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"Full Year 2017 Financial Results"

Conference Call

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Conductors:

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Georgios Koliastasis, Group CFO,

Nikolaos Pavlakis, Group Tax & Accounting Director,

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Conference Call Conducted by Chorus Call Hellas

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CHRYSOS A: We would like to welcome all participants on this conference call for INTRALOT's 2017 Financial Results. Mr. Kerastaris, Group CEO of INTRALOT, Mr. Koliastasis, Group CFO, Mr. Pavlakis, Group Tax and Accounting Director, Mr. Sfatos, Corporate Affairs Director and Mr. Tsagalakis, Head of Capital Markets, are next to me, and we will briefly review INTRALOT's Financial Results and Operating Achievements for the Twelve Months ended on December 31, 2017. After the short presentation, we will be at your disposal for any questions you may have.

We start our presentation with segmental sales analysis on Pages 4 to 7, focusing on the main contributors that have affected the financial top line performance of 2017. Following this, Mr. Koliastasis will expand on the financial results analysis and will shed some more light on the key financial metrics.

Starting our analysis from the top left of Page #4, we see that during the twelve months period ended on December 31st, 2017, INTRALOT Systems handled €24 billion of worldwide wagers at 2.6 year-over-year increase. South Americas wagers increased by 20%, Africa's by nearly 12%, Asia by 7%, West Europe by 4%, while East Europe's wagers decreased by close to 10% and North America by 1.1%.

On the top right of the page, we see a high level view of our revenue split per geographical area, indicating that Europe and Americas are the main contributors of INTRALOT Group's top line performance accounting for approximately 75% of the total turnover.

Lastly in this page, where we present the revenue breakdown per game type, we see that lotteries and sports betting continue to represent a majority of our turnover accounting for nearly 87% of our total sales for the twelve month period of 2017, both of them recording double-digit growth versus a year ago.

Moving on to the next slide, we see that the licensed operations contracts have increased their contribution in our overall performance, turnover by 1.5 percentage points year-over-year, attributed mainly to the markets of Azerbaijan, driven by enhanced product offering and retail-oriented initiatives, and Poland following recent regulation developments for fighting illegal activities, converting considerable part of the gray market into legal.

Bulgaria’s contribution is also worth mentioning with the main two drivers being the full effect of Eurobet which was first consolidated after half one of 2016, and the continuing growth performance of Virtual Sports. This two effects have been partially offset by the lower sports betting revenue in Bulgaria, due to the shift towards online betting and a conservative payout strategy.

Lastly Argentina sports betting business showcased a consistent performance year-over-year in local currency, assisted also by favorable FX movements being the main driver for the improved performance in euro terms. Overall, year-over-year increase in licensed operations, contracts reached 14%.

Next Page #6 shows the revenue evolution from our game management contracts represented 11% of our total turnover, being slightly higher by 1.2% year-over-year. The main contributor to this positive change has been the market of Morocco as a result of the significant growth in sports betting revenue, attributed to enhanced offering and increased focus on the fast-draw games, being affected negatively however by a softer performance in the market of Russia.

Turkey revenue remained relatively stable versus 2016, with an impressive year-over-year performance in the last quarter of the year, while the benefit from the shift towards the online sports betting, which in 2017 surpassed the retail channel in market share, fully mitigated the effect of the local currency devaluation against the euro.

Finishing with the segmental analysis, per contract type in Slide #7; we see that our technology and support services activity line grew by 9% year-over-year, fueled mainly by Greece's increased top line contribution as a result of Peru's new contract full year effect, following the recent M&A activity, as well as, a one off fee of €3 million in relation to the Hellenic Lotteries project in Q4 2017, accompanied by Australia's positive effect, the introduction of Chile's new contract and Argentina's numerical games portfolio business boosted by favorable FX movement. This positive effect have been partially offset by the softer performance of our US operations, mainly as a result of last year's record high Powerball jackpot in Q1 2016 and the fewer multi play self service lottery terminals sold in Ohio versus full year 2016.

At this point, I would like to introduce our CFO, who will briefly present the Financial Results of the Twelve Month Period Ended on 2017. And following that our CEO will make a brief comment for the year and then the Q&A session will follow. Please, Mr. Koliastasis, go ahead.

KOLIASTASIS G: Thank you, Andreas getting in our results presentation, let's turn now to Page 8 of the presentation. Adding up all the aforementioned building blocks, consolidated revenue for the quarter increased by 11.1% reaching €310 million and 11.4% for the year reaching circa €1.1 billion.

Payout for the quarter has decreased by 2.9 percentage points, driven by the reduction of payout rates in Bulgaria and Malta on top of the favorable country mix bringing full year figure at 70.1% or 0.8 percentage points less than prior year.

Gross gaming revenue for the quarter improved by 19.4%, as a result of revenue increase and payout reduction, recording a full year figure of €580 million or about 10% better than same period year ago.

Gross profit margin improved in the quarter by 4.6 percentage points due to the invoicing of multi-play self-service terminals in Ohio and the one-off fee in Greece. Other operating income contracted by €15 million in the year and €13.7 million in the quarter compared with the respective periods of 2016, driving the full reversal of the margin improvement of…at the gross profit at the EBITDA level. EBITDA for the quarter is €48 million, the same as in Q4, 2016. And for the year, €171.5 million, growing by 5.5% compared to prior year.

EBITDA margin on sales is at 15.5% and on GGR 29.6%. Excluding extraordinary and impairments, net income after tax from continuing operation stands at minus €15.3 million in fiscal year 2017 compared to minus €30 million in fiscal year 2016, an improvement of around 50%. Taking into consideration the discontinued operations in Italy, Peru, Russia, Jamaica and Slovakia, we see on top of Slide 9, the reported 2015 revenue figure of €1.9 billion to be comparable with close to €900 million.

The respective figures for EBITDA and EBITDA margin on the top right are €149 million and 16.8%. Revenues and absolute EBITDA have steadily improved over the years though incremental sales were delivered at lower margins affecting the EBITDA margin on sales.

Operating cash flow on the bottom left for 2017 was €154 million, which is €14 million less than prior year. This is due to increased taxes paid in Greece and Australia and a small deterioration in working capital.

On the other hand, CAPEX has been higher in the year compared to prior year by €11 million primarily due to the investment in the IP rights of the AMELCO's platform. Combining these 2 drivers, we see that in 2017 INTRALOT created operating free cash flow minus CAPEX of €80 million, which is €25 million less compared to the respective CAPEX of 2016.

Net debt grew by €16 million in the year and €13.7 million in the quarter, while net debt to EBITDA remained at less than 3 times.

Turing to the next slide, you see the movement of the net debt position. From the €495 million at the end of fiscal year 2016, net debt has improved by the release of collaterals by €14 million and the net profit from the M&A activities by €14.5 million, while it grew with the refinancing costs and the investments in Bit8 and the AIP rights of AMELCO. The increase of the net debt in the quarter is driven by the refinancing expenses that were booked in the quarter.

In Slide 11, we see that Bulgaria has the biggest contribution in our revenues by 28.3% followed by Azerbaijan with 13.9%, USA with 8.8%, both Argentina and Malta with 8.4% each, and Turkey with 8.3%. In terms of EBITDA contribution, Turkey is a key contributor of the consolidated EBITDA with 22.8% followed by USA and Bulgaria. The contribution of our partnerships has grown to 62% in 2017 from 60% in 2016.

Let us turn to Slide 12, while INTRALOT's portion of the consolidated EBITDA has decreased from 64% in 2016 to 63% in 2017.

Now, I am passing to Antonios Kerastaris, INTRALOT's CEO for his concluding remarks.

KERASTARIS A: Good afternoon, everybody. It is our pleasure to have you again with us for the 2017 Full Year Results. Our performance in 2017 reflects progress in all major strategic goals of

INTRALOT and towards a stable and predictable future for our Group.

During this year, we have achieved a 5.5% EBITDA growth reflecting operational improvements while the successful pricing of our €500 million senior notes with 7-year maturity at a reduced 5.25% coupon was a major contributor towards the extension of the average debt maturity providing a stable financing horizon. This allowed us to repay all of our syndicated loans and was a great vote of confidence from the major global investment houses. We achieved further progress with the refocus of our achievement activities following divestments from emerging markets and the shift of emphasis in AAA markets.

In the United States, we renewed 5 contracts and signed a new flagship technology contract with CAMELOT for the State Lottery of Illinois. In Greece, we extended our cooperation with our oldest client, OPAP, in Numerical Games. And last but not least, we made major investments in the development of new products such as the next generation Omni-channel sports book and the completion of the acquisition of Bit8, the company that designed our CRM product. In spite of one-off refinancing costs and significant FOREX headwinds, our improved cash flows reflect reductions of interest costs as a result of previous rounds of refinancing.

In all, we see that in 2017, it was a year where we set the groundwork for future growth both in terms of our balance sheet and financing situation as well as our technology and platform improvement across the board.

With this, I would like to again thank you participating, and myself and the team are open for your questions.

Q&A

OPERATOR: The first question comes from Mr. Draziotis Stamatios from Eurobank Equities. Sir, please go ahead. Mr. Draziotis?

DRAZIOTIS S: Yes hello, can you hear me?

OPERATOR: We can hear you now. Thank you.

DRAZIOTIS S.: Thank you. Hi, thank you for taking my questions. Three, if I may please. Firstly, could you help us bridge the movement in net debt between Q3 and Q4 i.e. the €497 million and €511 million, which was the end of year position, please? Secondly, on CAPEX, what number should we pencil in for 2018, and how much of this will relate to the CAMELOT implementation cost? And thirdly, could you just shed some light as to why the income tax charge remains persistently higher than your pre-tax profit would imply please and when we should expect to see tax rates being more in sync with the pre-tax numbers? Thank you.

KOLIASTASIS G: Hello. The net debt…the deterioration of the quarter of €13.7 million is mainly driven by the refinancing expenses which were booked the biggest portion of them in Q4. Now, in terms of CAPEX …is that okay?

DRAZIOTIS S: Well…project, I can understand that was a big chunk which related to refi expenses, but given that you also sold your

Jamaican operations, I would have thought that there would be a better performance basically in the full year?

KOLIASTASIS G: So the question relates to Jamaica. In Jamaica, we have received cash, however, we had consolidated also the cash that was in the company which was around €15 million, and so the net effect in the consolidated result was significantly lower. So in terms of key driver the refi is the biggest of all. This is the reason why I'm also referring to the refi. Plus if you take also into consideration that we had some investments concluded in Q4 which was the completion of the acquisition of Bit8, we can see that…sorry this conclusion that the main driver was the refi for the deterioration of the net debt position in Q4.

DRAZIOTIS S: Okay and could you remind me how big was the refi cost in total?

KOLIASTASIS G: The refi cost in terms of…from the total of €23.7 million, €9.2 million referred to call premium and the one month extra interest cost because of the refinancing procedure, and the rest has to do…another €15 million has to do with the legal and banking fees.

DRAZIOTIS S: Excellent. Okay, thank you.

KOLIASTASIS G: Okay. Now, in terms of 2018 CAPEX anticipation, we expect the total CAPEX to be around €115 million, of which the Illinois project will be around €60 million.

DRAZIOTIS S: Okay and just as a follow-up on that, when will these projects start contributing?

KOLIASTASIS G: Okay. Well, the Illinois has several…the Illinois effect in 2019 has also the effect of EBITDA loss of around €5 million to €6 million due to the fact that we are taking the one-off, you know, start-up expenses in the year. The first invoice is expected to be in December 2018. So in reality we will have the full benefit of the Illinois in the next year, in 2019. Now, apart from the Illinois investment, another significant portion of CAPEX which is around €25 million has to do with the renewals of Ohio and some other US contracts that Antonios Kerastaris mentioned earlier that have extended the maturities until 2027. Okay.

DRAZIOTIS S.: Okay, yes. That's clear. Thank you.

KOLIASTASIS G: Now, on the tax. The tax for 2000…from the tax that you see on the consolidated results, the tax that really pledge to the shareholders of that parent is close to €16 million, okay. The other part of the tax has to do with taxes that materialize in the various operating entities and these taxes in some cases deviated also by the company performance. We expect this €16 million of tax in 2017 to be reduced …in the future, but it will be at the group level at around €9 million. This is the expectation of tax.

DRAZIOTIS S.: Sorry, just as a follow-up on that. I didn't quite understand the €9 million that you mentioned in the end. So what…?

KOLIASTASIS G: The €16 million tax of 2017 incorporates something which can be considered one-off. So it is extra profit at the SA level that have been taxed and this creates an incremental tax that we don't see this to materialize with a recurring trend. So we expect the tax going forward to be at around €9 million.

DRAZIOTIS S.: I see, Okay. Thank you.

KOLIASTASIS G: You're welcome.

OPERATOR: The next question comes from Mr. Cowie Simon from Societe Generale. Please go ahead.

