

Overview

We are a global leader in the supply of integrated gaming systems and services. We design, develop, operate and support customized software and hardware for the gaming industry and provide innovative technology and services to state and state-licensed lottery and gaming organizations worldwide. Since our establishment more than 20 years ago, we have developed innovative technological and operating know-how and experience, which are central to maintaining our existing customer relationships as well as winning new contracts. Our long-standing relationships with our customers give us valuable insight into their strategic and other business needs. We operate a diversified and stable portfolio in 55 jurisdictions worldwide. Our business activities range from the provision of customized gaming platforms to full management of end-to-end gaming operations either for our own or other licensed operations, depending upon the market in which we operate. Our games library includes more than 550 games, including lotteries, sports betting, Video Lottery Terminals (VLTs)/Amusement with Prizes machines (AWPs) and racing.

In the twelve months period ended September 30, 2016, we had revenue of €1.298,0 million and EBITDA of €167,4 million on a fully consolidated and continuing basis for entities that we control, although we may have minority ownership in some such subsidiaries. In addition, in the twelve months ended September 30, 2016, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 6,8%, 2,7%, 35,5%, 42,0% and 13,0% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the nine months period ended September 30, 2015 with the nine months period ended September 30, 2016

Overview

The following table sets forth our operating results for the nine months period ended September, 2016 and 2015.

Income Statement Information (€ in millions) (unaudited)	nine months ended		% change
	September 30, 2015	September 30, 2016	
Revenue	895,0	957,5	7,0%
Less: Cost of sales	-726,8	-789,2	8,6%
Gross profit	168,2	168,3	0,1%
Other operating income	17,0	14,3	-15,9%
Selling expenses	-37,3	-39,9	7,0%
Administrative expenses	-66,6	-64,2	-3,6%
Research and development expenses	-5,3	-4,1	-22,6%
Other operating expenses	-3,8	-1,7	-55,3%
EBIT	72,2	72,7	0,7%
EBITDA	121,0	123,9	2,4%
Income/(expenses) from participations and investments	-0,1	-2,1	n/a
Gain/(loss) from assets disposal, impairment and write-off	0,2	-1,8	n/a
Interest and similar expenses	-51,3	-54,8	6,8%
Interest and related income	11,3	8,0	-29,2%
Exchange differences	1,3	-1,6	n/a
Profit/(loss) equity method consolidation	-2,8	-2,6	-7,1%
Operating profit/loss before tax	30,8	17,8	-42,2%
Less: taxes	-33,7	-21,7	-35,6%
Net profit/loss from continuing operations (a)	-2,9	-3,9	34,5%
Net Profit / Loss from Discontinued Operations (b) ¹	-13,7	36,3	n/a
Net Profit /Loss after taxes (Continuing and Discontinued Operations) (a) + (b)	-16,6	32,4	n/a

¹ The Group's activities in Italy as well as those of Intralot de Peru SAC are presented as discontinued operations pursuant to IFRS 5 (see note 2.19.A.VIII of Interim Financial Statements of 30/9/2016), following the agreement to merge Intralot's local operations in Italy with those of Gamenet and the agreement with Nexus for the sale of 80% of Intralot de Peru SAC.

Sales Overview

Total revenue increased by €62,5 million, or 7,0%, from €895 million in the nine months period ended September 30, 2015 to €957,5 million in the nine months period ended September 30, 2016. This increase was driven by increased revenue in our technology and support services line and management contracts segments.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the nine months period ended September 30, 2016 and 2015.

Revenue by Business Activity (€ in millions) (unaudited)	nine months ended September 30,		% change
	2015	2016	
Technology and support services	145,1	160,3	+10,47%
Management contracts	68,9	82,2	+19,30%
Licensed operations	681,0	715,0	+5,00%
Total	895	957,5	+7,00%

Revenue in our technology and support services line increased by €15,2 million, or 10,5%, from €145,1 million in the nine months period ended September 30, 2015 to €160,3 million in the Nine months period ended September 30, 2016. This increase was primarily due to an increase in our revenues in the United States by €20,9 million (positively affected by the sale of multi-play self-service lottery terminals in Ohio in the first half of 2016) and an increase in Australia by €5,1 million from our monitoring services in Victoria, which was partially offset by €3,5 million lower revenues in Argentina (mainly due to a negative FX impact), €4,1 million lower revenues in Malaysia (due to one-off IT sales in the first half of 2015) and €4,3 million lower revenues from the Hellenic Lotteries (due to one-off sales of equipment in the first half of 2015).

Revenue in our management contracts activity line increased by €13,3 million, or 19,3%, from €68,9 million in the nine months period ended September 30, 2015 to €82,2 million in the nine months period ended September 30, 2016. This increase was primarily due to an increase in revenues of €11,2 million in Turkey (positively affected by the UEFA EURO 2016 Championship and the new Football Leagues that enriched the match program of the sports betting game) and increased revenues of €1,9 million in Morocco (positively affected by the UEFA EURO 2016 Championship, which increased sports betting sales).

Revenue in our licensed operations activity line increased by €34,0 million, or 5,0%, from €681,0 million in the nine months period ended September 30, 2015 to €715,0 million in the nine months period ended September 30, 2016. This increase was primarily due to higher revenues of €100,8 million in Bulgaria (from increased sports betting revenues and the consolidation of the recently acquired Bulgarian lottery company Eurobet in 3Q16) and higher revenues in Malta and Cyprus of €7,3 million and €3,1 million respectively. Revenue increase was partially offset by lower revenues of €50,7 million in Azerbaijan (where the local currency suffered severe devaluations last year), lower revenues of €11,4 million in Jamaica (mainly due to a negative foreign exchange impact), lower revenues of €11,7 million in our operations in the province of Salta in Argentina (mainly due to a negative foreign exchange impact) and lower revenues of €3,7 million in Brazil (negatively affected by the economic conditions in the country).

Gross Profit Margin

The Gross profit margin was shaped at 17,6% in the nine months period ended September 30, 2016 from 18,8% in the nine months period ended September 30, 2015, negatively affected mainly by a margin contraction in Bulgaria & Azerbaijan (due to a higher payout) and Turkey, partially counterbalanced by margin expansion in the US. The payout ratio in the nine months period ended September 30, 2016 increased by 3,7ppt vs. payout in the nine months period ended September 30, 2015.

Other Operating Income

Other operating income decreased by €2,7 million, or 15,9%, from €17,0 million in the nine months period ended September 30, 2015 to €14,3 million in the nine months period ended September 30, 2016. The major drivers of this decrease were the non-recurring income in Australia due to the operations sale in the second quarter of 2015 (€3,6 million) and negative FX impact (€1,0 million), partially offset by improved operations in Turkey (€1,7million) and the growth in instant ticket services of our US operations (€1,4 million).

Selling Expenses

Selling expenses increased by €2,6 million, or 7,0%, from €37,3 million in the nine months period ended September 30, 2015 to €39,9 million in the nine months period ended September 30, 2016. This increase was primarily due to higher advertising costs in Turkey partially offset by lower spending in Azerbaijan.

Administrative Expenses

Administrative expenses decreased by 2,4 million, or 3,6%, from €66,6 million in the nine months period ended September 30, 2015 to €64,2 million in the nine months period ended September 30, 2016. This decrease was primarily due to lower costs in Jamaica, Brazil and Australia.

Research and Development Expenses

Research and development expenses decreased by 1,2 million, or 22,6%, from €5,3 million in the nine months period ended September 30, 2015 to €4,1 million in the nine months period ended September 30, 2016. This decrease was primarily due to lower administrative R&D expenses in Greece.

Other Operating Expenses

Other operating expenses decreased by €2,1 million, or 55,3%, from €3,8 million in the nine months period ended September 30, 2015 to €1,7 million in the nine months period ended September 30, 2016. This decrease was primarily due to the non-recurring lottery license fees in Australia since the license sold in the second quarter of 2015, as well as the one-off tax penalties in Romania charged in the nine months period ended September 30, 2015, that were partially offset by the higher provisions and write-offs for doubtful receivables in the nine months period ended September 30, 2016.

EBITDA

As a result of the above, EBITDA increased by €2,9 million, or 2,4%, from € 121 million in the nine months period ended September 30, 2015 to €123,9 million in the nine months period ended September 30, 2016. EBITDA margin decreased from 13,5% in the nine months period ended September 30, 2015 to 12,9% in the nine months period ended September 30, 2016.

