice mail service, at lower costs, better quality and new IP interconnections.
- **Significant improvement in the presence as regards the corporate customer's market through OTE** resulting in successful proposals in 2008.
- **Continued upgrade** all of the international cable infrastructures resulting in improved services for increased broadband demand.
- **Adjustment of useful economic life**, due to completion and the upgrade of its network, of three (3) cable systems. The above adjustment resulted in increased depreciation for 2008 of € 33,7 million.
- **Crystallisation of tax obligations.** The company's tax books were audited by the tax authorities for 2002 to 2006 without significant findings.
- **Creation of an internal control department.**

II. Changes in the Board of Directors of the Company

During the period under examination the composition of the Board of Directors was subjected to the following changes:

	01/01/2008 to 31/12/2008
Chairman	Michael Tsamaz
Vice- Chairman	Christini Spanoudaki
Managing Director	Konstantinos Andreou
Member	Dionissios Mygdalis
Member	Christos Katsaounis

C. PRESENTATION OF FINANCIAL RESULTS

I. SUMMARY – MAIN FINANCIAL INDICATORS

In 2008, the Company adjusted the useful life of three (3) cable systems. This adjustment increased the depreciation charge for 2008 by € 33,677,209. Also depreciation with respect to the category Machinery and Technical Installations decreased by € 1,382,893.79 as a result of government grant income for subsidized assets.

MAIN FINANCIAL INDICATORS

	(In Euro thousands)		
	2008	2007	Δ %
TURNOVER	178,151	165,061	7,9 %
PROFIT BEFORE TAX AND ADJUSTMENT TO USEFUL LIVES OF CABLES	4,133	2,204	87,5 %
TAX	6,800	(1,592)	
PROFIT / (LOSS) AFTER TAX	(22,745)	612	

II. FINANCIAL STATEMENTS

The financial statements for the year ended 31.12.2008 have been prepared in accordance with International Financial Reporting Standards and reflect, through the Balance sheet, the asset structure of the Company as at that date, as well as the financial results, cash flows and the statement of changes in Equity for the period from 01.01.2008 to 31.12.2008 with detailed explanations of the accounting principles applied as well as specific item disclosures.

III. FINANCIAL RISK MANAGEMENT

General

The Company is exposed to the following types of financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Capital management

This note provides information on the exposure of the Company to each one of the above mentioned types of risk. It provides information on the targets, the policies and the procedures that are applied for measuring and managing these risks as well as information on capital management.

The management of the Company is responsible for creating and supervising the risk management policy of the Company.

The risk management policy of the Company is aim to identify and analyse the risks to which the Company is exposed to, to set limits of tolerance and to monitor the risks identified. The risk management policies and the related systems are examined periodically so that any changes in the market or the Company's activities are incorporated. Through educational seminars and through placing procedures to monitor the application of the policies set by management, the Company aims to develop an effective environment in which all employees are aware of their roles and obligations.

Credit risk

Credit risk is the risk that the Company will suffer a loss if a customer or a third party, as a result of any financial transaction, fails to meet his contractual obligations and it mostly relates to receivables from customers and cash and cash equivalents.

a) Customers and other receivables

The exposure of the Company to credit risk is mainly affected by the peculiarities of each client. The demographic features of the Company's client base, including the risk of default in payments that is characteristic to the particular market and the country in which the customers operate, affect credit risk to a lesser extent. Approximately 6% of the income of the Company arises from sales to one customer, excluding revenue generated from the OTE Group. However, a geographical concentration of credit risk is not observed.

The Company has put in force a credit policy based on which each new customer's creditworthiness is examined on an individual basis before offering the usual terms of payment (30 days). The assessment of customer creditworthiness includes the examination of bank resources and other relevant resources, where these exist. Credit limits are set for each customer where delays in payment occur. The Company has receivables from OTE Group companies that amount to approximately 52% of its annual income and consequently the credit risk on these receivables is low. In addition, approximately 27% of these balances concern mostly large telecommunication providers, who are also suppliers to the Company through telephone traffic exchange, the risk of default of payments of these customers is minimal.

In monitoring the credit risk of these customers, they are grouped not only according to their credit characteristics, but also if they are Voice or Data customers and whether they are also suppliers. Customers and other receivables only comprise wholesale customers of the Company.

The Company records impairment losses based on its estimates for losses concerning customer and other receivable balances and investments in securities. Impairment losses mainly comprise losses arising from impairment of specific customers that have been characterized as high risk.

b) Investments

The company limits its exposure to credit risk by investing only in short term deposits which due to their short term nature have limited risk. The Company does not possess listed securities, but possesses.

c) Exposure to credit risk

The carrying amount of the financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the balance sheet date was as follows:

	31 December	
(Amounts in Euros)	<u>2008</u>	<u>2007</u>
Available for sale financial assets	906	662,982
Customers (prior to impairment provision)	77,833,753	89,917,170
Cash and cash equivalents	12,009,615	39,113,845

The maximum exposure to credit risk of trade receivables at the balance sheet date per customer category was as follows:

	31 December		
	<u>Note</u>	<u>2008</u>	<u>2007</u>
Related party receivables	1	48,498,700	67,503,644
Customers that are simultaneously suppliers (net settlement of receivable/payable balance)	2	22,384,787	11,314,752
Other customers	3	11,356,370	11,098,774
Less: Provisions for doubtful clients		<u>(4,406,104)</u>	<u>(3,809,919)</u>
		<u>77,833,753</u>	<u>86,107,251</u>

1) Transactions with related companies amount to 62% of total receivables and are not exposed to credit risk. The company considers as related companies: OTE and the subsidiary companies and for the period from 1st July to 31st December 2008 the company Deutsche Telecom and the subsidiary companies.

