OTE INTERNATIONAL SOLUTIONS S.A.

MANAGEMENT REPORT
OF THE BOARD OF DIRECTORS OF OTE INTERNATIONAL SOLUTIONS S.A.
TO THE ANNUAL ORDINARY GENERAL MEETING OF SHAREHOLDERS
ON THE ACTIVITIES OF THE 17TH FINANCIAL YEAR ENDED ON
DECEMBER 31, 2017

OTE INTERNATIONAL SOLUTIONS S.A.

Société Anonyme Reg. No.: 46809/01AT/B/00/365

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Dear Shareholders,

In accordance with article 43a, as replaced with Article 1(1) of Law 4403/2016, of Codified Law 2190/1920, we submit to the General Meeting this report on the performance, activities and the respective financial statements of the Company for the 17th financial year ended on 31.12.2017 and we kindly request your approval.

A. GENERAL

OTEGLOBE is a wholly owned subsidiary of OTE S.A., trading as "OTE INTERNATIONAL SOLUTIONS S.A.", with registered offices in Athens, and it has been providing wholesale international telecommunication services to telecommunication providers and multinational companies in the wider region of South-East Europe since 2000.

OTEGLOBE has developed into a major telecommunications provider in South-East Europe providing an extensive range of integrated data, capacity and international telephony services through its own network infrastructure to providers of telecommunication services and to large multinational organisations both in Greece and the global market.

In 2017, OTEGLOBE redesigned its European backbone network, from multiple ring to full mesh network topology, which is built upon leased fiber of more than 21,000 km in total and connects to the major European gateways of Eastern and Western Europe with more than 4 diverse routes, offering unparalleled, seamless connectivity options in the wider region. OTEGLOBE's European backbone network is now a unified, fully-protected terrestrial network of ultra-high speed fiber, stretching from Greece across Italy and the Balkans to Western Europe, that offers high availability services. The Company has also developed and is operating its secure private IP/MPLS (MSP) network with nodes in various business and telecommunication centres in Europe, while holding rights in several regional and transatlantic submarine cable systems. OTEGLOBE manages and develops, both technologically and commercially, the international telephony network of OTE Group – with more than 150 bilateral interconnections – which has been recently upgraded with All-IP (NGN - Next Generation Networks) capabilities.

In more detail, 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 partners.

B. SIGNIFICANT EVENTS IN THE COMPANY'S OPERATION

I. Activities of financial year 2017

Financial year 2017 was a successful year for OTEGLOBE. Its adjusted EBITDA margin was significantly improved thanks to the continuing strong performances in Europe and Asia, where recent year investment in new generation technologies have started yielding results.

Specifically, the Company presented:

- A significant +18% increase of adjusted EBITDA compared to 2016
- Preservation of high turnover due to:
  - Improvement of revenues from international capacity services, which is the result of recent year investments
  - Preservation of high revenues from voice services
- Strong and exceptionally resilient adjusted EBITDA margin in the market it operates in (2017: 5.7%)
- Exceptionally good current liquidity ratio (2017: 1.7) proving that management maintains a significant safety margin for meeting the Company's financial needs.

In particular, as regards international data and Internet capacity services, the Company managed to increase income from sales, because it focused mainly on:

- Geographical and customer base expansion through targeted partnerships with selected providers with a view to increase sales to destinations outside the network coverage of OTEGLOBE (OFF-NET sales)
- Expansion of partnerships with existing customers/partners
- Strengthening of demand through the development of fixed and mobile broadband in its broader area of action

The Company successfully addressed significant challenges, such as:

- Fiercer competition in Greece by international wholesale companies with alternative infrastructure connecting the country with neighbouring markets
- Drop in prices in Greece and in the other markets it operates in
- 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 broader markets of Middle East and North Africa due to the volatile environment and political instability in certain countries, e.g. Syria, Libya.

As regards revenues from international telephony services, they are still a main pillar of the Company’s total revenues at 86%, despite the adverse financial circumstances in Greece and the Company’s vital operating area. The total traffic served by the Company's network was 2.9 billion minutes (2016: 2.6 billion minutes). This was the result of both the upgrade of the international network with the new IP capabilities and the targeting of hubbing services that reinforced the company's commercial activity and led to the expansion into new developing markets, such as Africa and Latin America.

The most important events in the Company's activity for 2017 are listed below:

- **Development of new backbone network for connection of Greece to Western Europe through Italy** by leasing 15-year old optical fiber and using own transmission equipment. The new network will complement the existing GWEN (800G) backbone network, with an initial capacity at 1 Tbps and is expected to be put into service in the first quarter of 2018.
- **Redesign of the European backbone network,** from multiple ring topology at the GWEN & TBN networks, to full mesh network topology, built upon leased fiber stretching across 21,000 km in total and connecting to the major European gateways of Eastern and Western Europe with more than 4 diverse routes.
- **Participation as a full member in AAE1, one of the largest cable system consortia in the world.** In January 2014, OTEGLOBE along with 18 other international telecommunication providers signed a construction agreement (C&MA) for the new Asia-Africa-Europe-1 (AAE1) intercontinental, submarine cable system. AAE1, stretching along 25,000 km, is one of the very few cable systems interconnecting Hong Kong and Singapore with the Middle East, Africa and Europe. With this routing, AAE1 will be able to transmit telecommunication traffic from Hong Kong and Asia to Europe through the shortest possible route (low-latency 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 were completed in December 2017, and its financial benefits can already be seen in 2017, with many more anticipated in the years to come.
- **Promotion of flexible commercial offers in International Telephony and further utilization of NGN infrastructure in Hubbing services.** The Company, acknowledging its customers’ need for diversification within the highly competitive environment of international telephony, offers new commercial packages using the new IP technologies that upgraded its international telephony network.
- **Development of new LTE Roaming & SMS Hubbing services for mobile services providers,** in order to meet the needs of OTE group subsidiaries and third providers.
- **Upgrade of Capacity and Functionality of existing privately-owned telecommunication infrastructure** of the National and TransBalkan Network (to total capacity of 4 Tbps by 2018).
- **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.
- **Voluntary leave schemes.** In 2017 the OTE group implemented a voluntary leave scheme. The cost for the Company in relation to employees working at the Company or the Group was €1.4 million. The net cost that affected the Company was €0.5 million. The costs related to voluntary leave plans contain the cost of incentives offered to employees for participating in the plan. These costs are included in the statement of results and the statement of cash flows in items “Costs related to voluntary leave plans” and “Payments of voluntary leave plans”. They are however exempted from the calculation of the “adjusted” ratios, in order to better reflect the financial and operating performances related to the Company’s core business.

II. Composition of the Company's Board of Directors

The composition of the Company's Board of Directors on 31/12/2017 is the following:

Chairman	Ioannis Konstantinidis	Non-executive member
Vice Chairman	Michael Tsamaz	Non-executive member
Chief Executive Officer	Konstantinos Andreou	Executive member
Member	Christina Kelaidi	Non-executive member
Member	Dionysis Mygdalis	Non-executive member
Member	Leonidas Nikidis	Non-executive member
Member	Georgios Nikoloudis	Executive member

C. PRESENTATION OF FINANCIAL RESULTS

I. Summary – Key financial indicators

Moreover, through the successful commercial policy it followed in 2017 and the effective management of its resources, the Company improved its adjusted operating profit before depreciation and maintained high levels of revenues, as reflected in the following key financial indicators:

KEY FINANCIAL INDICATORS

(amounts in thousand €)

	2017	**2016**	**V %**
TURNOVER	333.475	341.120	-2%
ADJUSTED EBITDA	18.979	16.120	18%
ADJUSTED EBITDA %	5,7%	4,7%	
CASH, LOANS AND RECEIVABLES	101.879	95.452	7%
CURRENT LIQUIDITY RATIO	1.7	1.7	

It should be noted that the increase of the adjusted EBITDA (+18%) compared to 2016 is mainly due to:

- Important collaborations with customers that took place during the year to serve the increased needs for data traffic, which is the result of the significant investments made by the Company in recent years (participation in AAE1 cable system connecting China to Western Europe through Chania, Crete)

- Maintenance of the high profitability margin of voice services by serving international traffic through an IPN network that ensures quality at competitive prices
- Containment of Company's operating cost

II. Financial statements

The financial statements of 31.12.2017 have been prepared in line with the International Financial Reporting Standards, as adopted by the European Union 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 01.01.2017 to 31.12.2017 with explanatory information on the accounting principles applied as well as the separate items.

D. FINANCIAL RISK MANAGEMENT

D.1 Macroeconomic conditions in Greece

The macroeconomic and financial environment in Greece shows signs of stabilisation, with uncertainty however still remaining. The capital controls initially imposed on the country on June 28, 2015 continue to exist despite some kind of easing since then. Capital controls had a short term impact on the Company's domestic activities; however, this has been normalized. Assuming that capital controls will continue to apply only for a short period of time and that the agreed terms and conditions of the third bail-out plan shall be applied, no significant negative impact is anticipated on the Company's operations in Greece. Moreover, taking into consideration that total revenue comes mainly from foreign clients (80.64%), the risk exposure is relatively small.

The volatile and uncertain macroeconomic and financial environment in Greece is not anticipated to negatively affect the operation, activity and financial position of the Company because a big part of its activities and transactions involve foreign counter parties. Despite this fact, Management is constantly assessing the situation and its possible impact to ensure that all necessary actions and initiatives are taken to minimize any impact on the Company's domestic activities.

Management cannot accurately predict the potential developments in the Greek economy, however, based on its assessment, it has concluded that no additional provisions will be required for impairment of the Company’s financial and non-financial assets as at 31 December 2017.

D.2 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 provides information on the Company's exposure to each one of the above types of risks, the targets, the policies and the procedures it applies for measuring and managing risk, as well as information on capital management.

Management is responsible for creating and supervising the Company’s risk management framework.

The Company implements its risk management policies in order to identify and analyse the risks the Company is exposed to, to set limits of risk tolerance and to monitor these risks. Risk management policies and related systems are regularly reviewed in order to incorporate any changes in market conditions and Company activities. The Company carries out training seminars, applies standards and monitors compliance with procedures set by the Company's Management in order to develop an effective overall environment of control based on certain principles, in which all employees are aware of their roles and obligations.

D.2.1 Credit risk

Credit risk refers to the risk of Company loss if a customer or a third party, as a result of any financial transaction, fails to meet their contractual obligations; credit risk refers mostly to receivables from loans and receivables, trade receivables and cash and cash equivalents.

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

	31 December	
	2017	**2016**
Loans and receivables	81.178.079	6.118.152
Trade receivables	54.506.511	75.470.554
Cash and cash equivalents	20.700.863	89.333.676

a) Loans and receivables

The Company limits its exposure to credit risk by investing only in financial assets issued by companies within the OTE Group. The Company does not hold any listed securities.

b) Trade receivables

The Company's exposure 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 customers operate, have limited impact on credit risk.

According to the credit policy the Company has established, the creditworthiness of each new customer is examined on an individual basis before offering the usual terms of payment (30 days).

The creditworthiness assessment carried out by the Company includes the examination of credit ratings from banks and other credit rating sources, if available. Credit limits are set for each customer individually in cases of delayed payments or low creditworthiness.

In monitoring the customers’ credit risk, customers are grouped not only by their credit characteristics, but also by the kind of services provided, i.e. Voice or Data services, and whether they are also suppliers.

Customers include only wholesale customers of the Company.

Receivables from related companies stand at 21% (2016: 37%) of total receivables and do not include exposure to credit risk. The Company considers the companies within the Deutsche Telecom Group as related parties.

A percentage of 78% (2016: 59%) of trade receivables pertains mainly to large international telecommunications providers, who are also the Company's suppliers due to the exchange of telephone and data traffic, for which default risk is minimal.

The Company recognizes impairment losses based on its estimates for losses relating to trade and other receivables and investments in securities. This impairment consists mainly of impairment losses deriving from specific high risk trade receivables.

c) Cash and cash equivalents

Cash and cash equivalents are not considered to involve high credit risk, because the Company holds accounts in financial institutions of high credit rating.

D.2.2 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, to the extent possible, that there will always be sufficient liquidity for it to meet its financial obligations when these fall due, under normal but also adverse conditions, without suffering unacceptable losses or jeopardising the Company's reputation.

Given the fact that the Company's financing involves its operational activities and that the Company has not received loans from third parties, it ensures that sufficient cash is available 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 for financial liabilities:

	31 December	
	2017	**2016**
Amounts due to related parties	6.729.151	17.125.148
Trade payables	45.116.248	52.836.864
Other short-term liabilities	1.765.691	4.256.552
	53.611.090	**74.218.564**

Other short-term liabilities include liabilities to social security organizations, other taxes and duties and other liabilities (Note 23).

D.2.3 Market risk

Market risk consists in the risk of cash flows that are related to financial instruments due to a change in currency exchange rates, interest rates and share prices. The Company's market risk management policy aims to control the Company's exposure to these risks by setting a framework of acceptable parameters and at the same time optimizing its returns.

a) Interest rate risk

The only interest-bearing financial instruments are the demand deposits and the investments in financial instruments issued by OTE Group companies with a fluctuation that has a minimal effect on the Company's cash and cash equivalents. On 31/12/2017 the Company has invested in bonds of OTE Plc of €71 million maturing on 01/2018 with a 1.98% interest and €10 million maturing on 11/2019 with a 2.491% interest.

b) Currency risk

Currency risk is the risk that the fair values of the cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The main transaction currencies in the Company are the Euro and the USD.

The Company minimizes its exposure to currency risk by maintaining a demand deposit account in USD.

D.3 Capital management

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

The Company manages its capital structure and makes any adjustments that are necessary in order to adapt to the changing economic environment. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

D.4 Fair value estimation

The Company uses the following hierarchy for the measurement and disclosure of the fair value of financial instruments, based on the fair value estimation method used:

Level 1: fair values are estimated based on quoted prices in active markets.

Level 2: fair values are estimated with valuation techniques in which all significant inputs are observable market data (either directly or indirectly).

Level 3: fair values are estimated with valuation techniques in which one or more of the significant inputs are not based on observable market data.

The fair value of cash and cash equivalents, of trade receivables, of loans and receivables and of trade payables approaches their carrying values. Loans and receivables are included in Level 3.

E. COMPANY PROSPECTS

OTEGLOBE, having as primary mission to support OTE Group business plans, 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. Similarly, the company will seek to expand its presence in the developing markets of Middle East and Northern Africa by further strengthening its interconnection with said markets.

In this context, the Company's strategic options are the following:

- to ensure and preserve its leading role in Greece and the wider area of South-East Europe.
- to be more active and reposition itself in the developing markets of the Middle East and Northern Africa trying at the same time to:

- ✓ Capitalise on and further upgrade the existing infrastructure (with the completion of the redesign of its European backbone network in the first quarter of 2018) for their alignment with the requirements of the AAE1 cable system, which is already in commercial operation.
- ✓ Attract international Transit traffic to interconnect to the telecommunication centres of Europe through Greece and the Company's network infrastructure, with the purpose to establish Greece, in general, and OTE Group, in particular, as the alternative telecommunication hub in the Mediterranean region in the upcoming years.

- To place emphasis on international Hubbing telephony services maximizing the benefits of the new NGN functionalities of the international network
- To further cut down on the operational cost

Further to the above, Messrs. Shareholders you are called upon to:

1. Approve the statement of financial position and the other financial statements of the closing period 01/01/2017 - 31/12/2017.
2. Discharge the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding the financial year 2017 performance, 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 CEO for 2017 and set those for 2018.
4. Appoint Certified Accountants-Auditors for the current financial year 2018.

KONSTANTINOS ANDREOU
CHIEF EXECUTIVE OFFICER