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 52 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 June 30, 2017, we had revenue of €1.419,9 million and EBITDA of €179,0 million on continuing basis for entities that we consolidate, though we have minority ownership in some of such subsidiaries. In addition, in the twelve months ended June 30, 2017, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 6,2%, 2,5%, 37,7%, 40,1% and 13,5% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the six months period ended June 30, 2016 with the six months period ended June 30, 2017

Overview

The following table sets forth our operating results for the six months period ended June 30, 2017 and 2016.

Income Statement Information (€ in millions) (unaudited)	six months ended June 30, 2016	2017	% change
Revenue	636,9	733,2	15,1%
Less: Cost of sales	-517,7	-606,2	17,1%
Gross profit	**119,2**	**127,0**	**6,5%**
Other operating income	10,2	8,8	-13,7%
Selling expenses	-27,4	-29,4	7,3%
Administrative expenses	-41,8	-45,3	8,4%
Research and development expenses	-2,7	-2,7	-
Other operating expenses	-1,4	-1,9	35,7%
EBIT	**56,1**	**56,5**	**0,7%**
EBITDA	**89,0**	**92,2**	**3,6%**
Income/(expenses) from participations and investments	-1,3	0,9	n/a
Gain/(loss) from assets disposal, impairment and write-off	-1,8	-1,0	-44,4%
Interest and similar expenses	-34,1	-27,2	-20,2%
Interest and related income	6,2	3,6	-41,9%
Exchange differences	-3,0	-4,2	40,0%
Profit/(loss) equity method consolidation	-1,8	-2,0	11,1%
Operating profit/(loss) before tax	**20,3**	**26,6**	**31,0%**
Less: taxes	-15,3	-17,5	14,4%
Net profit/(loss) from continuing operations (a)	**5,0**	**9,1**	**82,0%**
Net Profit / (loss) from Discontinued Operations (b) [1]	34,6	-12,1	n/a
Net Profit /(Loss) after taxes (Continuing and Discontinued Operations) (a) + (b)	**39,6**	**-3,0**	**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 30/6/2017)

Sales Overview

Total revenue increased by €96,3 million, or 15,1%, from €636,9 million in the six months period ended June 30, 2016 to €733,2 million in the six months period ended June 30, 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 six months period ended June 30, 2017 and 2016.

Revenue by Business Activity (€ in millions) (unaudited)	six months ended June 30,		% change
	2016	2017	
Licensed operations [1]	466,2	568,3	+21,9%
Management contracts	59,6	54,8	-8,1%
Technology and support services [1]	111,1	110,1	-0,9%
Total	**636,9**	**733,2**	**+15,1%**

[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 €102,1 million, or 21,9%, from €466,2 million in the six months period ended June 30, 2016 to €568,3 million in the six months period ended June 30, 2017. The increase is attributed to higher revenues in Bulgaria (€+28,3 million, mainly due to Eurobet's consolidation after July 2016), Poland (€+11,2 million-following the recent regulatory changes), Azerbaijan with additional revenues of €26,8 million following its strong performance, and Jamaica (+€33,4 million) as a result of the improved performance of its Numerical games portfolio and the recent race track acquisition.

Revenue in our management contracts activity line decreased by €4,8 million, or 8,1%, from €59,6 million in the six months period ended June 30, 2016 to €54,8 million in the six months period ended June 30, 2017. The decrease was mainly affected by the softer performance of Turkey (€-4,3 million) and Russia (€-1,0 million), with Morocco top line increase acting as a counterweight (€+0,5 million).