2) If the respective payable balance is taken into account for these customers, in their simultaneous role as suppliers, the maximum exposure on net receivables would amount to € 2,738,284.54

3) The highest trade receivable balance in this category relates to a customer with a balance of €4,166,646.17, accounting for 36% of this category.

d) Impairment losses

The aging of receivables at the Balance sheet date was as follows:

(Amounts in Euros)	31 December	
	2008	2007
Not due	25,444,661	72,259,186
0-30 days	38,667,432	4,776,345
31-60 days	4,168,967	1,425,520
61+ days	9,552,693	7,646,200
	77,833,753	86,107,251

The movement in the provision of impairment of receivables during the year was as follows:

(Amounts in Euros)	31 December	
	2008	2007
Balance at 1 January	(3,809,919)	(3,915,918)
Provision for receivables impairment	(627,865)	(90,519)
Receivables written off	31,680	196,518
Balance at 31 December	(4,406,104)	(3,809,919)

The Company has created a provision on the doubtful balances. Based on historical records on delays in payment, the Company does not consider it necessary to make an impairment provision for receivables that are due for over 60 days, since the largest percentage of these concern balances due from related parties, and the remaining balances are due from customers who have a healthy credit record.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle its financial obligations when these become due. The Company manages liquidity risk by securing, as much as possible, that there will always be sufficient liquidity for it to meet its financial obligations when these fall due, under usual but also difficult conditions, without suffering unacceptable losses or setting the Company's reputation in danger.

- Generally, the Company secures that it has sufficient cash to cover its operational needs for a period of 60 days. This policy does not take into account the respective impact from conditions that cannot be predicted, such as natural disasters.

Set out below are the balances of financial liabilities:

31 December 2008

Amounts in Euros	Account Balance
Related party payables	82,581,406
Suppliers that are simultaneously Customers (net settlement of receivable/payable balance)	17,427,817
Other suppliers	5,119,774
	105,128,997

31 December 2007

Amounts in Euros

	Account Balance
Related party payables	65,364,509
Suppliers that are simultaneously Customers (net settlement of receivable/payable balance)	17,702,932
Other suppliers	8,823,912
	<u>91,891,353</u>

The maturity of the Company's liabilities as at 31 December 2008 is in less than 1 year.

Market risk

Market risk comprises the impact on cash flows resulting from the risk of changes in currency exchange rates, interest rates, and share prices, and that are likely to affect the Company's financial instruments. The Company's market risk management policy aims to control the Company's exposure to these risks by setting a frame of acceptable parameters, and simultaneously optimizing its returns.

a) Interest rate risks

The only interest-bearing balances are bank balances resulting in limited risk exposure to the Company.

b) Foreign exchange risk

Foreign exchange risk does not materially affect the Company's operations since it has no material transactions in foreign currency.

Capital risk management

Management's policy is to maintain a strong capital base in order to preserve the level of trust creditors and the market has in the Company and to allow future development in the activities of the Company. Management also monitors the amount of dividends payable to the Company's shareholders.

D. COMPANY PROSPECTS

OTEGLOBE's primary mission being to support the business plan of the OTE Group will continue to actively operate in the wider region in order to increase sales from international telephony services and to maximize the utilization of its international cable infrastructure. At the same time the Company will aim at the implement co-operation that result from the participation of DT in the Group OTE, aiming mainly at the reciprocally advantageous use of the international networks of the two Groups.

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

- Maintenance and guarantee of the Company's leading role for the provision of data services in Greece and in the wider region of South-East Europe.
- Increase of sales, for the 3 year period 2009 to 2011, of services of international telephony with a CAGR of 5%.
- Investigation and infiltration in the M. East.
- Further maintenance of the levels of operational costs.

The strategic directions of OTEGLOBE for the 3 year period 2009 to 2011 are:

- **Strengthening of OTEGLOBE's current physical presence** in the Balkans and in developing markets as the Middle East.
- **Expansion of the capacity of existing owned telecommunications infrastructures and further growth of these geographically** aiming at better control over and reduction of the cost of this infrastructure and accordingly reducing the cost of services provided, the increase of infrastructure reliability and servicing the needs that results from the growth of broadband, so much in Greece and in the wider region.
- **Further targeting of Greek Multinational Enterprises** in collaboration with the OTE in Greece and its subsidiary companies in the Balkans.
- **Investigation** for the purposes of exploiting the geographic position of the Company via new submarine cable infrastructure that will interlink Greece with the M. East.

More specifically, the main characteristics of the market environment for the next year are expected to be:

- **Continuous intensity of competition** with respect to International Services.
- **Shrinkage of the targeted client base.** The Greek as well as Balkan market is in phase of consolidation.
- **Growth of Broadband.** This growth compensates partly the observed fall of prices, because the intense need for large capacity connections with international internet exchanges.
- **Regulation.** The regulation in roaming and the prices of termination (Greece, Bulgaria, Albania, FYROM) is expected to influence negatively the income of international telephony, with the effects to be visible from 2009.
- **International Economic Recession.** It is expected to influence negatively the investment plans of our customers as well as tourism with resulting reductions in international traffic.

We hereby call upon you, ladies and gentlemen Shareholders to:

1. Approve the Balance Sheet and the other financial statements of the accounting period 01/01/2008 - 31/12/2008.
2. Relieve the members of the BOD and the Company's certified auditors from every indemnification liability regarding their actions during the 2008 financial year, according to the Law and also the Company's Articles of Association.
3. Approve the compensation, fees and expenses paid to the members of the Board of Directors, the Chairman and the Managing Director for 2008 and set those for 2009.
4. Appoint certified auditors and accountants for the current financial year of 2009.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR