



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 19TH FINANCIAL YEAR ENDED ON
DECEMBER 31, 2019**

OTE INTERNATIONAL SOLUTIONS S.A.

SA Reg. No. 46809/01AT/B/00/365

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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 19TH FINANCIAL YEAR ENDED ON 31 DECEMBER 2019

Dear Shareholders,

In accordance with articles 148 & 150 of Law 4548/2018 we submit to the General Meeting this report on the performance, activities and the respective financial statements of the Company for the 19th financial year ended on 31.12.2019 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 recent years, 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 2019

Financial year 2019 was a successful year for OTEGLOBE. Its EBITDA margin remained at high levels thanks to the continuing strong performances in Europe and Asia, where recent year investment in new generation technologies have started yielding results. The company is a modern and competitive tech company, that has stood out in its market as a reliable solution of international wholesale telecommunications services.

Specifically, the Company presented:

- Its EBITDA margin increased, excluding IFRS 16 to €19.7 million (+6% compared to 2018) which is mainly due to the technological leadership which we have developed over time and in which we will continue to invest.
- Increase of turnover to €349.4 million (+1% compared to 2018) which is the result of:
 - 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 EBITDA margin in the market it operates in (2019: 5.6%)
- Exceptionally good current liquidity ratio (2019: 1.9)

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

- Penetration into new markets due to the investment in the Asia-Africa-Europe-1 (AAE-1) submarine consortium cable system in which OTEGLOBE is a full member and a landing party.
- 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, despite the adverse financial circumstances in Greece and the Company's vital operating area. The total traffic served by the Company's network was 3.15 billion minutes (2018: 3.1 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 2019 are listed below:

- **Upgrade of Capacity and Functionality of existing privately-owned telecommunication infrastructure** of the National and European Network (to total capacity of 5 Tbps by 2020).
- Expanding the cooperation with one of the largest mobile telephony providers of Asia, to upgrade and activate capacities in the submarine Asia-Africa-Europe-1 (AAE-1) cable system, following on the important trade agreement signed on 2018 for the sale of more than 1 Tbps capacity on this submarine cable. AAE1, stretching along 25,000 km, is one of the largest cable systems interconnecting Hong Kong and Singapore with the Middle East, Africa and Europe. With this routing, AAE-1 will transmit telecommunication traffic from Hong Kong and Asia to Europe through the shortest possible route (low-latency route). A significant part of this traffic now passes through Greece as well through the cable station in Chania, Crete.
- **Expansion of collaboration and enhance of large capacity sales** to the large providers of Turkey, for their interconnection with Western Europe through the European backbone network of OTEGLOBE
- **Promotion of flexible commercial packages 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.
- **Enhancing the serving and developing sales of SMS Hubbing to cover A2P traffic** (beyond P2P) to domestic and international destination for meeting the needs of the OTE group and third providers.
- **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 Company's Board of Directors

During the period under examination the following changes were made to the composition of the Company's Board of Directors:

From 1.1.2019 to 30.12.2019		
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

31.12.2019		
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	Elisavet Mylona	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 2019 and the effective management of its resources, the Company maintained its adjusted EBITDA at high levels, as it did its revenues, as reflected in the following key financial indicators:

KEY FINANCIAL INDICATORS

(amounts in thousand €)

	2019	2018	V %
TURNOVER	349,408	346,961	1%
Adjusted EBITDA (2019: including the effect of IFRS 16)	26,608	18,507	44%
Adjusted EBITDA excluding IFRS 16	19,690	18,507	6%
CURRENT LIQUIDITY RATIO	1.86	1.54	21%

The Adjusted EBITDA excluding IFRS 16 ratio is used by management to facilitate comparability with prior years. It is defined by deducting from the Adjusted EBITDA the adjustments of the lease-related costs.

The adjustment to EBITDA concerns a non-regular cost only for year 2018, which amounts to €974 thousand, due to a termination of an agreement with a related party.

It should be noted that the increase of the EBITDA margin 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 profitability margin of voice services by serving international traffic through an IP network that ensures quality at competitive prices
- Containment of Company's operating cost

II. Financial statements

The financial statements of 31.12.2019 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 01.01.2019 to 31.12.2019 with explanatory information on the accounting principles applied as well as the separate items.

D. FINANCIAL RISK MANAGEMENT

Macroeconomic conditions in Greece - Capital controls

The macroeconomic and financial environment in Greece is showing signs that is steadily regaining its stability, as demonstrated by the successful completion of the third program and the publication of the third evaluation report on the country's progress, in the framework of the enhanced surveillance of the European Commission, on 5 June 2019. The capital controls initially imposed on the country on 28 June 2015 were withdrawn after a legislative provision that entered into force on 1 September 2019 and entailed the full lifting of the capital controls. Moreover, taking into consideration that total revenues come mainly from foreign clients (around 85%), the risk exposure is relatively small.

Management continuously assesses the possible impact of any changes to the macroeconomic and financial environment in Greece in order to assure that all necessary actions and measures are taken to minimise any impact on the Company's activities in Greece. Management cannot accurately predict the 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 on 31 December 2019.

Brexit

The Company is evaluating the impact from the United Kingdom's withdrawal from the European Union (Brexit) and is taking measures to minimise any effects. Based on the analysis to date, Brexit is not anticipated to have a negative effect on the Company's operations.

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 risk, the targets, the policies and the procedures it applies for measuring and managing risk, as well as 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 specific principles, in which all employees are aware of their roles and obligations.

Credit Risk

Credit risk refers to the risk of loss for the Company 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	
	2019	2018
Loans and receivables	10.126.164	20.051.420
Trade receivables	45.798.986	52.404.946
Cash and cash equivalents	35.288.336	23.702.766

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. The Company assesses credit risk in accordance with the established policies and procedures and the appropriate provision for impairment is recognised.

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 42% (2018: 24%) 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 57% (2018: 72%) 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.

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 a high credit rating.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to settle its financial liabilities 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 both normal and adverse conditions, without suffering unacceptable losses or jeopardising the Company's reputation.

Given the fact that the Company's financing needs involve 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	
	2019	2018
Amounts due to related parties	7.300.077	8.241.906
Trade payables	30.336.715	39.915.932
Other short-term liabilities	2.029.406	3.154.140
	39.666.197	51.311.978

Other short-term liabilities include liabilities to social security organizations, other taxes and duties and other liabilities (Note 25).

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 sight 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.

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 sight deposit account in USD.

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.

Fair value measurement

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 telecommunication 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 the Middle East, Northern Africa and Asia 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, Northern Africa and Asia trying at the same time to:
 - ✓ Capitalise on and further upgrade the existing infrastructure for their alignment with the requirements of the AAE1 cable system, which is already in commercial operation.
 - ✓ Expand the collaboration with providers in Asia aiming to activate new high-capacity circuits on the AAE-1 cable system and provide backhaul services from Greece - Chania to Western Europe, rendering Greece a gateway into Europe for telecommunication traffic originating from the Asian, and especially the Chinese market.
 - ✓ 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.
- Growth of sales for the SMS Hubbing (P2P & A2P) service.
- Place emphasis on international Hubbing telephony services maximizing the benefits of the new NGN functionalities of the international network
- Further cost cutting (virtualization of Voice infrastructures, etc).

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 01.01.2019 – 31.12.2019.
2. Discharge the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding the performance of FY 2019, 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 2019 and set those for 2020.
4. Appoint Certified Accountants-Auditors for the current FY 2020.

KONSTANTINOS ANDREOU

CHIEF EXECUTIVE OFFICER