Revenue in our technology and support services line decreased by €1,0 million, or 0,9%, from €111,1 million in the six months period ended June 30, 2016 to €110,1 million in the six months period ended June 30, 2017. This decrease was mainly due to our US operations revenue contraction as a result of last year's record Powerball jackpot in 1Q16 and the sale of multi-play self-service lottery terminals in Ohio Lottery in 2Q16 (€-15,3 million). A decrease which was virtually counterbalanced by INTRALOT's new contract in Chile with revenues of €+3,1 million, the increased revenues in Argentina (up by €+2,5 million), the increased revenues of INTRALOT SA (€+1,5 million-primarily due to the positive effect of our contracts in Kenya and Peru following the recent M&A transaction), the Netherlands (€+1,5 million), the increased revenues of INTRALOT Gaming Services Pty Ltd (Australia) by €0,4 million as well as the higher revenues in Ireland (€+0,5 equipment sales driven). Additionally, there is the positive effect by €4,7 million due to the reclassification of INTRALOT Australia from the prior characterization as "Licensed operations" to "Technology and support services" from 1Q17 onwards (a revenue which includes an approx. €4 million sale of a software license right).

Gross Profit Margin

The Gross profit margin was shaped at 17,3% in the six months period ended June 30, 2017 from 18,7% in the six months period ended June 30, 2016, negatively affected primarily by the top line contract type mix change (1H16 had larger B2B/B2G contribution, i.e. 26,8% vs. 22,5% in 1H17) compared to last year. In more detail, the Gross profit margin deficit is mainly driven by the payout uplift (-3,8pps both due to increased payout ratio in Jamaica, Azerbaijan, and Poland in part offset by reduced payout rates in Bulgaria and increasing B2C contract type contribution) in part offset by the containment of the other CoS items (+2,3pps) which are less sensitive to revenue uplift and marginally contained tax and agent commission costs (+0,1pps). Overall, Gross Profit increased by 6,5% (€+7,8 million) compared to the

1H16 levels. Adjusting for Eurobet and the Chilean contract, Gross Profit increased by €2,7 million (+2,3%).

Other Operating Income

Other operating income decreased by €1,4 million, or 13,7%, from €10,2 million in the six months period ended June 30, 2016 to €8,8 million in the six months period ended June 30, 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 semester of 2016.

Selling Expenses

Selling expenses increased by €2,0 million, or 7,3%, from €27,4 million in the six months period ended June 30, 2016 to €29,4 million in the six months period ended June 30, 2017. This increase was primarily due to higher advertising costs in Turkey.

Administrative Expenses

Administrative expenses increased by 3,5 million, or 8,4%, from €41,8 million in the six months period ended June 30, 2016 to €45,3 million in the six months period ended June 30, 2017. This increase was primarily due to higher costs in USA, as well as in Jamaica because of the new Horseracing project started operations on March 2017.

Research and Development Expenses

Research and development expenses remained unchanged to €2,7 million in the six months period ended June 30, 2017.

Other Operating Expenses

Other operating expenses increased by €0,5 million, or 35,7%, from €1,4 million in the six months period ended June 30, 2016 to €1,9 million in the six months period ended June 30, 2017. This increase was primarily due to the launch of the new project in Chile in 2017.

EBITDA

As a result of the above, EBITDA increased by €3,2 million, or 3,6%, from €89,0 million in the six months period ended June 30, 2016 to €92,2 million in the six months period ended June 30, 2017 while EBITDA margin decreased from 14,0% in the six months period ended June 30, 2016 to 12,6% in the six months period ended June 30, 2017, as a result of the contract type mix change and last year's Powerball and Ohio terminals sale effect.

Income / (expenses) from participations and investments

Income / (expenses) on participations and investments improved by €2,2 million, from expense of €1,3 million in the six months period ended June 30, 2016 to income of €0,9 million in the six months period ended June 30, 2017. This improvement was primarily due to higher losses from investments and securities in the six months period ended June 30, 2016, because of the relevant bond buybacks.

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

Gain/(loss) from assets disposal, impairment and write-off improved by €0,8 million, from loss of €1,8 million in the six months period ended June 30, 2016 to loss of €1,0 million in the six months period ended June 30, 2017. This improvement was primarily due to higher losses from land disposal in Bulgaria in 2016, partially set-off by higher impairment losses in Moldova in 2017.

Interest and Similar Expenses

Interest and similar expenses decreased by €6,9 million, or 20,2%, from €34,1 million in the six months period ended June 30, 2016 to €27,2 million in the six months period ended June 30, 2017. This decrease was primarily due to lower interest expenses following the 2018 Notes refinancing, as well as to lower LG costs in the six months period ended June 30, 2017.

Interest and Related Income

Interest and related income decreased by €2,6 million, or 41,9%, from €6,2 million in the six months period ended June 30, 2016 to €3,6 million in the six months period ended June 30, 2017, due to lower interest income on bank deposits in the six months period ended June 30, 2017.

Profit/(loss) from equity method consolidations

In the six months period ended June 30, 2016 we had a net loss from equity method consolidations of €1,8 million, compared to a net loss €2,0 million in the six months period ended June 30, 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 €3,0 million in the six months period ended June 30, 2016 to a loss of €4,2 million in the six months period ended June 30, 2017 and increased depreciation and amortization by €2,8 million, operating profit before tax increased by €6,3 million, or 31,0%, from a profit of €20,3 million in the six months period ended June 30, 2016 to a profit of €26,6 million in the six months period ended June 30, 2017.

Taxes

Taxes increased by €2,2 million, or 14,4%, from €15,3 million in the six months period ended June 30, 2016 to €17,5 million in the six months period ended June 30, 2017. This increase was primarily due to the higher taxable profits in Azerbaijan and Australia in the six months period ended June 30, 2017.

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

As a result of the above, net profit/(loss) from continuing operations increased by €4,1 million, or 82,0%, from a profit of €5,0 million in the six months period ended June 30, 2016 to a profit of €9,1 million in the six months period ended June 30, 2017.

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

Net profit /(loss) from discontinued operations in Italy, Peru and Russia decreased by €46,7 million, from a profit of €34,6 million in the six months period ended June 30, 2016 to a loss of €12,1 million in the six months period ended June 30, 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 half of 2016 (in 2016 they were consolidated with the full consolidation method until 27/6/2016):

	1/1-30/6/2016
Sale proceeds	323,3
EBITDA	**3,9**
Profit/(loss) after tax	**-11,8**
Gain/(loss) from disposal of discontinued operations	45,2
Profit/(loss) after tax from discontinued operations	**33,4**

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 half of 2016 (in 2016 they were consolidated with the full consolidation method until 24/11/2016):

	1/1-30/6/2016
Sale proceeds	62,3
EBITDA	**5,3**
Profit/(loss) after tax	**2,8**
Gain/(loss) from disposal of discontinued operations	0,0
Corresponding tax	-1,0
Profit/(loss) after tax from discontinued operations	**1,8**

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. In June 2017, the Group signed a disposal agreement for the 100% of Favorit Bookmakers Office OOO.
Below are presented the results of discontinued operations of the Group in Russia (Favorit Bookmakers Office OOO) for the first half of 2017 and 2016:

	1/1-30/6/2017	1/1-30/6/2016
Sale proceeds	0	0
EBITDA	**-0,2**	**-0,1**
Profit/(loss) after tax	**-0,3**	**-0,7**
Gain/(loss) from disposal of discontinued operations	-11,8	0,0
Corresponding tax	0,0	0,0
Profit/(loss) after tax from discontinued operations	**-12,1**	**-0,7**

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

As a result of the above, net income from total operations (continuing and discontinued) decreased by €42,6 million, from a profit of €39,6 million in the six months period ended June 30, 2016 to a loss of €3,0 million in the six months period ended June 30, 2017.

Net Income Attributable to Owners of the Parent

After deducting non-controlling interests, total operations net income attributable to the owners of the parent decreased by €45,2 million, from a profit of €19,4 million in the six months period ended June 30, 2016 to a loss of €25,8 million in the six months period ended June 30, 2017.

