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 March 31, 2017, we had revenue of €1.386,5 million and EBITDA of €177,8 million on a fully consolidated and continuing basis for entities that we control, although we have minority ownership in some such subsidiaries. In addition, in the twelve months ended March 31, 2017, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 6,6%, 2,5%, 38,1%, 40,2% and 12,6% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the three months period ended March 31, 2016 with the three months period ended March 31, 2017

Overview

The following table sets forth our operating results for the three months period ended March 31, 2017 and 2016.

Income Statement Information (€ in millions) (unaudited)	three months ended March 31, 2016	2017	% change
Revenue	305,0	367,9	20,6%
Less: Cost of sales	-246,0	-304,7	23,9%
Gross profit	**59,0**	**63,2**	**7,1%**
Other operating income	6,3	4,2	-33,3%
Selling expenses	-13,5	-14,2	5,2%
Administrative expenses	-21,0	-21,9	4,3%
Research and development expenses	-1,8	-1,7	-5,6%
Other operating expenses	-0,7	-0,3	-57,1%
EBIT	**28,3**	**29,3**	**3,5%**
EBITDA	**44,6**	**46,5**	**4,3%**
Income/(expenses) from participations and investments	1,1	0,5	-54,6%
Gain/(loss) from assets disposal, impairment and write-off	-0,1	-0,1	0,00%
Interest and similar expenses	-17,4	-13,1	-24,7%
Interest and related income	3,2	1,8	-43,8%
Exchange differences	-3,6	0,8	n/a
Profit/(loss) equity method consolidation	-0,9	-1,2	33,3%
Operating profit/loss before tax	**10,6**	**18,0**	**69,8%**
Less: taxes	-8,9	-10,7	20,2%
Net profit/loss from continuing operations (a)	**1,7**	**7,3**	**329,4%**
Net Profit / Loss from Discontinued Operations (b) [1]	-2,5	-0,2	-92,0%
Net Profit /Loss after taxes (Continuing and Discontinued Operations) (a) + (b)	**-0,8**	**7,1**	**n/a**

[1] The activities of Group subsidiaries in Italy and those of Intralot de Peru SAC and Favorit Bookmakers Office OOO are presented as discontinued operations pursuant to IFRS 5 (note 2.20.A.VIII of interim financial statements of 31/3/2017)

Sales Overview

Total revenue increased by €62,9 million, or 20,6%, from €305 million in the three months period ended March 31, 2016 to €367,9 million in the three months period ended March 31, 2017. This increase was mainly driven by increased revenue in licensed operations segment.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the three months period ended March 31, 2017 and 2016.

Revenue by Business Activity (€ in millions) (unaudited)	three months ended March 31, 2016	three months ended March 31, 2017	% change
Licensed operations [1]	224,5	286,3	+27,5%
Management contracts	29,1	28,6	-1,7%
Technology and support services [1]	51,4	53,0	+3,1%
Total	**305,0**	**367,9**	**+20,6%**

[1] INTRALOT Australia from 1Q17 onwards has been re-classed under "Technology and support services" from "Licensed operations" previously.

Revenue in our licensed operations activity line increased by €61,8 million, or 27,5%, from €224,5 million in the three months period ended March 31, 2016 to €286,3 million in the three months period ended March 31, 2017. The increase is attributed to higher revenues in Bulgaria (€+26,6 million, in part due to Eurobet's first time consolidation with revenues of €15,8 million), Poland (€+3,7 million), Azerbaijan with additional revenues of €14,0 million following its strong performance, and Jamaica (+€13,8 million) as a result of the improved performance of its Numerical games portfolio.

Revenue in our management contracts activity line decreased by €0,5 million, or 1,7%, from €29,1 million in the three months period ended March 31, 2016 to €28,6 million in the three months period ended March 31, 2017. The decrease was mainly affected by the performance of Russia (€-0,8 million), with Morocco top line increase acting as a counterweight (€+0,6 million).

Revenue in our technology and support services line increased by €1,6 million, or 3,1%, from €51,4 million in the three months period ended March 31, 2016 to €53,0 million in the three months period ended March 31, 2017. This increase was mainly due to INTRALOT's new contract in Chile with revenues of €+1,4 million, the increased revenues in Argentina (up by €+1,3 million), the Netherlands (€+0,4 million) as well as the positive effect of our contracts in Kenya (€+0,2 million) and Peru (€+0,3 million) following the recent M&A transaction; the effect was partially counterbalanced by a revenue contraction, by €-3,4 million, in our US operations driven by last year's record Powerball jackpot in 1Q16. From the posted increase, €0,4 million is attributable to the reclassification of INTRALOT Australia from the prior characterization as "Licensed operations" to "Technology and support services" from 1Q17 onwards.

Gross Profit Margin

The Gross profit margin was shaped at 17,2% in the three months period ended March 31, 2017 from 19,3% in the three months period ended March 31, 2016, negatively affected primarily by the top line product mix change compared to last year (1Q16 had larger B2B/B2G contribution). In more detail, the Gross profit margin deficit is mainly driven by the payout uplift (-4,4pps due to payout ratio uplift in Bulgaria, Jamaica and Poland, in part counterbalanced by the payout contraction in Azerbaijan) and increased tax and agent commission costs (-0,7pps) in part offset by containment of the other CoS items (+3,0pps) which are less sensitive to revenue uplift. Overall, Gross Profit increased by 7,3% (€4,2 million) compared to the 1Q16 levels. Adjusting for Eurobet and the Chilean contract, Gross Profit increased by €1,0 million (1,7%).

Other Operating Income

Other operating income decreased by €2,1 million, or 33,3%, from €6,3 million in the three months period ended March 31, 2016 to €4,2 million in the three months period ended March 31, 2017. The major driver of this decrease was a provision reversal related to a litigation case about stamp duty in Turkey, as well as the higher reversals of doubtful provisions in the first quarter of 2016.

Selling Expenses

Selling expenses increased by €0,7 million, or 5,2%, from €13,5 million in the three months period ended March 31, 2016 to €14,2 million in the three months period ended March 31, 2017. This increase was primarily due to higher advertising costs in Turkey.

Administrative Expenses

Administrative expenses increased by 0,9 million, or 4,3%, from €21,0 million in the three months period ended March 31, 2016 to €21,9 million in the three months period ended March 31, 2017. This increase was primarily due to higher costs in USA.

Research and Development Expenses

Research and development expenses decreased by 0,1 million, or 5,6%, from €1,8 million in the three months period ended March 31, 2016 to €1,7 million in the three months period ended March 31, 2017. This slight decrease was primarily due to lower administrative R&D expenses in Greece.

Other Operating Expenses

Other operating expenses decreased by €0,4 million, or 57,1%, from €0,7 million in the three months period ended March 31, 2016 to €0,3 million in the three months period ended March 31, 2017. This decrease was primarily due to lower provisions and write-offs for doubtful receivables in the three months period ended March 31, 2017.

EBITDA

As a result of the above, EBITDA increased by €1,9 million, or 4,3%, from €44,6 million in the three months period ended March 31, 2016 to €46,5 million in the three months period ended March 31, 2017 while EBITDA margin decreased from 14,6% in the three months period ended March 31, 2016 to 12,6% in the three months period ended March 31, 2017, as a result of the product mix change and last year's Powerball effect.

Income / (expenses) from participations and investments

Income / (expenses) on participations and investments decreased by €0,6 million, from income of €1,1 million in the three months period ended March 31, 2016 to income of €0,5 million in the three months period ended March 31, 2017. This decrease was primarily due to higher losses from investments and securities in the three months period ended March 31, 2017.

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

Gain/(loss) from assets disposal, impairment and write-off remained relatively unchanged in the three months period ended March 31, 2017.

Interest and Similar Expenses

Interest and similar expenses decreased by €4,3 million, or 24,7%, from €17,4 million in the three months period ended March 31, 2016 to €13,1 million in the three months period ended March 31, 2017. This decrease was primarily due to lower interest expenses following the 2018 Notes refinancing, as well as to lower LG costs in the three months period ended March 31, 2017.

Interest and Related Income

Interest and related income decreased by €1,4 million, or 43,8%, from €3,2 million in the three months period ended March 31, 2016 to €1,8 million in the three months period ended March 31, 2017, due to lower interest income on bank deposits in the three months period ended March 31, 2017.

Profit/(loss) from equity method consolidations

In the three months period ended March 31, 2016 we had a net loss from equity method consolidations of €0,9 million, compared to a net loss €1,2 million in the three months period ended March 31, 2017, 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 loss of €3,6 million in the three months period ended March 31, 2016 to a gain of €0,8 million in the three months period ended March 31, 2017 and increased depreciation and amortization by €0,9 million, operating profit before tax increased by €7,4 million, or 69,8%, from a profit of €10,6 million in the three months period ended March 31, 2016 to a profit of €18,0 million in the three months period ended March 31, 2017.

Taxes

Taxes increased by €1,8 million, or 20,2%, from €8,9 million in the three months period ended March 31, 2016 to €10,7 million in the three months period ended March 31, 2017. This increase was primarily due to the higher taxable profits in Greece and Azerbaijan in the three months period ended March 31, 2017.

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

As a result of the above, net profit/loss from continuing operations increased by €5,6 million, or 329,5%, from a profit of €1,7 million in the three months period ended March 31, 2016 to a profit of €7,3 million in the three months period ended March 31, 2017.

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

Net profit /(loss) from discontinued operations in Italy, Peru and Russia improved by €2,3 million, from a loss of €2,5 million in the three months period ended March 31, 2016 to a loss of €0,2 million in the three months period ended March 31, 2017.

Analysis of discontinued operations:

A) Italy

In 2Q2016 the Group signed an agreement, with Trilantic Capital Partners Europe, the main shareholder of Gamenet S.p.A in Italy, concerning the merge of the Group activities in Italy into those of Gamenet, one of the largest network concessionaires of VLT, AWP, betting and online gaming in the country. Following this merger, the Group now participates with 20% in the combined operation, with a network of approximately 750 betting POS, which will continue to use INTRALOT's brand name, approximately 8.200 VLTs, over 50.000 AWPs and more than 60 gaming halls owned by the company.
Below are presented the results of discontinued operations of the Group subsidiaries in Italy for the first quarter of 2016 (in 2016 they were consolidated with the full consolidation method until 27/6/2016):

	1/1-31/3/2016
Sale proceeds	164,3
EBITDA	**4,1**
Profit/(loss) after tax	**-3,3**
Gain/(loss) from disposal of discontinued operations	0,0
Profit/(loss) after tax from discontinued operations	**-3,3**

Since the end of June, the Group consolidates 20% of the combined operation with the equity method.

B) Peru

In 4Q2016 the Group finalised the sale of an 80% stake in Intralot de Peru S.A.C., its 100% owned subsidiary in Peru, to Nexus Group. After the completion of the transaction the Group will continue to be the company's technological provider. Intralot de Peru S.A.C. operates numerical games and sports betting in the country through a network of 3.700 POS and the Internet. The agreement is in line with the Group's strategy to create, in selected countries, strategic partnerships with strong local partners that offer substantial synergies and local market know-how, strengthening the development of the local companies.
Below are presented the results of discontinued operations of the Group in Peru (Intralot de Peru S.A.C.) for the first quarter of 2016 (in 2016 they were consolidated with the full consolidation method until 24/11/2016):

	1/1-31/3/2016
Sale proceeds	30,3
EBITDA	**2,8**
Profit/(loss) after tax	**1,2**
Gain/(loss) from disposal of discontinued operations	0,0
Corresponding tax	0,0
Profit/(loss) after tax from discontinued operations	**1,2**

C) Russia

In December 2016, the Group definitively decided to discontinue its activities regarding the betting services provided through its subsidiary Favorit Bookmakers Office OOO in Russia.
Below are presented the results of discontinued operations of the Group in Russia (Favorit Bookmakers Office OOO) for the first quarter of 2017 and 2016:

	1/1-31/3/2017	1/1-31/3/2016
Sale proceeds	0	0
EBITDA	**-0,1**	**-0,1**
Profit/(loss) after tax from discontinued operations	**-0,2**	**-0,3**

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 €7,9 million, from a loss of €0,8 million in the three months period ended March 31, 2016 to a profit of €7,1 million in the three months period ended March 31, 2017.

Net Income Attributable to Owners of the Parent

After deducting non-controlling interests, net income attributable to the owners of the parent improved by €6,5 million, from a loss of €12,0 million in the three months period ended March 31, 2016 to a loss of €5,5 million in the three months period ended March 31, 2017.

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 decreased by €2,0 million, or 4,8%, from €41,2 million in the three months period ended March 31, 2016 to €39,2 million in the three months period ended March 31, 2017. This decrease was primarily driven by the following:

- net profit before taxation from total operations (continuing and discontinued) increased by €9,4 million, or 110,6%, from €8,5 million in the three months period ended March 31, 2016 to €17,9 million in the three months period ended March 31, 2017 as described above;
- depreciation and amortization decreased by 30,4% from €24,7 million in the three months period ended March 31, 2016 to €17,2 million in the three months period ended March 31, 2017, mainly due to discontinued operations in Italy and Peru.
- the effect of provisions on cash flow was positive €1,2 million in the three months period ended March 31, 2016 and positive €0,5 million in the three months period ended March 31, 2017.
- the effect of results from investing activities on cash flow was positive €3,2 million in the three months period ended March 31, 2016 and negative €0,2 million in the three months period ended March 31, 2017.
- changes in our working capital, which led to a cash outflow of €0,9 million in the three months period ended March 31, 2017, compared with a cash outflow of €2,9 million in the three months period ended March 31, 2016;

- In particular, there was an increase of €0,2 million in inventories in the three months period ended March 31, 2017, compared to a decrease of €1,9 million in the three months period ended March 31, 2016.

- also there was a decrease of €1,7 million in receivables in the three months period ended March 31, 2017, compared to an increase of €6,7 million in the three months period ended March 31, 2016.

- also there was a decrease of €2,4 million in payables towards our suppliers in the three months period ended March 31, 2017 compared to an increase of €1,9 million in the three months period ended March 31, 2016; and

- income tax paid decreased by 15,3% from €7,8 million in the three months period ended March 31, 2016 to €6,6 million in the three months period ended March 31, 2017.

On a pro-forma basis, i.e., excluding the operating cash-flow contribution of our discontinued operations in Italy and Peru in 1Q16 (€7,0 million), there is a significant improvement (€39,1 million vs. €34,2 million pro-forma) driven by the better EBITDA performance, the less taxes and the improved working capital vs. last year.

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 three months period ended March 31, 2017, net cash outflows from investing activities was €26,3 million, which was an increase of €15,9 million, or 152,9%, from outflows of €10,4 million in the three months period ended March 31, 2016. This increase is mainly attributable to higher outflow of €13,4 million for capital expenditure, higher outflow of €2,1m million for (Purchases)/Sales of subsidiaries, associates, joint ventures and other investments in the three months period ended March 31, 2017 (mainly due to Eurobet acquisition in Bulgaria), and lower inflow of €0,4 million for interest received due to lower bank deposits.

Our capital expenditure in the three months period ended March 31, 2017 reached €24,7 million while in the three months period ended March 31, 2016 reached €11,3 million. Major capital expenditure items in the three months period ended March 31, 2017 include payments of €11,7 million for Amelco betting platform, investments in R&D (including Competence Centers) of €5,8 million, investments in our business in Jamaica of €2,1 million, in USA €0,7 million and Argentina of €0,7 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 three months period ended March 31, 2017, net cash outflows from financing activities was €14,6 million, compared to net cash outflows of €42,9 million in the three months period ended March 31, 2016. This decrease of net cash outflows from financing activities consisted of €23,8 million inflow in net cash flows from financing arrangements mainly due to a drawdown of €10,0 million of syndicated facility and €2,8 million of local facility in Jamaica in 1Q2017 and a higher repayment of €10,8 million of local facilities in USA and Netherlands in 1Q2016, lower interest payments by €5,9 million in the three months of 2017 due to refinancing of 2018 Notes, as well as higher dividends distribution, in the three months of 2017, to minority interests amounting to €1,4 million.