OTE INTERNATIONAL SOLUTIONS SA

Board of Directors' report of OTE International Solutions SA to the Annual General Meeting of Shareholders in respect of the 11th annual financial year ended 31 December 2011

OTE INTERNATIONAL SOLUTIONS SA

Company Registration Number 46809/01AT/B/00/365

Zinonos Eleatou & Agisilaou 6-8, Marousi 151 23

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.

CONTENTS

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 11th FINANCIAL YEAR THAT ENDED ON 31 DECEMBER 2011

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 Meeting the following report regarding the performance, the activities and the related financial statements of the Company for its 11th annual reporting period that ended on 31.12.2011 and we ask for their approval.

A . GENERAL

OTEGLOBE is a wholly owned subsidiary of OTE SA under the trade 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 and has been operational since 2000.

OTEGLOBE has become a significant telecommunication provider in the Southeast 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 in the Greek as well as the international markets.

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 (connection to Western Europe via the Balkans) and the GWEN (connection to 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 centers in Europe. In addition, OTEGLOBE has rights in several regional and transatlantic submarine cable systems. Also, OTEGLOBE manages and develops the international telephony network of the OTE Group in terms of technology, as well as commercially with more than 150 interconnections, which has been recently upgraded with NGN (Next Generation Networks) operations.

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

- Development, planning, implementation and management of international telephony networks relating to Data and capacity;
- Commercial operation of all international services to telecommunication providers;
- Provision of integrated and wholly 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 during the Financial Year 2011

2011 can be described as a highly successful year for OTEGLOBE presenting a significant increase in revenues by 11.7% and in EBITDA by 38.1%.

More specifically, regarding the international data and internet capacity services, the Company increased the annual results, mainly based on:

- Geographical and clientele base expansion
- Increased sales in Middle East through the cable station in Chania, Crete
- Development of cooperation with existing clients/partners
- Strengthening of demand due to the development of fixed and mobile broadband

The Company has successfully overcome significant challenges, such as:

- More intense competition in Greece from companies providing international wholesale services through alternative infrastructure which connects the country with neighbour markets
- Drop in prices in Greece, Turkey and in the other markets in which it operates
- Cut downs in the investment plans of major customers due to the financial crisis in Greece and globally
- Market concentration in Greece and in Balkans

Regarding the international telephony services, revenues have increased significantly by 34.1% despite the adverse financial conditions in Greece and the operational region of the Company, as well as the substantial drop in interconnection rates (in Greece and the Balkans). This was driven by the upgrade of the international network with NGN operations as well as the focus on hubbing services with the strengthening of its commercial activity.

In addition, the continuously upgrading of its infrastructure aiming to the reduction of operating costs led to a significant increase in EBITDA by 38.1%.

The most significant events regarding the Company's activities during 2011 were as follows:

- **Strengthening of OTEGLOBE's commercial presence in markets of interest such as the Middle East and North Africa**. In this context, there was a further upgrade of the international submarine cable SMW3, which connects Greece with the developing markets of Middle East, South Africa and Asia.

- **Migration of the majority of international connections into new NGN networks and launch of flexible commercial offers in International Telephony.** The Company, recognizing its customers' needs for differentiation within the particularly competitive environment of international telephony, offers new commercial packages utilizing the innovative IP technology with which its international telephony network was upgraded. This policy contributed to the substantial increase in revenues from international telephony.

- **Upgrade of Capacity and Operation of existing owned telecommunication infrastructure.** In this context, there was an upgrade in NGN infrastructure for international telephony as well as in the Inter-Balkan TBN network.

- **Adjustment of the Estimated Economic Useful Life** of nine (9) submarine cable systems and of the platform MSP, due to the upgrade of its existing network. Due to the foresaid adjustment, the annual depreciation expense of 2011 was increased by € 17.5 million.

II. Composition of the Board of Directors of the Company

During the period under examination there were not any changes in the composition of the Board of Directors of the Company. The composition of the Board of Directors of the Company is as follows:

	01/01/2011 to 31/12/2011
Chairman	Katsaounis Christos
Vice-Chairman	Mygdalis Dionysios
Managing Director	Andreou Konstantinos
Member	Manolopoulos Marios
Member	Kelaidi Christina
Member	Konstantinidis Ioannis
Member	Papadias Valsamakis

C. PRESENTATION OF FINANCIAL RESULTS

I. Summary – Key financial indicators

During the financial year 2011 the Company adjusted the Estimated Economic Useful Life of nine (9) submarine cable systems and of the platform MSP. Due to the foresaid adjustment, the annual depreciation expense of the year was increased by € 17.5 million.