Net income from continuing operations attributable to the owners of the parent improved by €1,5 million, from a loss of €15,2 million in the six months period ended June 30, 2016 to a loss of €13,7 million in the six months period ended June 30, 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 €9,0 million, or 10,4%, from €86,2 million in the six months period ended June 30, 2016 to €77,2 million in the six months period ended June 30, 2017. This decrease was primarily driven by the following:

- net profit before taxation from total operations (continuing and discontinued) decreased by €41,4 million, or 74,0%, from €55,9 million in the six months period ended June 30, 2016 to €14,5 million in the six months period ended June 30, 2017, mainly due to gain (€45,2 million) from disposal of the Italian discontinued operations in 2016, the loss (€11,8 million) from disposal of the Russian discontinued operations in 2017, as well as the improvement of the continuing operations by €6,3 million as described above;

- depreciation and amortization from total operations decreased by 28,1% from €49,8 million in the six months period ended June 30, 2016 to €35,8 million in the six months period ended June 30, 2017, mainly due to discontinued operations in Italy, Peru and Russia;

- the effect of provisions on cash flow was positive €2,7 million in the six months period ended June 30, 2016 and positive €2,3 million in the six months period ended June 30, 2017;

- the effect of results from investing activities on cash flow was negative €37,2 million in the six months period ended June 30, 2016 and positive €16,9 million in the six months period ended June 30, 2017, mainly because of the losses in 2017 and gains 2016 from disposals of discontinued operations as described above;

- changes in our working capital, which led to a cash outflow of €0,2 million in the six months period ended June 30, 2017, compared with a cash inflow of €1,3 million in the six months period ended June 30, 2016;

    - In particular, there was an increase of €4,1 million in inventories in the six months period ended June 30, 2017, compared to an increase of €0,2 million in the six months period ended June 30, 2016, mainly due to new the US projects under construction.

    - also there was a decrease of €0,2 million in receivables in the six months period ended June 30, 2017, compared to an increase of €0,3 million in the six months period ended June 30, 2016.

    - also there was an increase of €3,7 million in payables towards our suppliers in the six months period ended June 30, 2017 compared to an increase of €1,8 million in the six months period ended June 30, 2016, mainly due to the new US projects under construction; and

- income tax paid increased by 4,6% from €15,0 million in the six months period ended June 30, 2016 to €15,7 million in the six months period ended June 30, 2017.

On a pro-forma basis, i.e., excluding the operating cash-flow contribution of our discontinued operations in Italy, Peru and Russia in 1H16 (€9,4 million), there is a slight improvement (€77,2 million vs. €76,8 million pro-forma) driven by the better EBITDA performance 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 six months period ended June 30, 2017, net cash outflows from investing activities was €32,3 million, which was a decrease of €11,0 million, or 25,4%, from outflows of €43,3 million in the six months period ended June 30, 2016. This decrease is mainly attributable to lower net outflow of €27,1 million for (Purchases)/Sales of subsidiaries, associates, joint ventures and other investments in the six months period ended June 30, 2017 (mainly due to Italian operations merger in 2016), higher outflow of €12,6 million for capital expenditure, lower inflow of €2,2 million from assets disposal, lower inflow of €2,1 million for interest received due to lower bank deposits, and higher inflow of €0,8 million from dividends receipts.

Our capital expenditure in the six months period ended June 30, 2017 reached €41,3 million while in the six months period ended June 30, 2016 reached €28,7 million. Major capital expenditure items in the six months period ended June 30, 2017 include payments of €11,7 million for Amelco betting platform, investments in R&D of €10,5 million, investments in our business in USA €5,5 million, in Jamaica of €2,6 million, and Argentina of €1,1 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 six months period ended June 30, 2017, net cash outflows from financing activities was €54,5 million, compared to net cash outflows of €96,8 million in the six months period ended June 30, 2016. This decrease of net cash outflows from financing activities consisted of €32,1 million inflow in net cash flows from financing arrangements mainly due to bond buy backs of €14,3 million in 1H2016 and higher repayment of €15,8 million of local facilities in USA, Malta and Netherlands in 1H2016, lower interest payments by €6,1 million in the six months of 2017 due to refinancing of 2018 Notes, lower dividends distribution, in the six months of 2017, to minority interests amounting to €0,5 million, as well as due to the €3,4 million share capital return to minority interests and the €0,2 million treasury share repurchases in 2016.