Income / (expenses) from participations and investments

Income / (expenses) on participations and investments increased by € 2,0 million, from expenses of €0,1 million in the nine months period ended September 30, 2015 to expenses of €2,1 million in the nine months period ended September 30, 2016. This increase was primarily due to lower dividends income and higher net loss from sale of participations and securities in the nine months period ended September 30, 2016.

Gain/(loss) from assets disposal, impairment and write-off

Gain/(loss) from assets disposal, impairment and write-off decreased by €2,0 million, from a gain €0,2 million in the nine months period ended September 30, 2015 to a loss €1,8 million in the nine months period ended September 30, 2016. This decrease was primarily due to the lower impairment loss in the nine months period ended September 30, 2016, as well as the one-off gain from assets sale in Australia in the nine months period ended September 30, 2015 compared to the one-off loss from the asset sale in Bulgaria in the nine months period ended September 30, 2016.

Interest and Similar Expenses

Interest and similar expenses increased by €3,5 million, or 6,8%, from €51,3 million in the nine months period ended September 30, 2015 to €54,8 million in the nine months period ended September 30, 2016. This increase was primarily due to 2018 Notes redemption costs, partially offset by savings from bond buybacks.

Interest and Related Income

Interest and related income decreased by €3,3 million, or 29,2%, from €11,3 million in the nine months period ended September 30, 2015 to €8 million in the nine months period ended September 30, 2016, due to lower interest income on bank deposits in the nine months period ended September 30, 2016.

Profit/(loss) from equity method consolidations

In the nine months period ended September 30, 2015 we had a net loss from equity method consolidations of €2,8 million from net loss € 2,6 million in the nine months period ended September 30, 2016, mainly derived from of our associate companies in Asia.

Operating Profit before Tax

As a result of the above and due to exchange differences from a gain of €1,3 million in the nine months period ended September 30, 2015 to a loss of €1,6 million in the nine months period ended September 30, 2016 and increased depreciation and amortization by €2,4 million, operating profit before tax decreased by €13,0 million, or 42,2%, from €30,8 million in the nine months period ended September 30, 2015 to €17,8 million in the nine months period ended September 30, 2016.

Taxes

Taxes decreased by €12,0 million, or 35,6%, from €33,7 million in the nine months period ended September 30, 2015 to €21,7 million in the nine months period ended September 30, 2016. This decrease was primarily due to the lower taxable profits in Azerbaijan and Turkey in the nine months period ended September 30, 2016 as well as to one-off income tax charges in Romania in the nine months period ended September 30, 2015.

Net Profit/(Loss) from Continuing Operations (a)

As a result of the above, net profit/loss from continuing operations decreased by €1,0 million, from a loss of €2,9 million in the nine months period ended September 30, 2015 to a loss of €3,9 million in the nine months period ended September 30, 2016.

Net Profit/(Loss) from Discontinued Operations (b)

Net profit /(loss) from discontinued operations in Italy and Peru increased by €50,0 million, from a loss of €13,7 million in the nine months period ended September 30, 2015 to a profit of €36,3 million in the nine months period ended September 30, 2016. In the nine months period ended September 30, 2016 a non-recurring gain from Italian operations merger amounting to €45,2 million is included.

Net Profit/(Loss) from Continuing and Discontinued Operations (a) + (b)

As a result of the above, net income from total operations (continuing and discontinued) increased by €49,0 million, from a loss of €16,6 million in the nine months period ended September 30, 2015 to a profit of €32,4 million in the nine months period ended September 30, 2016.

Net Income Attributable to Owners of the Parent

After deducting minority interests, net income attributable to the owners of the parent increased by €52,2 million, from a loss of €50,4 million in the nine months period ended September 30, 2015 to a profit of €1,8 million in the nine months period ended September 30, 2016.

Net Cash Flows from total operations (continuing and discontinued)

Net Cash from Operating Activities

Net cash from operating activities comprises net profit before tax adjusted for working capital, cash taxes as well as certain non-cash items such as provisions and depreciation.

Cash inflows from operating activities increased by €56,3 million, or 86,8%, from €64,8 million in the nine months period ended September 30, 2015 to €121,1 million in the nine months period ended September 30, 2016. This decrease was primarily driven by the following:

- net profit before taxation from total operations (continuing and discontinued) increased by €37,6 million, or 210,1%, from €17,9 million in the nine months period ended September 30, 2015 to €55,5 million in the nine months period ended September 30, 2016 as described above;
- depreciation and amortization decreased by 4,5% from €71,9 million in the nine months period ended September 30, 2015 to €68,7 million in the nine months period ended September 30, 2016.
- the effect of provisions on cash flow was positive €3,4 million in the nine months period ended September 30, 2015 and positive €2,9 million in the nine months period ended September 30, 2016.
- the effect of results from investing activities on cash flow was positive €0,6 million in the nine months period ended September 30, 2015 and negative €37,3 million in the nine months period ended September 30, 2016, including non-recurring gain from Italian operations merger amounting to €45,2 million.
- changes in our working capital, which led to a cash inflow of €2,9 million in the nine months period ended September 30, 2016, compared with a cash outflow of €46,8 million in the nine months period ended September 30, 2015;
 - In particular, there was a decrease of €1,6 million in inventories in the nine months period ended September 30, 2016, compared to a decrease of €0,8 million in the nine months period ended September 30, 2015.
 - also there was an increase of €3,3 million in receivables in the nine months period ended September 30, 2016, compared to an increase of €23,0 million in the nine months period ended September 30, 2015.
 - also there was an increase of €4,6 million in payables towards our suppliers in the nine months period ended September 30, 2016 compared to a decrease of €24,7 million in the nine months period ended September 30, 2015; and
- income tax paid decreased by 14,9% from €22,8 million in the nine months period ended September 30, 2015 to €19,4 million in the nine months period ended September 30, 2016.

Net Cash from Investing Activities

Cash flow from investing activities generally consists of cash outflows for investments in tangible and intangible assets as well as interest and dividends received.

In the nine months period ended September 30, 2016, net cash outflows from investing activities was €70,4 million, which was an increase of €31,9 million, or 82,8%, from outflows of €38,5 million in the nine months period ended September 30, 2015. This increase is attributable to an outflow of €32,7 million for (Purchases) / Sales of subsidiaries, associates, joint ventures and other investments in the nine months period ended September 30, 2016 mainly due to the Italian operations merger and Eurobet acquisition in Bulgaria, compared to an inflow of €2,8 million in the respective period of 2015, to an inflow of €2,5 million for proceeds from sales of tangible and intangible assets in the nine months period ended September 30, 2016 in connection with the assets sold in Bulgaria, compared to an inflow of €1,7 million in the respective period of 2015 in connection with the assets sold in Australia in 2015, to an inflow of €5,9

million for interest received in the nine months period ended September 30, 2016, compared to an inflow of €10,6 million in the respective period of 2015, to an inflow of €1,0 million for dividends received in the nine months period ended September 30, 2016, compared to an inflow of €1,9 million in the respective period of 2015 and to lower capital expenditures, as mentioned below.

Our capital expenditure in the nine months period ended September 30, 2016 reached €47,2 million while in the nine months period ended September 30, 2015 reached €55,5 million. Major capital expenditure items in the nine months period ended September 30, 2016 include investments in our business in US of €10,5 million, in Chile €4,9 million and R&D of €5,2 million.

Net Cash from Financing Activities

Net cash from financing activities comprises net cash proceeds from financing arrangements as well as payment of cash interest and the payment of dividends to our shareholders or to minority interests.

In the nine months period ended September 30, 2016, net cash inflows from financing activities was €75,9 million, compared to net cash outflows of €152,0 million in the nine months period ended September 30, 2015. This increase of net cash inflows from financing activities consisted of €212,7 million increase in net cash inflows from financing arrangements mainly due to the issuance of the new 2021 Notes in 3Q16 that partially repaid 2018 Notes, lower interest payments by €0,6 million in the nine months of 2016, as well as lower dividends distribution, in the nine months of 2016, to minority interests amounting to €18,4 million and the non-recurring capital return, in the nine months of 2016, to minority interests amounting to €3,4 million.