COWIE S: Good afternoon and thank you for taking my questions. I have got a couple, so the first one on Q4 EBITDA, it was flat on some fairly strong revenue growth, I am just wondering what's behind that and really whether this is explained by other operating income which in Q4 was significantly lower year-on-year as a result of a particular high income in 2016 related to the Australian lawsuits and win and provision of reversals. I mean the margin hits about 170 basis points. Am I right in thinking the underlying margin improvements, 280 basis points by taking out that the costs, …. sorry, the unusual operating profit from last year… or if I have read that wrong, please let me know?

KOLIASTASIS G: Okay. If you take into…usually our results at the quarter level are affected by one-offs, in 2016 there was this €13.7 million which was in Q4 2016 which has to do with the Australia lawsuit and the reversal of provisions. On the other side in 2017, we have the MP the machine invoicing in Ohio, which is around €6 million, but we have also some extra penalties incurred, but this cannot be considered, let's say recurring, of around €4 million. We see another line, organic performance year-over-year, if we take all this into consideration an improvement of €4 million in reality.

COWIE S.: On EBITDA?

KOLIASTASIS G: On EBITDA, on absolute EBITDA.

COWIE S.: It's okay, so underlying all of those sorts of unusual items; you see a €4 million underlying improvement?

KOLIASTASIS G: Correct.

COWIE S: And what was the number for Q4 for the provision reversal in 2016. I have got €18.1 million out of the accounts showing for other operation income. Did you say €13 million of that relates to the provision reversal?

KOLIASTASIS G: The provision reversal was €7 million in Q4.

COWIE S.: Okay. Does that also include everything to do with the Australian lawsuit?

KOLIASTASIS G: No, no, the Australian lawsuit is on top, it was last year an income of around €6.5 million.

COWIE S.: Okay. And I am sorry, provision reversal was…?

KOLIASTASIS G: It had to do with various let's say doubtful…sorry, trade receivables that we consider that we could collect them in 2016.

COWIE S.: Okay. And that was €6 million in Q4?

KOLIASTASIS G: It was more, €7 million.

COWIE S.: €7 million, okay. Okay, because obviously numbers like this are having a very significant impact on your Q4 EBITDA comparison, I mean huge to be honest. I think it would be worst, you know, flagging that sort of thing to allow people to see the underlying positions. And my second question, if I may, is below EBITDA there was a €25 million Q4 loss from participations in investments. I just wondered how much of that is cash versus non-cash?

KOLIASTASIS G: Nothing is cash, the biggest portion of this has to do with the Gamenet introduction in the Milan Stock Exchange, Gamenet was at our books with around €13 per share, and has been IPOed with €7.5 and we took fair value accounting impairments in order to bring the value at the proper level, what we believe is a proper level for Gamenet.

COWIE S.: Okay, thank you.

KOLIASTASIS G: Welcome.

COWIE S.: Can I just ask the two more quick questions? For next year, with Jamaica gone, are you guiding on minority dividends, because I am assuming it's going to be lower in 2018 than 2017?

KOLIASTASIS G: We expect to be up about the same as in 2017 based on the relative expected performance of the partnerships. So, you are right that Jamaica is out. However, we anticipate growth in some countries where the partnerships are strong and we may see dividend leakage in this. our model estimates something close to €42 million of dividends leakage for 2018.

COWIE S: Okay. So €42 million. Finally I am just looking to see in the cash flow, in the presentation for the full year, there is €23.9 million of refinancing costs mentioned. But, I can't find that in the cash flow, I'd just like to see which line that's on?

KOLIASTASIS G: It is on the financial activities, if you see…in the financial activities it has a movement in the net debt position, let me…give me a second, okay, because we do fair value accounting in terms of the, you know, on the bond and we have to expense the non-amortized fees and interest… …and the effect will be in the line which is a repayment of loans and in the line interest and similar charges paid. If you like I can send a reconciliation, we can send a reconciliation this…please address to IR and we will come back to this with the details.

COWIE S.: Okay. I would appreciate that, thank you. Just lastly, can I ask if is it split between Q3 and Q4 or what was most of it taken in Q3, probably the bonds were bought back and the issuance in…

KOLIASTASIS G: Okay. That has to do with fees to banks and to lawyers was in Q4, which is around €16 million, now part of the interest, dual interest was part in Q3, part in Q4, because the new bond was issued in mid September, so we had that cross… half a month cross over the other quarter. The call premium was paid in Q4…the biggest portion of this; yes, the biggest portion was in Q4.

COWIE S.: Perfect, thank you very much for going through all of that.

KERASTARIS A: Okay. You're welcome.

OPERATOR: The next question comes from Mr. Allen Peter from BGIM. Please go ahead.

ALLEN P: Hello, yes. Peter Allen, can you just clarify what the net proceeds were from your disposals of your Gamenet stake? And also secondly, can you comment on…progress on any material contract renewals that are due in 2018?

KOLIASTASIS G: We didn't sell Gamenet. In Gamenet, the transaction was in 2016 where we contributed our Italian operations and took 20% in Gamenet and this has happened in 2016. In 2017, Gamenet IPOed in Milan stock exchange. We didn't sell because we feel that the price does not represent the fair value of the company. And we believe that the price will improve. It has improved over the last two three months well…after the IPO. So they took around €1 per share since then. And we believe that there is room for consolidation in Italian market that will give us the fair value, what we expect as fair value from this activity. And we expect also "dividend" that they have announced that they will distribute dividend , sorry for the Greek,…dividends that they announced, they will distribute in May.

ALLEN P: Okay, can you also comment on any material contract renewals due in 2018.

KERASTARIS A.: So what I said is that, the only contract that is up for renewal in 2018 is the contract in Turkey, Spor Toto contract. We have been working on this renewal for quite some time. We feel confident that we will be able to renew the existing contract at least with current terms.

OPERATOR: Mr. Allen Peter, can you hear us?

ALLEN P: Yes, I can. That's all my questions for now. Thank you.

OPERATOR: Okay, thank you so much. The next question comes from Mr. Mittleman Chris from Mittleman Brothers, LLC. Please go ahead.

MITTLEMAN C.: Hi guys. I was wondering if you would give us a sense of timing on any new contracts that are up for bid in the US in particular. I think, I recall you mentioning that there were a couple of potential contracts that might have some substance. I am just wondering if those are still up and available or what the timeframe is on those.

KERASTARIS A: The Crown Jewel, in the US for 2018 is Pennsylvania. The RFP is scheduled for May. We have been following up; it is currently a scientific games contract. It is the most important scientific games contract in the US. We have been following this RFP closely. We have people on the ground working already on our proposal. It is not going to be easy for anybody, so it's not going to be easy for Sci games to renew. And I think that all the major players, meaning Sci games, Sci GT and ourselves are going to be bid very competitively for this contract. So the big news across the Atlantic in the lottery space is Pennsylvania and this is in May.

MITTLEMAN C: So does that mean the decision would be made in May or that the RFP…

KERASTARIS A: NO, the bids will be submitted in May according to the current time plan.

MITTLEMAN C: And when would we expect to hear on the winner of that.

KERASTARIS A: Usually, that's 30-days maximum after the tender, so before the end of June we should have a winner.

MITTLEMAN C: Okay, great. And since you guys are seemingly getting you know, bigger in the US. I am wondering, and also because the US is going to be consuming a lot of your CAPEX dollars going forward. I am wondering, if you would consider maybe doing some kind of a, you know, an IPO in the US of the US business, because it seems like the US business is getting big enough where you can support that and it would help, you know, with some of these capital spending needs and also valuation wise, the valuation you might get in the US would be better than you are going to get in Greece. Is that something you guys might consider, because it just seems like, you know, we are stuck in this low valuation quagmire in Greece, that doesn't seem like it's getting better, and you know the free cash flow profile unfortunately has been also you know…it is difficult. We have been involved now for just over three years and free cash flow is continually going out to minority partners. I think the only way to fix that is to either you know, extricate yourselves from those contracts or, you know, sell you know, parts of the business at good multiples which you have been doing and the US would clearly be you know, high multiple kind of exit opportunity, at least partial extra opportunity. So I am just wondering is that something you would consider.

KERASTARIS A:: We have considered it. We have already employed advisors to advice us on this. Not a lot more I can say at this point, but I can confirm that the thought has crossed our mind obviously and we have already put significant effort behind the idea. And I agree fully with you that it would make perfect sense.

MITTLEMAN C.: Okay, that's good to hear. I am glad you are thinking that way. Congratulations and good luck in May and June.

KERASTARIS A: Great, thanks Chris.

MITTLEMAN C.: Alright, bye.

OPERATOR: Mr. Kerastaris, there are no more questions registered at this time. You may now proceed with your closing statement.

KERASTARIS A: I would like to thank everybody for participating and for the continued support over the years. See you soon and enjoy the weekend. Thank you everybody.