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 10^{th} annual financial year ended 31 December 2010

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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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 10th FINANCIAL YEAR THAT ENDED ON 31 DECEMBER 2010

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 Meeting the following report regarding the performance, the activities and the related financial statements of the Company for its 10th annual reporting period that ended on 31.12.2010 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 operational since 2000.

OTEGLOBE has developed into an important telecommunication centre 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 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 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 14 nodes in various business centers in Europe. In addition, OTEGLOBE has rights in several regional and transatlantic submarine cable systems. 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, 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 2010

2010 can be described as a highly successful year for OTEGlobe presenting a significant increase in revenues by 17% and in EBIT by 8%.

More specifically, regarding the international data and internet capacity services, revenues increased by 23% driven by:

- Geographical and clientele base expansion
- Increased sales in Middle East through the cable station in Chania, Crete
- Development of cooperation with existing clients/partners
- Strengthening of demand due to the development of fixed and mobile broadband.

This increase was achieved despite the significant challenges, such as:

- More intense competition and a drop in prices in the markets in which it operates,
- Cut downs in the investment plans of major customers due to the international financial crisis in Greece and globally,
- Market concentration in Greece and in Balkans.

Regarding the international telephony services, revenues have increased by 36% 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 and the Balkans). 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.

In addition, the continuously upgrading of its infrastructure aiming to the reduction of operating costs led to the delivery of the EBIT (increase by € 359K in 2010 or by 8% compared to 2009).

The most significant events regarding the Company's activities during 2010 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 provide more efficient services to its existing clients, as well as to 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:

  - **The agreement concerning the new submarine cable system connecting Greece with Libya was announced.** This system, which is an investment of Telecom Libya, under the commercial name Silphium, gives the opportunity for the development of new revenue resources and strengthens the Company's competitive standing. Silphium is expected to be completed within 2011.
  - **Further upgrade of the international submarine cable SMW3,** which connects Greece with the developing markets of Middle East, South Africa and Asia.

- **Migration of the majority of international connections into new NGN networks and launch of flexible commercial offers in International Telephony.** The Company, recognizing its customers' needs for differentiation within the particularly competitive environment of international telephony, offers new commercial packages utilizing the innovative IP technology with which its international telephony network was upgraded.
- **Upgrade of Capacity and Operation of existing owned telecommunication infrastructure.**
- **Development of IPv6 protocol in the international IP network of the Company.**
- **Withdrawal of assets (Submarine Cable Systems 'Arianne', 'Aphrodite').**

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:

	01/01/2010 to 12/03/2010	**12/03/2010 to 31/12/2010**
Chairman	Spanoudaki Christini	Katsaounis Christos
Vice- Chairman	Katsaounis Christos	Mygdalis Dionysios
Managing Director	Andreou Konstantinos	Andreou Konstantinos
Member	Manolopoulos Marios	Manolopoulos Marios
Member	Mygdalis Dionysios	Kelaidi Christina
Member	Konstantinidis Ioannis	Konstantinidis Ioannis
Member	Papadias Valsamakis	Papadias Valsamakis

C. PRESENTATION OF FINANCIAL RESULTS

I. Summary – Key Financial Indicators

The Company achieved a significant improvement in its financial results driven by the successful commercial policy in 2010 as well as by the efficient resources management combined with the efficient cost control. This is reflected to the key financial indicators presented below:

KEY FINANCIAL INDICATORS
(Amounts in Euro thousands)

	2010	**2009**	**Δ %**
TURNOVER	237,644	203,768	17%
OPERATING PROFIT BEFORE DEPRECIATION	21,183	21,143	0.2%
OPERATING PROFIT	4,619	4,260	8%
TAXES	(1,820)	(2,339)	
TOTAL COMPREHENSIVE INCOME	2,811	2,391	18%

II. Financial statements

The financial statements for the year ended 31.12.2010 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 01.01.2010 to 31.12.2010 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 is 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) Trade 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 3% 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 in cases of delayed payment or in cases of weak creditworthiness. The Company generates income from Deutsche Telecom Group companies that account for approximately 48% of its annual income and consequently the credit risk on these receivables is low. In addition, approximately 42% relates mainly to 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 the customers' base, they are not only grouped according to their credit characteristics, but also if they are Voice or Data customers and whether they are also suppliers. Trade and other receivables include solely 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	
	2010	**2009**
Available for sale financial assets	906	906
Customers	59,136,143	58,175,713
Cash and cash equivalents	11,167,921	13,079,364

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

		31 December	
	Note	**2010**	**2009**
Related party receivables	1	39,709,755	28,210,700
Customers that are simultaneously suppliers (net settlement of receivable/payable balance)	2	15,439,007	19,533,484
Other customers		12,811,415	14,176,704
Less: Provision for doubtful receivables	3	(8,824,034)	(3,745,175)
		59,136,143	**58,175,713**

1) Transactions with related parties account for 67% of total receivables and are not exposed to any credit risk. The Company considers the companies within the Deutsche Telecom Group as related parties.

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 reach to Euros 802,291.

3) The Company has a receivable of Euros 5 mln due from the customer VECTONE IRELAND for which has formed an equal provision, resulting in a Euros 5 mln loss in the statement of comprehensive income for the year.

d) Impairment losses

The ageing of receivables that were not impaired at the statement of financial position date was as follows:

	31 December	
	2010	**2009**
Neither due nor impaired	27,865,891	36,563,203
Due 0-30 days	12,967,652	2,352,918
Due 31-60 days	8,387,136	3,768,892
Due 61+ days	9,915,464	15,490,700
	59,136,143	**58,175,713**

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

	31 December	
	2010	**2009**
Balance at 1 January	(3,745,175)	(4,406,104)
Provision for receivables impairment	(5,085,359)	(128,629)
Receivables written-off	-	-
Unused amounts reversed	6,500	789,558
Balance at 31 December	**(8,824,034)**	**(3,745,175)**

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.

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	
	2010	**2009**
Payables to related parties	68,422,200	62,435,862
Suppliers that are simultaneously Customers (net settlement of receivable payable balance	13.261.770	11,016,073
Other suppliers	4,285,447	10,772,967
	85,969,417	**84,224,902**

The maturity of the Company's liabilities as at 31 December 2010 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 shares 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 risk

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 management

Management's policy is to maintain a strong capital base in order to preserve the level of trust that 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 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 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 hubbing telephony services based on the new NGN operation of the international network.
- Further expansion of its activities in the markets of the Middle East and North Africa, as well as the effort to attract international Transit traffic for connection in the telecommunication centres in Europe through Greece and the Company's infrastructure.
- Further limitation 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 01/01/2010 - 31/12/2010.
2. Relieve the members of the BoD and the Company's certified auditors from every indemnification liability regarding their actions during the 2010 financial year, 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 2010 and set those for 2011.
4. Appoint Certified Auditors for the current financial year of 2011.

KONSTANTINOS ANDREOU
MANAGING DIRECTOR