



OTE INTERNATIONAL SOLUTIONS S.A.

**BOARD OF DIRECTORS REPORT
OF OTE INTERNATIONAL SOLUTIONS SA
TO THE ANNUAL ORDINARY GENERAL SHAREHOLDERS MEETING
ON THE ACTIVITIES OF THE 16TH FINANCIAL YEAR ENDED ON
DECEMBER 31, 2016**

OTE INTERNATIONAL SOLUTIONS S.A.

Société Anonyme Registration No 46809/01AT/B/00/365

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Dear Shareholders,

Pursuant to article 43^a, as superseded by paragraph 1, article 1 of L.4403/2016, Codified Law 2190/1920, we submit to the General Meeting this report on the performance, activities and the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 16th financial year ended on 31.12.2016 and we kindly request your approval.

A. GENERAL

OTEGLOBE is a wholly owned subsidiary of OTE SA trading as “OTE INTERNATIONAL SOLUTIONS SA”, with registered seat in Athens. It provides wholesale international telecommunication services to telecommunication providers and to multinational companies in the wider region of South-East Europe since 2000.

OTEGLOBE has developed into a significant telecommunication provider in 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 in the global market.

Following the spin-off from OTE and the parallel absorption by OTEGLOBE of the international infrastructure and cable network sector on 01/04/2007, the Company currently owns two geographically distinct 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 in 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 bilateral interconnections – which has been recently upgraded with NGN (Next Generation Networks) capabilities.

In 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 service providers

B. SIGNIFICANT EVENTS IN THE COMPANY'S OPERATION

I. Activities of the financial year 2016

The financial year 2016 has been a successful year for OTEGLOBE as it posted a steady growth in its core operations, notwithstanding the unstable macroeconomic environment and continuing falling prices in the Greek market as well as the greater Balkan region and Western Europe, as a result of the increasing competition and the economic crisis in Europe.

In particular, the company managed to:

- Increase its turnover by 8% compared to 2015 (at € 340,8 mil). This increase is mainly due to:
 - increased revenue from international data and internet capacity services
 - further boosted revenue from international telephony services
- Increase of profits before income tax by 6% compared to 2015 (2016: € 8,3 mil)
- Strong EBITDA margin in the market it operates (2016: 4,7%)
- Preservation of cash and cash equivalents and financial instruments at high levels (2016: € 95,5 mil, 2015: €97 mil) despite the investments in new technologies
- Zero exposure to borrowing, despite the increase in investments. Cash balances on 31/12/2016 stood at € 89,3 mil.

In particular, as regards the international data and Internet capacity services, the Company managed to keep income from sales at high level because it was mainly based on:

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

The Company coped successfully with significant challenges such as:

- Higher competition in Greece from international wholesale companies with alternative infrastructure connecting the country with neighboring 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 uncertain environment and the political instability in certain countries, e.g. Syria, Libya.

As regards the international telephony services, an increase in revenues is recorded by 9% compared to 2015, despite the adverse financial conditions in Greece and the operational region of the Company. The total activity served by the Company's network stood at the same levels of 2015, at 2,6 billion minutes. This was mainly attributed to the new IP capabilities that have already upgraded the international telephony network and to targeting hubbing services; as a result, the company's commercial action was strengthened expanding into new developing markets, such as e.g. Africa, Latin America.

The most important events in the Company's activity for 2016 are presented below:

- **Participation as a full member in AAE-1 Consortium, one of the largest cable systems in the world.** In January 2014, OTEGLOBE along with 18 other international telecommunication operators signed a construction agreement (C&MA) for the new intercontinental, submarine cable system Asia-Africa-Europe-1 (AAE1). AAE1, stretching along 25.000 km, is one of the very few cable systems interconnecting Hong Kong and Singapore with Middle East, Africa and Europe. With this routing, AAE-1 will be able to transmit 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 within 2017.
- **Launch of flexible commercial offers in International Telephony and further utilization of NGN infrastructure in Hubbing services.** The Company, acknowledging its customers' needs for diversification within the highly competitive environment of international telephony, offers new commercial packages using the new IP technologies which have been used to upgrade its international telephony network.
- **Development of new LTE Roaming & SMS Hubbing services for mobile services providers,** in order to cover the needs of OTE group subsidiaries and third providers
- **Development of a new backbone network to interconnect Greece with West Europe through Italy,** through the lease of 15-year old optic fibers and the use of own transmission equipment. The new network will complement the existing backbone network GWEN (800G), with an initial capacity at 1 Tbps and it is expected to operate within 2017.
- **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 commercial presence in markets of interest, such as Middle East and Northern Africa** through targeted partnerships with selected providers aiming to reinforce data and voice sales.

II. Composition of the Company's Board of Directors

The composition of the Company's Board of Directors on 31/12/2016 is the following:

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

C. PRESENTATION OF FINANCIAL RESULTS

I. Summary – Key financial indicators

Moreover, the Company with its successful commercial policy followed in 2016 and the effective management of its resources, achieved a significant improvement in its turnover and maintained high levels of operational profitability margins, as reflected in the following key financial indicators:

KEY FINANCIAL INDICATORS

(Amounts in thousands of Euro)

	2016	2015	V%
TURNOVER	340.849	315.660	8%
PROFITS BEFORE INCOME TAX	8.285	7.842	6%
OPERATING PROFIT BEFORE DEPRECIATION (EBITDA)	16.120	17.172	-6%
OPERATING PROFIT MARGIN (EBITDA)	4,7%	5.4%	
CASH, LOANS AND RECEIVABLES	95.452	97.080	-2%

It should be noted that the drop in EBITDA margin from 5,4% in 2015 to 4,7% in 2016, observed in the results 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 termination charges on lower profit margins.

This drop was anticipated rendering necessary further intensification of operations and repositioning of the Company in new developing markets such as Middle East, North Africa and South-East Asia.

II. Financial statements

The financial statements as of 31.12.2016 have been prepared in accordance with 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 of that date, while they also include the statements of comprehensive income, cash flows and changes in equity for the period from 01.01.2016 to 31.12.2016 with explanatory information on the accounting principles applied as well as all other items.

D. FINANCIAL RISK MANAGEMENT

I. Macroeconomic conditions in Greece

The macroeconomic and financial environment in Greece shows signs of stability; however, it still remains volatile. The capital controls that were 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 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 activities in Greece. Moreover, taking into consideration that total revenue comes from foreign clients (80%), the risk exposure is relatively small.

The volatile and uncertain macroeconomic and financial environment 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. However, the Management is constantly estimating the situation and its possible impact in order to ensure that all necessary actions and initiatives are promptly taken to minimize any impact on the Company's domestic activities.

The Management is not in position to accurately predict the probable developments in the Greek economy, however they have assessed and concluded that there is no need for additional provisions for impairment of the Company's both financial and non-financial assets on December 31, 2016.

II. 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 mentioned types of risk, 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 is responsible for creating and supervising the Company's risk management framework.

The Company's risk management policy is applied to identify and analyze the risks the Company is exposed to, to set risk tolerance limits and to monitor these risks. The risk management policies and the 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 the compliance with policies set by the Company's Management in order to develop an effective overall control environment based on certain principles, in which all employees are aware of their roles and obligations.

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 trade receivables and cash and cash equivalents.

The book value of 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	
	2016	2015
Loans and receivables	6.118.152	80.528.119
Trade receivables	75.470.554	56.756.493
Cash and cash equivalents	89.333.676	16.551.712

(a) Loans and receivables

The Company limits its exposure to credit risks by investing only in OTE Group companies' financial assets. The Company does not hold shares listed on financial markets.

b) Customers

The Company's exposure to credit risk is mainly affected by the characteristics of each customer. The demographic data of the Company's customer base, including the risk of default in payments that is a feature of this market and the country where customers operate, have a lower impact on credit risk.

The Company has established a credit policy whereby the creditworthiness of each customer is examined on individual basis prior to suggesting the usual terms of payment and invoicing (30 days). The assessment of creditworthiness carried out by the Company includes the examination of credit rating 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 credit risk arising from the customer base, customers are not grouped 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 37% (2015: 39%) of total receivables not involving exposure to credit risk. The Company considers the Deutsche Telekom Group companies as affiliated parties.

A percentage of 59% (2015: 58%) of trade receivables regards mainly large international telecommunications providers who are also Company vendors through telephone traffic and data

exchange, and the risk of default of payments by these customers 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.

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's approach in liquidity management is to ensure as much as possible that sufficient liquidity will always be available to fulfill its obligations when they become due, under both usual and adverse conditions, without being subject to unacceptable losses or jeopardizing its reputation.

Given the fact that the Company's funding needs involve its operating activities and that the Company has not received loans from third parties, sufficient cash is available to cover its operating needs for a period of 60 days. Such policy does not take into consideration the relevant impact from extreme unforeseen conditions, such as natural disasters.

The balances of financial liabilities are outlined below:

	31 December	
	2016	2015
Amounts due to related parties	17.125.148	11.641.469
Suppliers	52.836.864	37.984.819
Other short term liabilities	4.256.552	6.871.284
	74.218.564	56.497.572

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

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 purpose of managing market risk is to mitigate the Company's exposure to such risks in the context of acceptable parameters, optimizing yields at the same time.

a) Interest rate risk

The only interest-bearing financial instruments are bank sight deposits and investments in financial assets of OTE Group companies and for which any fluctuation presents minimal impact on the Company's cash and cash equivalents.

b) Currency risk

Currency risk involves the probability that the fair value of the cash flows of a financial instrument presents fluctuations due to changes in currency exchange rates. The main transaction currencies in the Company are Euro and USA dollar.

The Company minimizes its exposure to foreign exchange risk by maintaining a sight deposit account in USA dollar.

III. 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. Moreover, the Board of Directors monitors the level dividends to shareholders of registered shares.

The Company manages the capital structure making adjustments in order to be harmonized with the changes in the economic environment. Aiming at capital structure preservation or adjustment, the Company may adjust the payable dividends amount to shareholders, return part of the capital to shareholders or issue new shares.

E. COMPANY PERSPECTIVES

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 to the developing markets of Middle East, 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 South-east Europe .
- to be more active and reposition itself in the developing markets of Middle East and Northern Africa trying at the same time to:
 - ✓ Capitalize on and further upgrade the existing infrastructure and align it with the requirements of the new generation AAE1 cable system, whose commercial operation is scheduled to commence within the first semester of 2017,
 - ✓ 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 01/01/2016- 31/12/2016.
2. Discharge the members of the BoD and the Company's Certified Auditors from every indemnification liability regarding the financial year 2016 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 2016 and set those for 2017.
4. Appoint Chartered Accountants-Auditors for the current financial year 2017.

KONSTANTINOS ANDREOU
Chief Executive Officer