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ADMIE Holding

"Full Year 2018 Financial Results"

Conference Call

Friday 29th of March 2019, 15:00 GR Time

Conductors:

Ms. Eleni Zarikou, Chairman of the Board

Conference Call Conducted by Chorus Call Hellas



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OPERATOR: Ladies and Gentlemen, I am Myrto your Chorus Call operator.

Welcome and thank you for joining the ADMIE Holding Conference Call to present and discuss the Full Year 2018 Financial Results.

At this time, I would like to turn the conference over to Ms. Eleni Zarikou, Chairman of the Board of ADMIE HOLDING.

Ms. Zarikou, you may now proceed.

ZARIKOU E: Good afternoon Ladies and Gentlemen and good morning to those of you listening to us across the globe. Welcome to this conference call of ADMIE Holding's Full Year Results. Mr. Kampouris, Vice President of ADMIE Holding, Member of BoD and Chief Officer of IPTO, Mr. Margaris, Executive Vice Chairman, Chief Officer of IPTO and General Manager of Ariadne, Mr. Rousopoulos, Deputy CFO of IPTO and BoD Member of Ariadne, Mr. Zacharopoulos and Mr. Kabouroglou, Director and Head of IPTOs Accounting Department, Mr. Mavronas and Mr. Talias Financial Advisors are next to me.

I will briefly highlight the Financial Performance of ADMIE Holding and its subsidiary IPTO for 2018. As this is only a summary of our results, please refer to the financial statements that are available on the website of this Company, for further details if needed. After the first presentation, our team will be at your disposal for any questions you may have.

Starting the presentation our listed entity ADMIE Holding achieved a net profit of €42.3 million with an increase of 83.4%

compared to last year. Operating expenses stood at €244,000 in 2018 and are mainly payroll costs in comparison to €975,000 last year that reflected ad hoc establishment costs.

The Company's cash results at year-end amounted to €4.8 million and are deposited in Bank of Greece providing an average 3.1% return. Due to active cash management, the financial income amounted to €156,000 partially offsetting the operating expenses. It is worth noting that ADMIE Holding has no debt.

Turning to the Dividend Policy for 2018, the Company distributed the maximum permissible payout of 50% of cash dividend received from IPTO within the year, in the form of an interim dividend. The interim dividend per share amounted to €0.0316. For 2019 ADMIE Holding we distributed the residual amount adjusted to the running cost as a regular dividend.

The proposal by the Board for approval by Shareholders at the Annual General Meeting which will take place on 4th of July is €0.028 per share corresponding to a €6.6 million payout. Similar to 2018, the BoD will propose the distribution of the maximum permissible cash dividend that will benefit from IPTO within the year in the form of an interim dividend. The interim dividend will amount €0.06 per share corresponding to a €13.9 million payout. Both payments regular and interim dividend will take place the same day.

The total dividend distribution is at €0.088 per share and the total payout is €20.5 million, based on the closing price at the end of 2018, this corresponds to a yield of 5.7% and based on yesterday's closing price, this corresponds to a yield of 5.1%.

Now, regarding IPTO, we have been able to deliver a very strong set of numbers. Let me elaborate on the most significant figures. The 2018 revenues from transmission system rent decreased by 6% in comparison to 2017. The settlement amount due to under recovery of revenue in comparison to the required revenue set by RAE2018 will be incorporated in the required revenue of 2020. Other Sales increased by €6.9 million, primarily due to the increase of contractor revenues, regarding contracts with HEDNO a factor that is also reflected in the increased contracting costs. So Total Revenue decreased by 2.8%, €7.3 million in absolute terms.

Operating expenses, excluding depreciation and amortization dropped 21.6% to €6.3 million. The decrease is mainly due a provision release amounting to €26.6 million. More specifically, the Athens Courts of Appeal issued the decision dismissing the lawsuit of a contractor for which a provision was created in 2006. This positive effect was partially reduced by €9.9 million, as a result of a new provision, regarding a defined benefit plan. This amount is calculated in proportion to the years of actual service of the employees that are entitled to retire and leave the Company.

To be noted personnel costs, includes an amount of €1.6 million for a second voluntary exit scheme that will be implemented in 2019. This scheme will include approximately 80 employees with matured retirement right.

One of the factors that led to the Company's strong performance in the net financial expenses is that the net financial expenses are tracking at 73.1% lower than last year,

as a result of the successful implementation of group financial strategy.

More specifically this can be attributed to two factors. Firstly, the financial income rose by €8.4 million, mainly due to the strategic decisions to place a significant part of cash reserves in a special account of Bank of Greece. And secondly, the financial expenses dropped by €9.7 million, reflecting the considerable decrease of the interest rate of IPTO's loan portfolio, as well as, the elimination of PPC debt guarantees.

Moving on, EBITDA increased by €11 million to €183 million. The EBITDA margin stood at 73.4% up 6.4 percentage points from last year. IPTO's operating income amounted to €115.6 million and net profit increased by €23.9 million and amounted to €85.6 million. CAPEX for 2018 amounted to €178 million increasing significantly from €70 million in 2017. It is worth mentioning that IPTO over-achieved their target just for the investments compared to the plan for the first time since the establishment of the Company.

At this point, I would like to highlight the significance of CAPEX for the Company's sustainable development. Since IPTO is compensated based on its regulated asset base, it is highly critical that the CAPEX plan is implemented timely and precisely. Top Management in close co-operation with ADMIE Holding and the strategic investors, State Grid Corporation of China, carry on with the acceleration of the major projects, with an increased focus on island interconnections. IPTOs working assumption is €4 billion investments on a cumulative total until 2027.

The pickup in investments reflects the entry into construction phase following a fast and transparent contracting process, thanks to the use – for the first time – of an e-auction platform for a series of major projects such as: Phases B and C of the Cyclades Interconnection, the Crete-Peloponnese Interconnection and the extension of the 400 KV system of Peloponnese with a contracting of the so-called Corridor A Project. Furthermore, the Company is planning Phase B of the Cyclades Islands Interconnection budgeted at €386 million and has included in the new 10-year network development plan the Dodecanese Interconnection with a cost of approximately €1.5 billion paving the way for a new major island interconnection.

I will close this presentation with a two newly established subsidiaries of IPTO. Firstly, the SPV Ariadne Interconnection was established in September following RAE's relevant decisions. This is the milestone for IPTO as it ensures its participation with a controlling stake in the Company that will finance and construct the Crete-Attica interconnection, a project budgeted at approx. €1 billion. The initial share capital of Ariadne amounts to €200 million. Ariadne has finalized its Organizational Structure and Business Plan. The company has submitted to RAE for approval. The Invitation for expression of interest for the attraction of potential shareholders by acquiring up to 39% of the Company.

Finally, the tenders for the submarine cables and the converter stations will be launched within April. Secondly, I would like to highlight the entry of IPTO into the wholesale market of telecommunications through its new fully-owned subsidiary, Greece Telecom, that was established on January 2019. Greece Telecom through the exploitation of IPTO's overhead and

submarine fiber optic network will provide leased lines of ultra-high speed to domestic and international providers. The company has a 2,500 kilometer fiber optic network, which is expanding rapidly as Islands' interconnections include fiber optics as well.

So, to conclude, looking forward to the future, we maintain a positive view in terms of our growth strategy. Critical success factors for IPTO are the timely implementation of new projects in conjunction with reducing operational expenses and to take advantage of opportunities in non-regulated activities. The purpose is to achieve a steady and sustainable growth in distributable earnings and dividends. And with this, I would like to thank you for participating and we are ready to take any questions you may have.

Q&A

OPERATOR: The first question comes from the line of Carradori, Dario with Edison. Please proceed.

CARRADORI D: Yes, hello, good afternoon. Just a few questions from me. First of all, on the leverage, of course because of the CAPEX plan, the net debt to EBITDA of IPTO will increase over the next 3 years. I was wondering if you have any more details about what could be the leverage and to what level you are comfortable in terms of gearing over the next few years. How you are comfortable to go up to 5 times net debt to EBITDA which is what other regulated utilities have in Europe? And also, in terms of availability of credit, do you have any visibility on potential new loans from various institutions and do you see any issues on this?

Another question on the CAPEX for 2019-2020, do you have any numbers to give me, in terms of 2019-2020 CAPEX. And how much of this CAPEX is contracted, i.e. do you have the good visibility on the amount of CAPEX for 2019-2020. And finally, on the dividend, I think the dividend policy for IPTO is at least 50%. Am I right to assume that as the... you will have a negative cash flow because of the large investments over the next few years, am I right to assume that the payout ratio will stay at around 50% for the, you know, in the medium term? Thank you very much.

ZARIKOU E: So, hello, Dario, this is Eleni speaking. So, if I remember correctly, the first question was submitted to EBITDA. Of course as you know, IPTO is under-leveraged regarding any European peers, so of course we are willing and this is how it will go with this heavy CAPEX program that we will go to 5 times, what we said. So, regarding the second question, regarding any loans we might need in the future, of course, we are in close corporation with local banks and international banks. The same banks we already cooperate of course; we will continue to do so. And yes, this is the other question, regarding the CAPEX, and the future CAPEX; it is already included in our approved 10-year Network Development Plan. So, for 2019, we have a CAPEX of almost €400 million and for 2020 we have CAPEX of €585 million. And regarding the dividend policy of IPTO, it will continue to be a 50% dividend payout.

CARRADORI D: Great. Thank you very much.

ZARIKOU E: You' re welcome.

OPERATOR: The next question comes from the line of Mantzavras, Paris with Pantelakis Securities. Please proceed.

MANTZAVRAS P: Yes, good afternoon. Thanks for taking my questions, Two questions if I may. The first refers to the Crete... the Attica-Crete interconnection, can you give us some color on a) the timeline for the tender for partners, strategic partners in this project the 39% you referred to. And also, can you give us any color on where we stand in the regulatory process for defining the return premium for the specific projects on top of your normal allowed rate of return, so that's the first question on Crete. And the second is mostly a clarification basically. So, just to clarify you said that both the \$0.028 o final dividend for 2018 and \$0.06 of interim dividend for 2019, we will be paid on the same date basically, so we going to have \$0.088 on the single payouts around August, if I'm not mistaken? Thank you.

ROUSOPOULOS I: Okay. This is Iason Rousopoulos.

MANTZAVRAS P: Hi.

ROUSOPOULOS I: Well, for...for the timeline for the...tender for the partners of Ariadne, we plan to launch the expression of interest by May and conclude the whole procedure by September. We are following the procedure that RAE stipulated in decision, the relevant decision and we proceed accordingly.

Concerning the timeframe for the regulatory decision on the revenue and the determination for what premium for Ariadne, we have proposed according to RAE's request, the desired WACC in the premium for the regulatory period until 2021, RAE has decided that IPTO's regulatory period and Ariadne's

regulatory period will follow the same time, and so they will make a regulatory period until 2021, but as you understand because the interconnection will not be electrified before 2022, the only actions will be the determination of the premium. We expect this decision to be issued before we launch the Expression of Interest for the strategic partner before May.

MANTZAVRAS P: I see, yes.

ZARIKOU E: And regarding your second question, it is correct €0.088 will be paid on the same day.

MANTZAVRAS P: Okay. Thank you very much.

ZARIKOU E: You' re welcome.

OPERATOR: The next question comes from the line of Gkonis, Argyris with Axia Ventures. Please proceed.

