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OTE INTERNATIONAL SOLUTIONS SA

Board of Directors' report of OTE International Solutions S.A. to the annual general meeting of shareholders in respect of the 9th annual financial year ended 31 December 2009

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.

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 9TH FINANCIAL YEAR THAT ENDED ON 31 DECEMBER 2009

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 Assembly the following report regarding the actions, the activities and the corresponding financial statements of the Company for its 9th annual reporting period that ended on 31.12.2009, and we ask for their approval.

A. GENERAL

OTEGLOBE, is a wholly owned subsidiary of OTE SA under the company 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 operating since 2000.

OTEGLOBE has developed into an important telecommunication centre in the region 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 international operations and network infrastructure on 1/04/07, the Company now owns two, two-way high capacity fibre optic networks, the TBN (connection to Western Europe via the Balkans) and the GWEN (connection to Western Europe via Italy), which extend from Greece to Western Europe as well as an IP/MPLS(MSP) network with 14 loops in various business centres in Europe. In addition, OTEGLOBE possesses rights to various peripheral and transatlantic underwater cables, as well as international networks of fibre optic cables towards all neighbouring countries. 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.

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 2009

2009 can be described as a particularly successful year for OTEGLOBE on both commercial and technological grounds resulting to an increase in revenues of 14.4% and 26.1% in the EBIT.

More specifically, during 2009, international telephony services were at very good levels hence achieving a further increase compared to the previous year.

- The Company, taking advantage of the new NGN functions with which it upgraded its international telephony network in 2008, strengthened its commercial activities and achieved a significant increase in the volume of international telephony traffic resulting to an increase of 22.5% in voice services.
- At OTE Group level, the fall in price levels, the intense competition as well as the significant fall in termination fees was hedged through the increase mentioned above, and a marginal increase was achieved.

Regarding the international data and internet capacity services the Company faced the following:

- More intense competition and a fall in prices in the markets in which it operates.
- Cut downs in the investment plans of major customers due to the international financial crisis.

Despite the above, taking advantage of the increase in demand due to broadband and by its dominating the Greek market, the Company recorded a marginal increase in income from data services of +1.6% relative to 2008. Also, the continuous upgrade of its infrastructure, aiming at the reduction in operating costs, contributed to the increase in EBIT (26.1%, i.e. €4.19 million in 2009 compared to €3.32 million in 2008).

The most significant events regarding the Company's activities during 2009 were as follows:

- **Strengthening of OTEGLOBE's commercial presence in markets of interest such as the Middle Eastern and North African markets.** In order to service its existing clients more efficiently, as well as enter into new business agreements with major telephone operators in the Middle East and North African countries, the commercial presence of OTEGLOBE was strengthened in these regions. In this context, OTEGLOBE's participation was upgraded by increasing the capacity of the underwater optical fibre cable SMW3 which connects Greece with countries in the Middle and Far East.
- **Launch of new commercial packages in international telephony.** Recognizing that our customers' needs for differentiation in the particularly competitive environment of international telephony are emphasized due to the financial crisis, the Company is offering new commercial packages utilizing the new IP technologies with which the international telephony network was modernized.
- **Geographical expansion, upgrade in capacity and operations of Company's existing telecommunication infrastructure.**
    - **Upgrade in capacity of the GWEN Network.** In order to meet the high demand for interconnection with the international telephone centres due to the boom in demand for broadband in the region, but also for improving the cost base of the Company, the GWEN network that connects Greece with the rest of Europe through Italy was upgraded.
    - **Expansion of the international fibre optic network TBN to Albania.** With an aim to strengthen our commercial grounds in the neighbouring country which is undergoing substantial development, but also to strengthen the international network in order to meet the needs of the OTE Group, the decision was taken and work commenced on expanding the fibre optic cable TBN to Albania.

- **Targeted expansion of IP international telephony network.** Through the selection of specific geographical regions and of new functions, the IP international telephony network infrastructure was upgraded in order to reinforce the new commercial model of operation in international telephony. In this context, and in the pursuit for introducing new interconnection models with international providers, the Company participated in international forums which shape the developments in international telephony, such as the I3 Forum.

II. Composition of the Board of Directors of the Company

During the period under examination the following changes in the composition of the Board of Directors took place.

	01/01/2009 to 10/03/2009	**10/03/2009 to 23/04/2009**	**23/04/2009 to 31/12/2009**
Chairman	Michael Chamaz	Christini Spanoudaki	Christini Spanoudaki
Vice- Chairman	Christini Spanoudaki	Christos Katsaounis	Christos Katsaounis
Managing Director	Konstantinos Andreou	Konstantinos Andreou	Konstantinos Andreou
Member	Christos Katsaounis	Marios Manolopoulos	Marios Manolopoulos
Member	Dionissios Mygdalis	Dionissios Mygdalis	Dionissios Mygdalis
Member	-	-	Ioannis Konstantindiis
Member	-	-	Valsamakis Papadias

C. PRESENTATION OF FINANCIAL RESULTS

I. SUMMARY – MAIN FINANCIAL INDICATORS

In 2009, the Company, with its successful business policy as well as through effective management of resources and by holding down on costs, achieved a significant improvement in its financial results, as can be seen from the main financial indicators presented below:

MAIN FINANCIAL INDICATORS

	(In Euro thousands)		
	2009	**2008**	**% change**
TURNOVER	203,768	178,151	14 %
OPERATING PROFIT BEFORE DEPRECIATION	21,071	20,263	4 %
PROFIT BEFORE TAX AND ADJUSTMENT TO USEFUL LIVES OF CABLES	4,791	4,133	16 %
PROFIT / (LOSS) BEFORE TAX	4,791	(29,544)	

TAX	(2,339)	6,800
PROFIT / (LOSS) AFTER TAX	2,452	(22,745)

II. FINANCIAL STATEMENTS

The financial statements for the year ended 31.12.2009 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, they also include the statements of comprehensive income, cash flows and changes in equity for the period from 01.01.2009 to 31.12.2009 with detailed explanations of the accounting principles applied as well as specific item disclosures.

III. FINANCIAL RISK MANAGEMENT

General

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

- Credit risk
- Liquidity risk
- Market risk
- Capital management

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

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

The risk management policy of the Company are 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) Customers 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 5% of the income of the Company 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 where delays in payment occur. The Company generates income from Deutsche Telecom Group companies that amount to approximately 55% of its annual income and consequently the credit risk on these receivables is low. In addition, approximately 24% concerns mostly large 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 these customers, they are grouped not only according to their credit characteristics, but also if they are Voice or Data customers and whether they are also suppliers. Customers and other receivables only comprise 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 balance sheet date was as follows:

	31 December	
	2009	**2008**
Available for sale financial assets	906	906
Customers (prior to impairment provision)	58,175,713	77,833,753
Cash and cash equivalents	13,079,364	12,009,615

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

31 December			
	Note	**2009**	**2008**
Related party receivables	1	28,210,700	48,498,700
Customers that are simultaneously suppliers			
(net settlement of receivable/payable balance)	2	19,533,484	22,384,787

Other customers	3	14,176,704	11,356,370
Less: Provisions for doubtful customers		(3,745,175)	(4,406,104)
		58,175,713	77,833,753

1) Transactions with related companies amount to 48% of total receivables and are not exposed to credit risk. The Company considers the companies within the Deutsche Telecom Group related.

2) If the respective payable balance is taken into account for these customers, in their simultaneous role as suppliers, the maximum exposure on net receivables would amount to € 3,884,167.

3) Included in receivables is an amount of €5 million due from a customer who, with the intention of delaying repayment is contesting the validity of the €4,8 million out of this amount. Based on our overseas legal counsel's opinion, we consider that this customer has no justifiable grounds.

d) Impairment losses

The ageing of receivables that were not impaired at the Balance sheet date was as follows:

	31 December	
	2009	**2008**
Neither due nor impaired	36,563,203	25,444,661
0-30 days	2,352,918	38,667,432
31-60 days	3,768,892	4,168,967
61+ days	15,490,700	9,552,693
	58,175,713	**77,833,753**

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

	31 December	
	2009	**2008**
Balance at 1 January	(4,406,104)	(3,809,919)
Provision for receivables impairment	(128,629)	(627,865)
Receivables written off	-	31,680
Unused amounts reversed	789,558	-
Balance at 31 December	**(3,745,175)**	**(4,404,104)**

The Company has created a provision on doubtful balances. Based on historical records on delays in payment, the Company does not consider it necessary to make an impairment provision for receivables that are due for over 60 days, since the largest percentage of these concern balances due from related parties, and the remaining balances are due from customers who have a healthy credit record, with the exception of the customer mentioned in section 4 (c) part 3 above.

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 respective impact from conditions that cannot be predicted, such as natural disasters.

Set out below are the balances of financial liabilities:

	31 December	
	2009	**2008**
Related party payables	62,435,862	82,581,406
Suppliers that are simultaneously Customers (net settlement of receivable payable balance)	11,016,073	17,427,817
Other suppliers	10,772,967	5,119,774
	84,224,902	**105,128,997**

The maturity of the Company's liabilities as at 31 December 2009 is in less than 1 year.

Market risk

Market risk comprises the impact on cash flows resulting from the risk of changes in currency exchange rates, interest rates, and share prices, that are likely to affect the Company's financial instruments. 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 risks

The only interest-bearing balances are bank deposits resulting in limited risk exposure to the Company.

b) Foreign exchange risk

Foreign exchange risk does not materially affect the Company's operations since it has no material transactions in foreign currency.

Capital risk management

Management's policy is to maintain a strong capital base in order to preserve the level of trust 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 PROSPECTS

OTEGLOBE's primary mission being to support the business plan of the 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 telephony services of Hubbing based on the new functions of the international network.
- To further expand its activities in the markets of the Middle East and North Africa.
- Further holding down 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 01/01/2009 - 31/12/2009.
2. Relieve the members of the BOD and the Company's certified auditors from every indemnification liability regarding their actions during the 2009 financial year, according to the Law and also the Company's Articles of Association.
3. Approve the compensation, fees and expenses paid to the members of the Board of Directors, the Chairman and the Managing Director for 2009 and set those for 2010.
4. Appoint certified auditors and accountants for the current financial year of 2010.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR