

OTE INTERNATIONAL SOLUTIONS SA

**BOARD OF DIRECTORS' REPORT
OF OTE INTERNATIONAL SOLUTIONS SA
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
IN RESPECT OF THE 14th FINANCIAL YEAR ENDED 31 DECEMBER 2014**

OTE INTERNATIONAL SOLUTIONS SA

Société Anonyme Registration No 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
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IN RESPECT OF THE 14th FINANCIAL YEAR ENDED 31 DECEMBER 2014

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 14th financial year that ended at 31.12.2014 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 telecommunications 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 the 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 2014

Financial year 2014 has been a successful year for OTEGLOBE since it recorded a steady growth in its core operations, despite the unstable macroeconomic environment and falling prices in the Greek market as well as in the greater Balkan and western Europe region, as a result of increasing competition.

More specifically, the Company recorded a 2% increase in revenue from 2013 (reaching €287.15 million) and managed to significantly increase its net cash flows from operating activities from the previous year (from €9.6mil in 2013 to €15.2mil in 2014). In addition, it is very important that the Company is not exposed to debt.

In particular, regarding the international data and internet capacity services, the Company managed to maintain a high level of sales turnover 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*)
- Promoting the cooperation with existing customers/partners
- Strengthening demand through the development of fixed and mobile broadband
- Promoting sales in Middle East through the cable station in Chania, Crete

The Company has successfully overcome significant challenges, such as:

- Higher competition in Greece from companies providing international wholesale services through alternative infrastructure which connects the country with neighbouring markets
- Drop in prices in Greece and in the 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.

Regarding the international telephony services, revenues have increased by 7% from 2013 despite the adverse financial conditions in Greece and the operational region of the Company as well as the substantial drop in termination charges (in Greece, Balkans and in the European market). 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 2014 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 the 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.
- **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 will quadruple 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 there were no 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:

	01/01/2014 to 31/12/2014
Chairman	Katsaounis Christos
Vice-Chairman	Mygdalis Dionysios
Managing Director	Andreou Konstantinos
Member	Manolopoulos Marios
Member	Kelaidi Christina
Member	Konstantinidis Ioannis
Member	Nikidis Leonidas

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 2014 as well as by the efficient resources management, as reflected in the following key financial indicators:

KEY FINANCIAL INDICATORS

(Amounts in Euro thousands)

	2014	2013	Δ %
REVENUE	287,147	282,149	1.8%
OPERATING PROFIT BEFORE DEPRECIATION (EBITDA)	18,375	23,030	-20.2%
OPERATING PROFIT MARGIN (EBITDA)	6.4%	8.2%	
Net cash flows from operating activities	15,151	9,635	57.2%

It should be noted that the slight drop in EBITDA margin from 8.2% in 2013 to 6.4% in 2014 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 31.12.2014 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 01.01.2014 to 31.12.2014 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 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 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 operations and 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 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 01/01/2014 - 31/12/2014.
2. Discharge the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding their actions during the financial year 2014, 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 2014 and set those for 2015.
4. Appoint Certified Auditors for the current financial year 2015.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR