



OTE INTERNATIONAL SOLUTIONS SA

**BOARD OF DIRECTORS' REPORT
OF OTE INTERNATIONAL SOLUTIONS SA
TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN RESPECT OF
THE 13th FINANCIAL YEAR ENDED 31 DECEMBER 2013**

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.

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BOARD OF DIRECTORS' REPORT
OF OTE INTERNATIONAL SOLUTIONS SA TO THE ANNUAL GENERAL MEETING OF
SHAREHOLDERS IN RESPECT OF THE 13th FINANCIAL YEAR ENDED 31 DECEMBER 2013

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 13th financial year that ended on 31.12.2013 and we ask for their approval.

A. GENERAL

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 Southeast Europe since 2000.

OTEGLOBE has become a significant telecommunication provider in the Southeast 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 in Greece as well as in the international markets.

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 (connection to Western Europe via the Balkans) and the GWEN (connection to 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. In addition, OTEGLOBE has rights in several regional and transatlantic submarine cable systems. Also, OTEGLOBE manages and develops both technologically and commercially, the international telephony network of the OTE Group – with more than 150 interconnections – which has been recently upgraded with NGN (Next Generation Networks) operations.

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 2013

2013 has been a successful year for OTEGLOBE since it recorded a steady growth in its core operations, despite the unstable macroeconomic environment and the continuously falling prices in the Greek market as well as in the greater Balkan region, as a result of increasing competition.

More specifically, the Company's revenues recorded a 6% increase from 2012 (reaching Euro 282.15 million) and maintained its EBITDA margin within the wholesale market in high levels driven by strict cost control (from 9.5% in 2012 to 8.2% in 2013).

In particular, regarding the international data and internet capacity services, the Company managed to maintain a high level of revenues, mainly based on:

- Geographical and clientele base expansion through targeted cooperation with certain providers with a view to achieve increased sales to destinations outside the network coverage of OTEGLOBE (*OFF-NET sales*)
- Development of cooperation with existing clients/partners
- Strengthening of demand due to the development of fixed and mobile broadband
- Increased sales in Middle East through the cable station in Chania, Crete

The Company has successfully overcome significant challenges, such as:

- More intense competition in Greece from companies providing international wholesale services through alternative infrastructure which connects the country with neighbour markets
- Drop in prices in Greece, Turkey and in the other markets in which it operates
- Market concentration and cut downs in the investment plans of major customers in Greece and in Balkans
- Delay or even suspension of the implementation of strategic plans for development 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, Egypt.

Regarding the international telephony services, revenues have increased by 18.4% from 2012 despite the adverse financial conditions in Greece and the operational region of the Company, as well as the substantial drop in interconnection rates (in Greece, Balkans and in European market). This was driven by the upgrade of the international network with NGN operations as well as the focus on hubbing services with the strengthening of its commercial activity and the penetration to new developing markets such as Africa, Latin America.

The most significant events regarding the Company's activities during 2013 were as follows:

- **Launch of flexible commercial offers in International Telephony and 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 technology which was used to upgrade its international telephony network.

- **Upgrade of Capacity and Operation of existing owned telecommunication infrastructure.** In this context, there was an upgrade in NGN infrastructure for international telephony as well as in the cable system SMW3.
- **Strengthening of OTEGLOBE's commercial presence in markets of interest such as the Middle East and North Africa** through targeted cooperation 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:

	01/01/2013 to 31/12/2013
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 2013 as well as by the efficient resources management. This is reflected in the key financial indicators presented below:

KEY FINANCIAL INDICATORS

(Amounts in Euro thousands)

	2013	2012	Δ %
REVENUE	282,149	267,336	5.5%
OPERATING PROFIT BEFORE DEPRECIATION (EBITDA)	23,030	25,439	-9.5%
OPERATING PROFIT MARGIN (EBITDA)	8.2%	9.5%	
OPERATING PROFIT / (LOSS)	13,599	16,933	-19.7%
TAXES	(2,783)	(3,882)	-28.3%

It should be noted that the slight drop in EBITDA margin from 9.5% in 2012 to 8.2% in 2013 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 & Southeast Europe).
- The turn to Hubbing services in international telephony to overcome the significant drop in interconnection rates with lows profit margin.

This drop was expected and dictates a more intense operational performance and repositioning of the company into new developing markets, such as Middle East, North Africa and Southeast Europe.

II. Financial statements

The financial statements for the year ended 31.12.2013 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, while they also include the statements of comprehensive income, cash flows and changes in equity for the period from 01.01.2013 to 31.12.2013 with explanatory information on the accounting principles applied as well as all other components.

D. COMPANY PERSPECTIVES

Since OTEGLOBE's primary mission is 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 foresaid 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 Southeast Europe.
- More intense operational performance and repositioning of the Company into new developing markets such as Middle East and North Africa with a parallel effort to:
 - ✓ Utilise and further upgrade the existing infrastructure.
 - ✓ Participate in next generation telecommunication infrastructure which will connect Greece with the foresaid markets (Next Generation Cable systems). The company has already ensured its participation in the construction of the international submarine new generation cable system Asia Africa Europe -1 (AAE-1) with total length of 25,000 km and capacity of 40 Tbps, which will connect Greece with the emerging markets of Asia, Africa & the Middle East (RFS 2016).
 - ✓ 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.

- Emphasis on its international hubbing telephony services and the development of RCS interconnection services maximising the benefits from new NGN operation of international network.
- Further restraint 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 financial year 01/01/2013 - 31/12/2013.
2. Relieve the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding their actions during the financial year 2013, 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 2013 and set those for 2014.
4. Appoint Certified Auditors for the current financial year of 2014.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR