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 of 84 contracts and licenses across 57 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 December 31, 2014, we had revenue of €1,853.1 million and EBITDA of €175. 4 million on a fully consolidated basis for entities that we control, although we may have minority ownership in some such subsidiaries. In addition, in the Twelve Months Ended December 31, 2014, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 3.8%, 2.8%, 48.3%, 29.7% and 15.4% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the Twelve Months period Ended December 31, 2013 with the Twelve Months period Ended December 31, 2014

Overview

The following table sets forth our operating results for the Twelve Months period Ended December 31, 2013 and 2014.

	Twelve Months ended December 31,		
	2013	**2014**	**% change**
	(unaudited) (€ in millions)		
Income Statement Information:			
Revenue	1,539.4	1,853.1	20.4%
Less: Cost of sales	-1,271.5	-1,582.9	24.5%
Gross profit	**267.9**	**270.2**	**0.9%**
Other operating income	17.4	19.3	10.9%
Selling expenses	-40.2	-60.3	50.0%
Administrative expenses	-120.8	-119.9	-0.7%
Research and development expenses	-7.0	-7.2	2.9%
Other operating expenses	-17.0	-15.1	-11.2%
EBIT	**103.3**	**88.1**	**-14.7%**
EBITDA	**194.8**	**175.4**	**-10.0%**
Interest and similar charges	-57.9	-72.2	24.7%
Interest and related income	25.2	13.5	-46.4%
Exchange differences	-11.1	10.6	n.a
Profit/(loss) equity method consolidation	-3.0	-2.3	-23.3%
Operating profit/loss before tax	**53.5**	**36.6**	**-31.6%**
Less taxes:	-32.2	-44.2	37.3%
Net profit/loss from continuing operations	**21.3**	**-7.6**	**n.a**
Net Income Attributable to Owners of the Parent	**-4.6**	**-49.5**	**976.1%**

Sales Overview

Total revenue increased by €313.7 million, or 20.4%, from €1,539.4 million in the Twelve Months period Ended December 31, 2013 to €1,853.1 million in the Twelve Months period Ended December 31, 2014.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the Twelve Months period Ended December 31, 2013 and 2014.

	Twelve Months period ended December 31,		
	2013	2014	% change
	(unaudited) (€ in millions)		
Technology and support services	254.3	209.8	-17.5%
Management contracts	124.5	138.3	-11.1%
Licensed operations	1,160.6	1,505.0	+29.7%
Total	**1,539.4**	**1,853.1**	**+20.4%**

Revenue in our technology and support services line decreased by €44.5 million, or 17.5%, from €254.3 million in the Twelve Months period Ended December 31, 2013 to €209.8 million in the Twelve Months period Ended December 31, 2014. This decrease was primarily due to:

- a revenue increase of €12.0 million in US mainly due to the sale of MPNG terminals to Ohio in the Twelve Months Ended December 31, 2014;
- a revenue decrease of €20.9 million mainly due to lower one-off IT revenues in the EU in the Twelve Months Ended December 31, 2014 than in the Twelve Months Ended December 31, 2013;
- a revenue decrease of €25.3 million in Taiwan, due to one-off sales in the Twelve Months Ended December 31, 2013 related to the new 10 year IT contract that the INTRALOT JV signed in May 2013 with ChinaTrust Bank, the operator of the Public Welfare Lottery in the country;
- a revenue decrease of €9.1 million in Argentina, due to the depreciation of the local currency against the Euro in the Twelve Months Ended December 31, 2014 as compared to the Twelve Months Ended December 31, 2013.

Revenue in our management contracts activity increased by €13.8 million, or 11.1%, from €124.5 million in the Twelve Months Ended December 31, 2013 to €138.3 million in the Twelve Months Ended December 31, 2014. This increase was primarily due to:

- a revenue increase of €28.1 million in Turkey. The increase is due to the full consolidation since 01/12/2013 of Bilyoner. INTRALOT in November 2013 acquired an additional stake in Bilyoner of approximately 25.01%, that brought its total stake in the company to approximately 50.01%. Bilyoner is a Turkish company that operates as an electronic agent offering the sports betting games of the state organization “SporToto”.

In addition, we had a decrease in our revenues from Romania in the Twelve Months Ended December 31, 2014 compared to the corresponding period in 2013, partly offset by minor increases in revenues in Morocco, Brazil and Russia in the same period.

Revenue in our licensed operations activity increased by €344.4 million, or 29.7%, from €1,160.6 million in the Twelve Months Ended December 31, 2013 to €1,505.0 million in the Twelve Months Ended December 31, 2014. This increase was primarily due to:

- a revenue increase of €187.2 million in Italy due to the increase of revenues in our sports betting operations and due to the ramp up of our activities in the country with the entrance of our subsidiary INTRALOT Gaming Machines in the AWP market of the country in April 2013;
- a revenue increase of €40.8 million in Azerbaijan, due to the ongoing roll out of our contract that commenced in 2011 to organize, operate, manage, and develop fixed-odds and pari-mutuel sports betting games and due to the successful introduction of the fixed odds game on dog races in January 2013;
- a revenue increase of €47.8 million in Argentina, due to the commence of operations in the province of Salta in the November of 2013;

- a revenue increase of €33.7 million in Bulgaria, due to the increased sports betting revenues helped by the close down of many illegal internet gaming operators, following its legalization in the country; and

- a revenue increase of €23.3 million in Jamaica mainly due to the positive effect in sales the operation of the retail network in Sundays from April 2013.

Cost of Sales

Cost of sales increased by €311.4 million, or 24.5%, from €1,271.5 million in the Twelve Months period Ended December 31, 2013 to €1,582.9 million in the Twelve Months period Ended December 31, 2014. The increase in the cost of sales is mainly attributed to the shift in the revenues mix towards licensed operations that in the Twelve Months period Ended December 31, 2014 increased to 81.2% of consolidated sales from 75.4% in the Twelve Months Ended December 30, 2013.

Gross Profit

Gross profit increased by €2.3 million, or 0.9%, from €267.9 million in the Twelve Months period Ended December 31, 2013 to €270.2 million in the Twelve Months period Ended December 31, 2014, resulting in a decrease of the gross profit margin to 14.6% in the Twelve Months period Ended December 31, 2014 from 17.4% in the Twelve Months period Ended December 31, 2013.

Other Operating Income

Other operating income increased by €1.9 million, or 10.9%, from €17.4 million in the Twelve Months period Ended December 31, 2013 to €19.3 million in the Twelve Months period Ended December 31, 2014. This increase was primarily due to an increase in fees from our operations in Brazil, Argentina and USA, as well as to the gain from our Czech subsidiary sale and the return of dividends tax unjustly paid in Turkey in 2009.

Selling Expenses

Selling expenses increased by €20.1 million, or 50.0%, from €40.2 million in the Twelve Months period Ended December 31, 2013 to €60.3 million in the Twelve Months period Ended December 31, 2014. This increase was primarily due to the consolidation through the full method of Bilyoner in the Twelve Months Ended December 31, 2014.

Administrative Expenses

Administrative expenses decreased by 0.9 million, or 0.7%, from €120.8 million in the Twelve Months period Ended December 31, 2013 to €119.9 million in the Twelve Months period Ended December 31, 2014. This decrease was primarily driven by higher amortization charges on hardware and software related to our new VLT monitoring project in Australia in the Twelve Months Ended December 31, 2014.

Research and Development Costs

Research and development expenses increased by €0.2 million, or 2.9%, from €7.0 million in the Twelve Months period Ended December 31, 2013 to €7.2 million in the Twelve Months period Ended December 31, 2014. This increase was primarily due to higher costs in relation to our central system software.

Other Operating Expenses

Other operating expenses decreased by €1.9 million, or 11.2%, from €17.0 million in the Twelve Months period Ended December 31, 2014 to €15.1 million in the Twelve Months period Ended December 31, 2014. This slight decrease was primarily due to lower provisions for potential impairments and write-offs in the Twelve Months Ended December 31, 2014.

EBITDA

EBITDA decreased by €19.4 million, or 10.0%, from €194.8 million in the Twelve Months period Ended December 31, 2013 to €175.4 million in the Twelve Months period Ended December 31, 2014. This decrease was mainly a result of the increased selling expenses. EBITDA margin decreased from 12.7% in the Twelve Months period Ended December 31, 2013 to 9.5% in the Twelve Months period Ended December 31, 2014.

Interest and Similar Charges

Interest and similar charges increased by €14.3 million, or 24.7%, from €57.9 million in the Twelve Months period Ended December 31, 2013 to €72.2 million in the Twelve Months period Ended December 31, 2014. This increase was primarily due to an increase in margin as a result of repricing of our Syndicated Facilities in exchange for a two-year extension as well as due to the 2018 and 2021 Notes issuance.

Interest and Related Income

Interest and related income decreased by €11.7 million, or 46.4%, from €25.2 million in the Twelve Months period Ended December 31, 2013 to €13.5 million in the Twelve Months period Ended December 31, 2014, due to the gain from convertible bonds repurchase in the Twelve Months Ended December 31, 2013.

Profit/loss from equity method consolidations

In the Twelve Months period Ended December 31, 2014 we had a loss from equity method consolidations of €2.3 million from loss €3.0 million in the Twelve Months period Ended December 31, 2013, mainly derived from of our associate companies in Asia and the consolidation through the full method of Bilyoner in the Twelve Months Ended December 31, 2014.

Operating Profit Before Tax

Operating profit before tax decreased by €16.9 million, or 31.6%, from €53.5 million in the Twelve Months period Ended December 31, 2013 to €36.6 million in the Twelve Months period Ended December 31, 2014. This decrease was primarily due to lower EBITDA, higher net interest charges and losses from the equity method consolidation.

Taxes

Taxes increased by €12.0 million, or 37.3%, from €32.2 million in the Twelve Months period Ended December 31, 2013 to €44.2 million in the Twelve Months Ended December 31, 2014. The increase was primarily attributed to the higher taxable profit in the Twelve Months Ended December 31, 2014 as compared to the same period of 2013.

Net Profit/Loss (Continuing and Discontinuing Operations)

For the reasons described above, net profit decreased by €28.9 million, from profit of €21.3 million in the Twelve Months Ended December 31, 2014 to losses of €7.6 million in the Twelve Months Ended December 31, 2014. This decrease was due to lower operating profit before tax and increased taxes.

Net Income Attributable to Owners of the Parent

Net income attributable to the owners of the parent decreased by €44.9 million, from losses of €4.6 million in the Twelve Months Ended December 31, 2013 to losses of €49.5 million in the Twelve Months Ended December 31, 2014 as a result of the factors identified above and especially due to interest expenses that burdened the majority shareholders.

Net Cash Flows

Net Cash from Operating Activities

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

Cash inflows from operating activities increased by €14.1 million 17.3%, from €81.3 million in the Twelve Months period Ended December 31, 2013 to €95.4 million in the Twelve Months period Ended December 31, 2014. This decrease was primarily driven by the following:

- net profit before taxation decreased by €17.1 million, or 31.9%, from €53.6 million in the Twelve Months period Ended December 31, 2013 to €36.5 million in the Twelve Months period Ended December 31, 2014 as described above;

- depreciation and amortization decreased by 4,7% from €91.6 million in the Twelve Months period Ended December 31, 2013 to €87.3 million in the Twelve Months period Ended December 31, 2014.

- the effect of provisions on cash flow was positive €14.6 million in the Twelve Months period Ended December 31, 2013 and positive €10.8 million in the Twelve Months period Ended December 31, 2014, due primarily to provisions for potential impairments and write-offs related to assets in one of our Cypriot subsidiaries in 2013.

- changes in our working capital, which led to a cash outflow of €0.5 million in the Twelve Months period Ended December 31, 2014, compared with a cash outflow of €27.6 million in the Twelve Months period Ended December 31, 2013;

    - In particular, there was an increase of €5.3 million in inventories in the Twelve Months period Ended December 31, 2014, compared to an increase of €3.9 million in the Twelve Months period Ended December 31, 2013.

    - also there was a decrease of €14.9 million in receivables in the Twelve Months period Ended December 31, 2014, compared to an increase of €67.3 million in the Twelve Months period Ended December 31, 2013.

    - also there was a decrease of €10.3 million in payables towards our suppliers in the Twelve Months period Ended December 31, 2014 compared to an increase of €43.7 million in the Twelve Months period Ended December 31, 2013.

- cash interest paid and similar expenses paid increased by 75.2% from €37.8 million in the Twelve Months period Ended December 31, 2013 to €66.2 million in the Twelve Months period Ended December 31, 2014, as a result of the 2 first 6-month coupon payments of the 2018 Notes which was €32.3 million, as well as the first 6-month coupon payments of the 2021 Notes which was €7.8 million; and

- income tax paid decreased by 18.3% from €35.5 million in the Twelve Months period Ended December 31, 2013 to €29.0 million in the Twelve Months period Ended December 31, 2014 as a result of increased taxable profit across the Intralot Group coupled with the consolidation through the full method of Bilyoner in the Twelve Months Ended December 31, 2014.

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 Twelve Months period Ended December 31, 2014, net cash outflows from investing activities was €44.9 million, which was a decrease of €24.6 million, or 35.4%, from outflows of €69.5 million in the Twelve Months period Ended December 31, 2013. This decrease is attributed to an inflow of €7.5 million for purchases/sales of subsidiaries, associates and other investments in the Nine Month period ended December 31, 2014, compared to an outflow of €23.0 million from purchases/sales of subsidiaries, associates and other investments in the respective period of 2013 and to higher capital expenditures, as mentioned below.

Our capital expenditure in the Twelve Months period Ended December 31, 2014 reached €67.3 million, or €63.7 million on a net basis due to a capital return of one of our JVs (€3.1 million) and a sale of assets (€0.5 million). CAPEX comprised of maintenance CAPEX as well as CAPEX related to projects in Italy, USA, Argentina, Peru, Australia, Brazil, and Jamaica.

Net Cash from Financing Activities

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

In the Twelve Months period Ended December 31, 2014, net cash inflows from financing activities was €223.2 million, compared to net cash outflows of €3.4 million in the Twelve Months period Ended December 31, 2013. This increase of net cash flows from financing activities in the Twelve Months period Ended December 31, 2014 consisted of a €

234.0 million increase in net cash inflows from financing arrangements mainly due to the 2021 Notes issuance and the drawdown of the syndicated facility, as well as the higher dividends distribution to minority interests amounting to €7.0 million.