



OTEGLOBE S.A.

**MANAGEMENT REPORT  
OF THE BOARD OF DIRECTORS OF OTE INTERNATIONAL SOLUTIONS S.A.  
TO THE ANNUAL ORDINARY GENERAL ASSEMBLY OF SHAREHOLDERS  
FOR THE PROCEEDINGS OF THE 20TH FISCAL YEAR THAT ENDED  
ON 31 DECEMBER 2020**

**OTEGLOBE S.A.**

**GCRN 46809/01AT/B/00/365**

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## MANAGEMENT REPORT

### **OF THE BOARD OF DIRECTORS OF OTEGLOBE S.A. TO THE ANNUAL ORDINARY GENERAL ASSEMBLY OF SHAREHOLDERS FOR THE PROCEEDINGS OF THE 20TH FISCAL YEAR THAT ENDED ON 31 DECEMBER 2020**

Dear Shareholders

Pursuant to Articles 148 & 150 of L. 4548/2018, we submit to the General Assembly this report on the proceedings, activities and the corresponding financial statements of the Company for the 20th fiscal year that ended on 31.12.2020 and we request their approval.

#### **A. GENERAL**

OTEGLOBE, a subsidiary of OTE S.A. under the name "OTE INTERNATIONAL SOLUTIONS S.A.", which is based in Athens, provides international wholesale telecommunications services to telecommunications providers and multinational companies in the wider region of the Southeastern Europe since 2000.

OTEGLOBE has developed into a major international telecommunications provider in SE Europe and provides a wide range of integrated international telephony, data and capacity services through privately owned network infrastructure, serving Telecommunications Service Providers and large multinational organizations both in Greece and abroad.

In recent years, OTEGLOBE has redesigned its European backbone network from a multiple ring topology to a full mesh network topology based on leased fiber optics with a total length of over 21,000 km, connecting the largest European telecommunication hubs of Eastern and Western Europe, with more than 4 distinct routes, offering unparalleled connectivity options in the wider area. OTEGLOBE's European backbone network is now a single, fully protected, high-speed terrestrial fiber optic network, which extends from Greece to Western Europe via Italy and the Balkans, providing high availability services. The Company has also developed and operates its secure, private IP/MPLS (MSP) network with nodes in business and telecommunication centers throughout Europe, while holding rights to various regional and transatlantic submarine cables. Finally, OTEGLOBE manages and develops, both technologically and commercially -with more than 150 bilateral interconnections-, the international telephony network of OTE Group, which has been upgraded with All-IP (NGN - Next Generation Networks) capabilities.

More specifically, the Company focuses on the following sectors:

- The development, design, implementation and management of International Telephony, Data and Capacity Networks
- The commercial exploitation of all international services to telephony providers
- The provision of integrated and fully managed services (international IP VPN) to large corporate clients through partners.

## B. SIGNIFICANT EVENTS IN THE COURSE OF THE COMPANY

### I. Fiscal year 2020 activities

2020 was a different year compared to the previous ones for OTEGLOBE, but also for the entire world. At the beginning of 2020, the coronavirus (COVID-19) spread worldwide, affecting supply and demand in the global economy, including Greece. Since the beginning of this crisis, the Company's priority has been to protect its people and ensure the smooth operation of its networks and services. Despite this unfavorable situation, OTEGLOBE has managed to keep its revenues marginally stable, while remaining in high adjusted profitability given the circumstances.

More specifically, the Company had:

- Marginal reduction of revenues of 1% reaching € 346.4m.
- Strong and extremely durable adjusted EBITDA, excluding IFRS 16 in the market it operates (2020: € 17.1m, 2019: € 19.7m)
- Extremely good current ratio (2020: 1.9 - stable compared to 2019)

In particular, regarding the services of international data capacities and Internet, the Company has managed to limit the reduction of revenues, which was a direct consequence of the restrictions imposed by the governments to avoid the spread of the coronavirus, because it relied mainly on:

- Maintaining and expanding partnerships with existing customers/partners, despite the special conditions that have developed in the global market (travel restrictions, teleworking), thanks to its digital transformation and the successful use of digital tools developed for this purpose.
- Penetration in new markets due to the investment in the Asia-Africa-Europe-1 (AAE-1) submarine joint cable system, which was successfully upgraded in 2020 with a significantly larger capacity, of which OTEGLOBE is a full member and landing party.
- Targeted partnerships with selected providers, to increase sales to destinations outside of OTEGLOBE network coverage (*OFF-NET sales*)
- Enhancing demand due to the development of fixed and mobile broadband and consequently the Internet connection in its wider area of operation.

The Company has successfully tackled challenges, such as:

- Reduction of prices in Greece, but also in the other markets in which it operates.
- Suspension or cuts in the investment plans of most companies and consequent reduction of revenues from corporate clients, especially in Europe, as a result of the special conditions imposed by the global health crisis.
- Intense competition in Greece from international wholesale companies with alternative infrastructure that connects the country with neighboring markets.
- Market concentration and cuts in the investment plans of important clients in Greece and the Balkans.
- Delayed or even suspended implementation of strategic development plans of almost all major providers, due to the uncertainty and instability caused by the unprecedented global health crisis.

Regarding the revenues from international telephony services, they continue to be the main pillar of the total revenues of the Company, despite the difficult economic conditions in Greece and the vital space of operation of the Company. All this thanks to the new IP capabilities with which the international telephony network has already been upgraded, and the focus on hubbing services, resulting in the strengthening of its commercial activity and expansion into new emerging markets by

compensating for the reduction of the total traffic served by the network of the Company in 2020: 2.62 billion minutes (instead of 3.15 billion minutes in 2019), due to the reduction of international roaming from travel restrictions in many countries.

The following are the most important events for the Company for 2020:

- **Upgrading Capacities and Functionality of existing private telecommunications infrastructure** of the National & European Network (in total capacity of over 7Tbps in 2021).
- **Expanding cooperation and strengthening the sales of large capacities** to the big providers of Turkey, for their interconnection with Western Europe through the European backbone network of OTEGLOBE.
- **Expanding cooperation with one of Asia's largest mobile telephony providers** to upgrade and activate capacities in the Asia-Africa-Europe-1 (AAE-1) submarine cable system, following the major trade agreement signed since 2018 for selling a capacity of over 1 Tbps in this submarine cable.
- **Promotion of flexible commercial packages in International Telephony and further exploitation of NGN infrastructure in Hubbing services.** The Company, recognizing the needs of its customers for differentiation in the highly competitive environment of international telephony, offers new commercial packages using the new IP technologies with which the international telephony network was modernized.
- **Enrichment of service and development of SMS Hubbing sales for P2P & A2P traffic** in domestic and international destinations to meet the needs of OTE group and third party providers.
- **Strengthening the commercial presence of OTEGLOBE in markets of interest, such as the Middle East and North Africa,** through targeted partnerships with selected providers to further enhance data and voice sales.

**Voluntary leave schemes.** In 2020, OTE Group implemented a voluntary leave program. The cost of this program related to Company employees amounted to € 1,476,878. Costs associated with voluntary leave schemes include the cost of incentives given to employees to participate in the program and are included in the income statement in the line "Costs related to voluntary leave schemes". However, they are excluded from the calculation of "adjusted" ratios, in order to better capture the financial and operational performance related to the Company's actual activity.

The amounts related to the voluntary leave schemes will be paid in 2021, which is when they will be included in the cash flow statement.

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

During the said fiscal period, no changes were made to the composition of the Company's Board of Directors. The composition of the Company's Board of Directors is the following:

From 01/01/2020 to 31/12/2020		
<b>Chairman</b>	Konstantinidis Ioannis	Non-executive Member
<b>Vice Chairman</b>	Tsamaz Michael	Non-executive Member

<b>Chief Executive Officer</b>	Andreou Konstantinos	Executive Member
<b>Member</b>	Kelaidi Christina	Non-executive Member
<b>Member</b>	Mylona Elisavet	Non-executive Member
<b>Member</b>	Nikidis Leonidas	Non-executive Member
<b>Member</b>	Nikoloudis Georgios	Executive Member

## C. PRESENTATION OF FINANCIAL RESULTS

### I. Summary - Key economic indicators

The Company, with the successful commercial policy implemented in 2020, as well as the effective management of its resources, kept the Adjusted EBITDA and revenues at high levels, as shown by the following key economic indicators:

#### KEY ECONOMIC INDICATORS

(amounts in thousands Euro)

	2020	2019	D %
<b>TURNOVER</b>	346,438	349,408	-1%
<b>OPERATING PROFITS BEFORE DEPRECIATION (EBITDA)</b>	22,855	26,608	-14%
<b>ADJUSTED* OPERATING PROFITS BEFORE DEPRECIATION (EBITDA adj.)</b>	24,332	26,608	-9%
<b>CURRENT RATIO</b>	1.89	1.86	1%

\*The adjustment to EBITDA concerns costs related to voluntary leave schemes only for 2020, amounting to €1.48 million.

It should be noted that the reduction in revenue and profitability, despite the unfavorable circumstances created following the measures imposed by governments worldwide to reduce the pandemic is mainly due to:

- Significant collaborations with clients during the year to serve the increased needs for data traffic, which is a consequence of the significant investments made by the Company in recent years (participation in the AAE1 cable system that connects China with Western Europe through Chania)
- Maintaining the profit margin from voice services, by serving the international traffic through the IP network, which ensures quality at competitive prices
- Retention of the Company's operating costs

### II. Financial statements

The financial statements of 31.12.2020 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and reflect the financial position and asset structure of the Company at the above time, while containing statements of comprehensive

income, cash flows, and changes in equity for the period from 01.01.2020 to 31.12.2020 with detailed explanations on the accounting policies and individual funds.

## **D. FINANCIAL RISK MANAGEMENT**

### **Macroeconomic conditions in Greece**

The Company's Management continuously assesses the potential impact of the changes on the macroeconomic and microeconomic environment in Greece, in order to ensure that all necessary measures are taken to minimize the risk to its domestic activities. Management, based on its current estimates, concludes that it does not need any further impairment provisions for financial and non-financial assets up to 31 December 2020.

### **Covid-19 pandemic outbreak risk**

At the beginning of 2020, the Covid-19 pandemic broke out around the world, affecting supply and demand in international markets, including Greece. States have introduced vaccination programs to deal with the pandemic and continue to impose restrictive measures, while a number of economic measures have been taken, both in the European Union and in Greece, in order to mitigate the negative economic effects.

The extent of the health crisis in the activities of the Company in the coming period, will depend mainly on its future development and its policies. Restrictions on travel may adversely affect the company's financial performance, by reducing revenues from telecommunications services. More specifically, the trend shows that the negative impact of the pandemic will continue on roaming services. In addition, the pandemic will have a negative impact on global economic development and the Greek economy, which is highly dependent on tourism.

In 2020, the pandemic affected revenue sources and more specifically revenues from roaming services. Management closely monitors the situation and its possible effect on the activities of the Company. The Company follows the guidance and decisions of all competent services and implements the required actions by the Greek state authorities. Moreover, it implements precautionary strategies for the business continuity of its activities and risk reduction in order to mitigate the negative effects of the crisis on its activities and financial situation.

### **Financial risks**

The Company is exposed to the following risks from the use of its financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information on the Company's exposure to each of the above risks, on the objectives, policies and procedures it applies for risk measurement and management, as well as capital management.

Management bears the overall responsibility for the creation and supervision of the Company's risk management framework.

The Company's risk management policies are applied in order to identify and analyze the risks faced by the Company and to set risk limits and apply controls to them. Risk management policies and

related systems are reviewed periodically to incorporate changes in market conditions and the Company's operations. Through training seminars and standards and control of compliance with the procedures set by the Company's Management, the aim is to develop an effective general control environment based on specific principles in which all employees understand their role and responsibilities.

## Credit risk

Credit risk is the risk of loss in case a customer or a third party during a financial instrument transaction does not fulfill his contractual obligations and this primarily relates to loan receivables and claims, customers and cash available.

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the date of the financial position was:

	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
Loans and receivables	25.106.669	10.126.164
Trade receivables	43.139.856	45.798.987
Cash and cash equivalents	29.026.756	35.288.336

### a) Loans and receivables

The Company limits its exposure to credit risks by investing only in financial assets of OTE Group companies. The Company does not hold shares listed on stock exchanges.

### b) Trade receivables

The Company's exposure to credit risk is mainly affected by the characteristics of each customer. The demographics of the Company's customer base, including the risk of default that characterizes the specific market and the country in which customers operate, have less of an impact on credit risk. The Company assesses credit risk in accordance with established policies and procedures and recognizes the appropriate provision for impairment.

The Company has set a credit policy according to which each new customer is examined on an individual basis for his creditworthiness before being offered the usual payment and invoicing terms (30 days). The creditworthiness test performed by the Company includes the examination of bank sources and other third party credit rating sources, if any. Credit limits are set for each customer in cases of late payment or when his creditworthiness is not strong.

When monitoring the credit risk of customers, customers are grouped not only with their credit characteristics, but also if they are Voice or Data customers and at the same time suppliers. Customers include only the Company's wholesale customers.

Receivables from related companies amount to 38% (2019: 42%) of total receivables and do not involve credit risk exposure. The Company considers the companies of the DeutscheTelekom Group as related parties.

A percentage of 59% (2019: 57%) of the receivables from customers mainly concern large international telecommunication providers, who are also suppliers of the Company due to the exchange of telephone traffic and data, and for whom the risk of default is reduced to a minimum.



The Company records an impairment loss that represents its estimate for losses in relation to customers and other receivables and investments in securities.

### **c) Cash and cash equivalents**

Cash and cash equivalents are not considered items with high credit risk, as the Company maintains accounts with credit institutions of high creditworthiness.

## **Liquidity risk**

Liquidity risk occurs when the Company is unable to meet its financial obligations when they expire. The Company's approach to liquidity management is to ensure, to the extent possible, that it always has enough liquidity to meet its obligations when they expire, under normal, but also difficult circumstances, without incurring unacceptable losses or to jeopardize the reputation of the Company.

Given that the Company's financing needs relate to operating activities and the Company has not received loans from third parties, the Company ensures that it has sufficient cash to meet its operating needs for a period of 60 days. This policy does not take into account the relative impact of unpredictable extreme conditions, such as natural disasters.

The following are the balances of financial liabilities:

	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
Amounts due to related parties	3.651.600	7.300.077
Suppliers	32.070.715	30.336.715
Other short-term liabilities	2.400.053	2.029.406
	<b>38.122.368</b>	<b>39.666.197</b>

Other short-term liabilities include liabilities for insurance companies, other taxes and fees, voluntary leave schemes and other liabilities (Note 24).

## **Risk of market conditions**

Market risk is the risk of cash flows associated with financial instruments due to changes in exchange rates, interest rates and stock prices. The purpose of market conditions risk management is to control the Company's exposure to them within acceptable parameters, while optimizing returns.

### **a) Interest rate risk**

The only elements that are interest bearing are the bank deposits and the investments in financial data of companies of OTE Group and for which the fluctuation has minimal influence on the banking assets of the Company.

### **b) Foreign exchange risk**

Foreign exchange risk is the probability that the fair value of a financial instrument's cash flows will fluctuate due to changes in foreign exchange rates. The main currencies traded with the Company are Euro and US Dollars.

The Company's foreign exchange risk is minimized by maintaining a current account in US Dollars.

### **Capital management**

The policy of the Board of Directors is to maintain a strong capital base, in order to maintain the trust of creditors and the market in the Company, and to allow the future development of the Company's activities. The Board of Directors also monitors the level of dividends to shareholders of registered shares.

The Company manages the capital structure and makes adjustments in order to harmonize with the changes in the financial environment. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

### **Determination of fair values**

The Company uses the following hierarchy to determine and disclose the fair values of financial assets, based on the following valuation method:

Level 1: fair values are determined by reference to published active market transaction prices.

Level 2: fair values are determined by measurement techniques for which all parameters that have a significant effect on the recorded fair value are supported by observable market transaction prices (directly or indirectly).

Level 3: fair values are determined by measurement techniques for which parameters that have a significant effect on the recorded fair value are not supported by observable market transaction prices.

The fair value of cash and cash equivalents, customers, loans and receivables and suppliers approximates their carrying amounts. Loans and receivables are included in level 3.

## **E. PROSPECTS OF THE COMPANY**

OTEGLOBE mainly aiming to support the business plans of OTE Group through the development of new 5G technology networks in the region, will continue its efforts to increase sales from international telecommunications services and upgrade and maximize the use of its international cable infrastructure. At the same time, the Company will seek to expand its presence in the developing markets of the Middle East, North Africa and Asia by further strengthening its interconnection with these markets.

In this context, the Company's strategic choices are:

- Ensuring and maintaining its leading role in Greece and the wider region of the Southeastern Europe.
- Intense activity and repositioning in the developing markets of the Middle East, North Africa and Asia with a simultaneous effort to:
  - ✓ Utilize and further upgrade the existing infrastructure to harmonize them with the requirements of cable system AAE1, which is already in commercial operation.

- ✓ Expand the cooperation with providers of Asia aiming to activate new high capacity circuits in the cable system AAE-1 and provide backhaul services from Greece - Chania to Western Europe, making Greece a gateway to Europe for telecommunications traffic coming from the Asian market and especially China.
- ✓ Attract international Transit traffic for interconnection in the telecommunication centers of Europe through Greece and the network infrastructures of the Company, aiming to make Greece and OTE Group in particular an alternative telecommunication node in the Mediterranean region in the coming years.
- Develop SMS Hubbing service sales (P2P & A2P) and expand the interconnection with new networks and destinations.
- Put an emphasis on Hubbing international telephony services maximizing the benefits of international network NGN/IP functionality.
- Further cost reduction (Voice infrastructure virtualization, etc.).

**Dear Shareholders, in view of the above, you are kindly requested to:**

1. Approve the statement of financial position and the other financial statements for the closing year 01/01/2020 - 31/12/2020.
2. Release the members of the BoD and the certified auditors of the Company from any liability for compensation for the proceedings of the year 2020, in accordance with the Law, but also the Company Statute.
3. Approve the compensations, fees and expenses paid to the members of the Board of Directors, the Chairman and the CEO for 2020 and determine them for 2021.
4. Appoint Certified Public Accountants for the current fiscal year 2021.

ANDREOU KONSTANTINOS

CEO