GKONIS A: Good afternoon from my side as well. One question that I have has to do with how you are going to report Ariadne within your balance sheet, and I am specifically trying to understand where does the investment towards Ariadne stand on the debt. We see on your financials, we see Group net debt at €83 million, while on IPTO level is at higher level essentially reflecting this payout. But going forward, will this payout translate to...will this debt be reflected on a Group level as well or this will remain only on Ariadne?

ZARIKOU E: Okay, so hello. First of all, I assume you are talking about cash now the 83 and the 283 of 2018.

GKONIS A: Yes.

ZARIKOU E: Okay, so this year...we had...the Company financial statement and Group financial statement. Going forward, looking towards the debt, I am sorry, excuse me for one minute, so excuse us, we had a little dialogue. I assume the question, the answer is simple, Ariadne will be consolidated as in 2018, regardless the (nature of the transactions, and as far as the accounting treatment in our balance sheet and in our P&L...

GKONIS A: No, I mean...

ZARIKOU E: Ariadne, we will have the launch because we will take the launch of the Company, because since by RAE the one that will finance the project, Ariadne. So in a Group level, of course, the financial statements will be consolidated at this year.

GKONIS A: Okay. So any debt related to Ariadne project will not be included at... initially on the parent company?

ZARIKOU E: No, debt will only be included in Ariadne because.... according to RAE's decision.

GKONIS A: Okay, and then the asset base that Ariadne will build going forward, how...when is this going to be incorporated, it will be one off, it will be gradually to the Parent company?

ZARIKOU E: Can you please elaborate more, what will be gradually incorporated in the Parent company?

GKONIS A: The asset that Ariadne will be building the...

ZARIKOU E: Well, the asset will remain under IPTO levels from the beginning will never go to Ariadne if this is what you were asking.

GKONIS A: Okay. So from when the asset is going to start developed, it will be under IPTO not on the subsidiary.

ZARIKOU E: Exactly, and the subsidiary will have only an intangible asset as a right to exploit let's say...the asset, because IPTO is the owner of the asset, it will be from scratch to IPTO level.

GKONIS A: Okay that's clear, thank you.

ZARIKOU E: You' re welcome.

OPERATOR: We have a follow-up question from the line of Mantzavras, Paris with Pantelakis Securities. Please proceed.

MANTZAVRAS P: Yes, hi, a follow-up question on the adoption of the IFRS16 accounting standard on leases...basically bringing leases on balance sheet. I can see from the notes that this, if I am not mistaken, will increase debt by something like €700 million. If I am not mistaken, could you please quantify the effect on the EBITDA or depreciation and financial expenses going forward? Thank you.

ZARIKOU E: Excuse me; can you elaborate a little more in which notes do you see? Right now, I think...

MANTZAVRAS P: It's on Page 50 of your detailed financial report 50, we have a discussion on the adoption of IFRS16 the single accounting standards basically bringing on balance sheet some previously off balance sheet operating leases. And the question basically

refers to what's going to be the impact of that on the P&L because if I understand correctly, the impact will be that you will be recording extra assets on your balance sheet and obviously the extra lease liabilities.

And if I am not mistaken at the top of Page 21 of your Financial Release, the IPTO Financial Release basically, not the Holding, this is going to be something like €700 million? So obviously, typically you would expect EBITDA to increase by a significant amount also because some of the rentals will not be recorded as operating expenses, and at the same time we should expect depreciation and financial cost to go up. So basically the impact would be more or less zero at the bottom line of the P&L. But typically these new accounting standards tends to inflate EBITDA and at the same time increase the depreciation and financial expenses.

ZARIKOU E: Okay, so Paris we do not have the exercise right now.

MANTZAVRAS P: Okay we can take that offline, no worries.

ZARIKOU E: Okay. And we can send you an email with an answer.

MANTZAVRAS P: Of course. Thank you very much.

ZARIKOU E: Thank you, bye.

OPERATOR: Ladies and Gentlemen, there are no further questions at this time. I will now turn the conference over to Ms. Zarikou, for any closing comments. Thank you.

ZARIKOU E: Thank you very much for the participation.