OTE INTERNATIONAL SOLUTIONS SA

BOARD OF DIRECTORS' REPORT
OF OTE INTERNATIONAL SOLUTIONS SA
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN RESPECT OF THE 12th FINANCIAL YEAR ENDED 31 DECEMBER 2012

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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BOARD OF DIRECTORS' REPORT

OF OTE INTERNATIONAL SOLUTIONS SA TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN RESPECT OF THE 12th FINANCIAL YEAR ENDED 31 DECEMBER 2012

Dear Shareholders,

In accordance with article 43a paragraph 3 of Codified 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 12th financial year that ended on 31.12.2012 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 Southeast Europe 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 Greece as well as in 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 centres 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 2012

2012 has been a successful year for OTEGLOBE since it recorded a steady growth in its basic operations, despite the unstable macroeconomic environment and the continuously falling prices in the Greek market as well as in the greater Balkan region, as a result of increasing competition.

More specifically, the Company's revenues recorded a 0.7% increase from 2011 (reaching Euro 267.3 million) and its operating profit before adjustments for useful lives reached Euro 16.9 million, recording an increase of 9.4% compared to 2011.

In particular, regarding the international data and internet capacity services, the Company managed to maintain a high level of revenue, mainly based on:

- Geographical and clientele base expansion through targeted cooperation with certain providers with a view to achieve increased sales to destinations outside the network coverage of OTEGLOBE *(OFF-NET sales)*
- Development of cooperation with existing clients/partners
- Strengthening of demand due to the development of fixed and mobile broadband
- Increased sales in Middle East through the cable station in Chania, Crete

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
- Delay or even suspension of the implementation of strategic plans for development 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, Egypt.

Regarding the international telephony services, revenues have increased by 2.4% 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 and the penetration to new developing markets such as Africa, Latin America.

The most significant events regarding the Company's activities during 2012 were as follows:

- **Strengthening of OTEGLOBE's commercial presence in markets of interest such as the Middle East and North Africa** through targeted cooperation with selected providers aiming to reinforce data and voice sales.

- **Launch of flexible commercial offers in International Telephony and 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 technology which was used to upgrade its international telephony network.

- **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 Trans-Balkan TBN network.

- **Completion and commercial launch of the new cable system which connects Greece with Libya (Silphium cable) and the broader North Africa region.**

II. Composition of the Board of Directors of the Company

During the period under examination there were 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:

	01/01/2012 to 15/06/2012	**15/06/2012 to 31/12/2012**
Chairman	Katsaounis Christos	Katsaounis Christos
Vice-Chairman	Mygdalis Dionysios	Mygdalis Dionysios
Managing Director	Andreou Konstantinos	Andreou Konstantinos
Member	Manolopoulos Marios	Manolopoulos Marios
Member	Kelaidi Christina	Kelaidi Christina
Member	Konstantinidis Ioannis	Konstantinidis Ioannis
Member	Papadias Valsamakis	Nikidis Leonidas

C. PRESENTATION OF FINANCIAL RESULTS

I. Summary – Key financial indicators

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)

	2012	**2011**	**Δ %**
REVENUE	267,336	265,489	0.7%
OPERATING PROFIT BEFORE DEPRECIATION	25,439	29,248	-13.0%
OPERATING PROFIT BEFORE ADJUSTMENT DUE TO CHANGE IN USEFUL LIFE	16,933	15,474	9.4%
OPERATING PROFIT / (LOSS)	16,933	(1,953)	
TAXES	(3,882)	(783)	

It should be noted that the slight drop in operating profit margin (operating profit before depreciation/revenue) by 1.5%, from 11% in 2011 to 9.5% in 2012, 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 & Southeast Europe).
- The turn 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 necessitates a more intense operational performance and repositioning of the Company into new developing markets such as Middle East, North Africa and Southeast Asia.

II. Financial statements

The financial statements for the year ended 31.12.2012 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 01.01.2012 to 31.12.2012 with explanatory information on the accounting principles applied as well as all other components.

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 risk 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 characteristics 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 3% of the Company's revenue is generated from sales to one 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 36% of its annual revenues and consequently the exposure to credit risk from these receivables is low. In addition, approximately 56% 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 characterised as high risk.

b) Investments

The Company limits its exposure to credit risk by investing only in bonds issued by companies within the OTE Group. The Company does not hold any 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	
	2012	**2011**
Available for sale financial assets	460	460
Trade receivables	61,173,455	64,043,236
Cash and cash equivalents	13,271,854	18,180,536

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

		31 December	
	Note	**2012**	**2011**
Related parties	1	24,695,459	26,885,736
Customers that are simultaneously suppliers (net settlement of receivable/payable balance)	2	32,358,947	33,889,175
Other customers		14,998,202	12,524,960
Less: Provision for impairment of receivables		(10,879,152)	(9,256,635)
		61,173,455	**64,043,236**

1) Transactions with related parties account for 40% 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 2,818,161.

d) Impairment losses

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

	31 December	
	2012	**2011**
Neither past due nor impaired	33,156,937	29,994,830
Past due 0-30 days	7,331,291	3,840,692
Past due 31-60 days	1,978,942	5,135,852
Past due 61+ days	18,706,284	25,071,862
	61,173,455	**64,043,236**

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

	31 December	
	2012	**2011**
Balance at 1 January	(9,256,635)	(8,824,034)
Provision for impairment of receivables	(1,697,519)	(432,601)
Write-off of receivables	-	-
Unused amounts reversed	75,002	-
Balance at 31 December	**(10,879,152)**	**(9,256,635)**

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 (Euro 10,327,329) 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	
	2012	**2011**
Payables to related parties	33,359,518	60,465,704
Suppliers that are simultaneously Customers (net settlement of receivable-payable balance)	21,345,434	27,821,993
Other suppliers	13,606,436	5,778,146
	68,311,388	**94,065,843**

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 instruments 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 to expand its presence in the developing markets of Middle East and North Africa by reinforcing its interconnection with the foresaid markets.

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

- To secure and maintain the Company's leading role in Greece and in the wider region of Southeast Europe.
- More intense operational performance and repositioning of the Company into new developing markets such as Middle East and North Africa with a parallel effort to:
  - ✓ Utilise and further upgrade the existing infrastructure (e.g. upgrade of SMW3);
  - ✓ Participate in next generation telecommunication infrastructure which will connect Greece with the foresaid markets (Next Generation Cable systems);
  - ✓ Attract international Transit traffic to interconnect to the telecommunication centres of Europe through Greece and the Company's network infrastructure, aiming to establish Greece and OTE Group in particular as the alternative telecommunication node in the Mediterranean region within the next years.
- Emphasis on its international hubbing telephony services maximising the benefits from new NGN operation of international network.
- 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 01/01/2012 - 31/12/2012.

2. Relieve the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding their actions during the 2012 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 2012 and set those for 2013.

4. Appoint Certified Auditors for the current financial year of 2013.

KONSTANTINOS ANDREOU

MANAGING DIRECTOR