Moreover, the Company achieved a significant improvement in its financial results driven by the successful commercial policy in 2011 as well as by the efficient resources management. This is reflected in the key financial indicators presented below:

KEY FINANCIAL INDICATORS
(Amounts in Euro thousands)

	2011	**2010**	**Δ %**
TURNOVER	265,489	237,644	11.7%
OPERATING PROFIT BEFORE DEPRECIATION	29,248	21,183	38.1%
OPERATING PROFIT BEFORE ADJUSTMENT DUE TO CHANGE IN USEFUL LIFE	15,474	4,619	235%
OPERATING PROFIT / (LOSS)	(1,953)	4,619	-142.3%
TAXES	(783)	(1,820)	

II. Financial statements

The financial statements for the year ended 31.12.2011 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 at that date, while they also include the statements of comprehensive income, cash flows and changes in equity for the period from 01.01.2011 to 31.12.2011 with detailed explanations of the accounting principles applied as well as specific disclosures.

III. Financial risk management

General

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The risk management policy of the Company is applied in order to identify and analyse the risks the Company is exposed to, to set limits of tolerance and to monitor these risks. 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) Trade 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 4% of the Company's revenue is generated from sales to a customer outside the Deutsche Telecom 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 in cases of delayed payment or in cases of weak creditworthiness. The Company generates revenues from Deutsche Telecom Group companies that account for approximately 39% of its annual revenues and consequently the exposure to credit risk from these receivables is low. In addition, approximately 46% relates mainly to large international telecommunication providers, who are also suppliers to the Company through telephone traffic exchange and the risk of default of payments by these customers is minimal.

In monitoring the credit risk of the customers' base, they are not only grouped according to their credit characteristics, but also if they are Voice or Data customers and whether they are also suppliers. Trade and other receivables include solely 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.

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 reporting date was as follows:

	31 December	
	2011	**2010**
Available for sale financial assets	460	906
Customers	64,043,236	59,136,143
Cash and cash equivalents	18,180,536	11,167,921

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

		31 December	
	Note	**2011**	**2010**
Related parties	1	26,885,736	39,709,755
Customers that are simultaneously suppliers (net settlement of receivable/payable balance)	2	33,889,175	15,439,007
Other customers		12,524,960	12,811,415
Less: Provision for doubtful receivables		(9,256,635)	(8,824,034)
		64,043,236	**59,136,143**

1) Transactions with related parties account for 42% of total receivables and are not exposed to any credit risk. The Company considers the companies within the Deutsche Telecom Group as related parties.

2) If the respective payable balance is taken into account for these customers, in their simultaneous role as suppliers, the maximum net receivable amount that could result from the net settlement of receivable-payable balance is Euro 2,016,348.

d) Impairment losses

The ageing of receivables that were not impaired at the statement of financial position date was as follows:

	31 December	
	2011	**2010**
Neither due not impaired	29,994,830	27,865,891
Due 0-30 days	3,840,692	12,967,652
Due 31-60 days	5,135,852	8,387,136
Due 61+ days	25,071,862	9,915,464
	64,043,236	**59,136,143**

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

	31 December	
	2011	**2010**
Balance at 1 January	(8,824,034)	(3,745,175)
Provision for impairment of receivables	(432,601)	(5,085,359)
Unused amounts reversed	-	6,500
Balance at 31 December	**(9,256,635)**	**(8,824,034)**

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

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 normal 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 relative effect from rare events that cannot be predicted, such as natural disasters.

Set out below are the balances of financial liabilities:

	31 December	
	2011	**2010**
Payables to related parties	60,465,704	68,422,200
Suppliers that are simultaneously Customers (net settlement of receivable-payable balance)	27,821,993	13,261,770
Other suppliers	5,778,146	4,285,447
	94,065,843	**85,969,417**

Market risk

Market risk comprises the impact on cash flows relating to financial instruments resulting from the changes in currency exchange rates, interest rates and shares prices. 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 risk

The only interest-bearing financial instrument are the bank deposits which have a minimal effect on the Company's cash and cash equivalents.

b) Foreign exchange risk

Foreign exchange risk is minimised through the Company's holding of a bank account in foreign currency.

c) Price risk

The Company is not exposed to such risk.

Capital management

Management's policy is to maintain a strong capital base in order to preserve the level of trust that creditors and the market have 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 PERSPECTIVES

Since OTEGLOBE's primary mission is 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 maximize the utilization of its international cable infrastructure. At the same time, the Company will seek for effecting synergies that result from the participation of Deutsche Telecom in the OTE Group, aiming mainly at the mutually advantageous utilization of the international networks of the two Groups.

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

- To secure and maintain the Company's leading role in the provision of data services in Greece and in the wider region of South-East Europe.
- Emphasis on its international hubbing telephony services based on the new NGN operation of the international network.
- Further expansion of its activities in the markets of the Middle East and North Africa, as well as the effort to attract international Transit traffic for connection in the telecommunication centres in Europe through Greece and the Company's infrastructure.
- Further restraint of operational costs.

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

1. Approve the statement of financial position and the other financial statements of the accounting period 01/01/2011 - 31/12/2011.
2. Relieve the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding their actions during the 2011 financial year, 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 2011 and set those for 2012.
4. Appoint Certified Auditors for the current financial year of 2012.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR