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 December 31, 2016, we had revenue of €1.323,6 million and EBITDA of €175,8 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 December 31, 2016, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 6,9%, 2,6%, 37,6%, 40,8% and 12,1% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the twelve months period ended December 31, 2015 with the twelve months period ended December 31, 2016

Overview

The following table sets forth our operating results for the twelve months period ended December 31, 2016 and 2015.

Income Statement Information (€ in millions) (unaudited)	**twelve months ended December 31, 2015**	**2016**	**% change**
Revenue	1.235,5	1.323,6	7,1%
Less: Cost of sales	-1.001,8	-1.090,5	8,9%
Gross profit	**233,7**	**233,1**	**-0,3%**
Other operating income	23,1	33,1	43,3%
Selling expenses	-56,5	-56,3	-0,4%
Administrative expenses	-89,7	-87,4	-2,6%
Research and development expenses	-6,1	-4,7	-23,0%
Other operating expenses	-5,2	-9,9	90,4%
EBIT	**99,3**	**107,9**	**8,7%**
EBITDA	**164,9**	**175,8**	**6,6%**
Income/(expenses) from participations and investments	-0,2	-17,5	n/a
Gain/(loss) from assets disposal, impairment and write-off	-0,7	-8,5	n/a
Interest and similar expenses	-67,8	-87,5	29,1%
Interest and related income	17,9	11,8	-34,1%
Exchange differences	3,5	3,1	-11,4%
Profit/(loss) equity method consolidation	-4,1	-4,5	9,8%
Operating profit/loss before tax	**47,9**	**4,8**	**-90,1%**
Less: taxes	-45,1	-32,6	-27,7%
Net profit/loss from continuing operations (a)	**2,8**	**-27,8**	**n/a**
Net Profit / Loss from Discontinued Operations (b) [1]	-23,5	72,7	n/a
Net Profit /Loss after taxes (Continuing and Discontinued Operations) (a) + (b)	**-20,7**	**44,9**	**n/a**

[1] The Group's activities in Italy as well as those of Intralot de Peru SAC and Favorit Bookmakers Office OOO (Russia) are presented as discontinued operations pursuant to IFRS 5 (see note 2.31A.VIII of Annual Financial Statements of 31/12/2016), following the agreement to merge Intralot's local operations in Italy with those of Gamenet, the agreement with Nexus for the sale of 80% of Intralot de Peru SAC as well as the definite decision if the Group discontinue its activities regarding the betting services in Russia.

Sales Overview

Total revenue increased by €88,1 million, or 7,1%, from €1.235,5 million in the twelve months period ended December 31, 2015 to €1.323,6 million in the twelve months period ended December 31, 2016. This increase was driven by increased revenue in all our business activities.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the twelve months period ended December 31, 2016 and 2015.

Revenue by Business Activity (€ in millions) (unaudited)	**twelve months ended December 31,**		**% change**
	2015	**2016**	
Technology and support services	196,3	213,3	+8,7%
Management contracts	98,9	115,7	+17,1%
Licensed operations	940,3	994,6	+5,8%
Total	**1.235,5**	**1.323,6**	**+7,1%**

Revenue in our technology and support services line increased by €17,0 million, or 8,7%, from €196,3 million in the twelve months period ended December 31, 2015 to €213,3 million in the twelve months period ended December 31, 2016. This increase was primarily due to an increase in our revenues in the United States by €21,4 million (positively affected by the sale of multi-play self-service lottery terminals in Ohio in the first half of 2016 and the largest Powerball Jackpot in history) and an increase in Australia by €6,1 million from our monitoring services in Victoria (Pre-Commitment System successful launch in December of 2015), which was partially offset by €4,1 million lower revenues in Argentina (where the local currency suffered severe devaluations), €3,5 million lower revenues in Malaysia (due to one-off IT sales in the first half of 2015) and €3,9 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 €16,8 million, or 17,1%, from €98,9 million in the twelve months period ended December 31, 2015 to €115,7 million in the twelve months period ended December 31, 2016. This increase was primarily due to an increase in revenues of €14,7 million in Turkey (positively affected by the UEFA EURO 2016 Championship and the growth of the electronic agents market) and increased revenues of €2,9 million in Morocco (positively affected by the UEFA EURO 2016 Championship).

Revenue in our licensed operations activity line increased by €54,3 million, or 5,8%, from €940,3 million in the twelve months period ended December 31, 2015 to €994,6 million in the twelve months period ended December 31, 2016. The sales uplift was primarily due to an increase in our revenues in Bulgaria in part due to our existing business by €108.5 million (positively affected by the increased payout and the launch of a new virtual football game in August of 2015, with full year effect in 2016) and in part due to Eurobet's first time consolidation after 1H16 (€27,8 million). Sales were further augmented by better top line performance in Malta and Poland of €8,4 million and €4,5 million, respectively. The sales uplift was partially offset by lower revenues of €57,3 million in Azerbaijan (where the local currency suffered severe devaluations), lower revenues of €16,0 million in Argentina (mainly due to a negative foreign exchange impact), lower revenues of €13,9 million in Jamaica and softer sales of €2,0 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 twelve months period ended December 31, 2016 from 18,9% in the twelve months period ended December 31, 2015, negatively affected by a margin contraction in Bulgaria, Jamaica & Malta (due to a higher payout), with margin expansions in the US, and the Netherlands partially mitigating the Gross profit margin shortfall. Overall, Gross Profit decreased slightly from 2015 levels (-0,3%). The payout ratio in the twelve months period ended December 31, 2016 increased by 3,5ppt vs. payout in the twelve months period ended December 31, 2015.

Other Operating Income

Other operating income increased by €10 million, or 43,3%, from €23,1 million in the twelve months period ended December 31, 2015 to €33,1 million in the twelve months period ended December 31, 2016. The major drivers of this increase were the successful Lawsuit settlement with Victoria State in Australia in the fourth quarter of 2016, as well as the improved operations in Turkey and the growth in instant ticket services of our US operations.

Selling Expenses

Selling expenses decreased by €0,2 million, or 0,4%, from €56,5 million in the twelve months period ended December 31, 2015 to €56,3 million in the twelve months period ended December 31, 2016. This decrease was primarily due to lower advertising costs in Azerbaijan partially offset by higher spending in Turkey.

Administrative Expenses

Administrative expenses decreased by 2,3 million, or 2,6%, from €89,7 million in the twelve months period ended December 31, 2015 to €87,4 million in the twelve months period ended December 31, 2016. This decrease was primarily due to lower costs in Jamaica, Greece and Australia.

Research and Development Expenses

Research and development expenses decreased by 1,4 million, or 23%, from €6,1 million in the twelve months period ended December 31, 2015 to €4,7 million in the twelve months period ended December 31, 2016. This decrease was primarily due to lower administrative R&D expenses in Greece.

Other Operating Expenses

Other operating expenses increased by €4,7 million, or 90,4%, from €5,2 million in the twelve months period ended December 31, 2015 to €9,9 million in the twelve months period ended December 31, 2016. This increase was primarily due to higher provisions and write-offs for doubtful receivables in the twelve months period ended December 31, 2016.

EBITDA

As a result of the above, EBITDA increased by €10,9 million, or 6,6%, from € 164,9 million in the twelve months period ended December 31, 2015 to €175,8 million in the twelve months period ended December 31, 2016. EBITDA margin remained relatively unchanged in 2016.

Income / (expenses) from participations and investments

Income / (expenses) on participations and investments increased by €17,3 million, from expenses of €0,2 million in the twelve months period ended December 31, 2015 to expenses of €17,5 million in the twelve months period ended December 31, 2016. This increase was primarily due to lower dividends income and higher impairment losses for investments in associates and joint ventures as well as higher net loss from sale of participations and securities in the twelve months period ended December 31, 2016.

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

Gain/(loss) from assets disposal, impairment and write-off increased by €7,9 million, from a loss €0,7 million in the twelve months period ended December 31, 2015 to a loss €8,5 million in the twelve months period ended December 31, 2016. This increase was primarily due to the higher impairment losses in the twelve months period ended December 31, 2016, as well as the one-off gain from assets sale in Australia in the twelve months period ended December 31, 2015 compared to the one-off loss from the asset sale in Bulgaria in the twelve months period ended December 31, 2016.

Interest and Similar Expenses

Interest and similar expenses increased by €19,7 million, or 29,1%, from €67,8 million in the twelve months period ended December 31, 2015 to €87,5 million in the twelve months period ended December

31, 2016. This increase was primarily due to 2018 Notes and Revolving Facility refinancing costs of c.€22,0 million (c.€15,5 million for 2018 Notes call premium and double interest, as well as c.€6,5 million for accelerated and new issue costs charges of 2018 Notes and refinanced Revolving Facility), partially offset by savings from bond buybacks.

Interest and Related Income

Interest and related income decreased by €6,1 million, or 34,1%, from €17,9 million in the twelve months period ended December 31, 2015 to €11,8 million in the twelve months period ended December 31, 2016, due to lower interest income on bank deposits in the twelve months period ended December 31, 2016.

Profit/(loss) from equity method consolidations

In the twelve months period ended December 31, 2015 we had a net loss from equity method consolidations of €4,1 million to net loss € 4,5 million in the twelve months period ended December 31, 2016, mainly derived from of our associate companies in Asia and Peru.

Operating Profit before Tax

As a result of the above and due to exchange differences from a gain of €3,5 million in the twelve months period ended December 31, 2015 to a gain of €3,1 million in the twelve months period ended December 31, 2016 and increased depreciation and amortization by €2,3 million, operating profit before tax decreased by €43,1 million, or 90,1%, from a profit of €47,9 million in the twelve months period ended December 31, 2015 to a profit of €4,8 million in the twelve months period ended December 31, 2016.

Taxes

Taxes decreased by €12,5 million, or 27,7%, from €45,1 million in the twelve months period ended December 31, 2015 to €32,6 million in the twelve months period ended December 31, 2016. This decrease was primarily due to the lower taxable profits in Azerbaijan, Turkey and Argentina in the twelve months period ended December 31, 2016 as well as to one-off income tax charges in Romania and Luxembourg in the twelve months period ended December 31, 2015.

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

As a result of the above, net profit/loss from continuing operations decreased by €30,6 million, from a profit of €2,8 million in the twelve months period ended December 31, 2015 to a loss of €27,8 million in the twelve months period ended December 31, 2016.

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

Net profit /(loss) from discontinued operations in Italy, Peru and Russia increased by €96,2 million, from a loss of €23,5 million in the twelve months period ended December 31, 2015 to a profit of €72,7 million in the twelve months period ended December 31, 2016. In the twelve months period ended December 31, 2016 included these non-recurring items: gain of €45,2 million from Italian operations merger, net gain of €51,7 million from Intralot de Peru S.A.C. disposal and loss of €14,5 million from licenses and software impairment held by Favorit Bookmakers Office OOO due to the Group definitive decision to discontinue its Sports Betting activities in Russia.

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, that 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 semester of 2016 (in 2016 they were consolidated with the full consolidation method until 27/6/2016) and the twelve months of 2015:

	1/1-30/6/2016	1/1-31/12/2015
Sale proceeds	323,3	575,8
EBITDA	**3,9**	**2,9**
Profit/(loss) after tax	**-11,8**	**-25,0**
Gain/(loss) from disposal of discontinued operations	45,2	0
Profit/(loss) after tax from discontinued operations	**33,4**	**-25,0**

Net assets held for sale of the Group subsidiaries in Italy amounted to €38,3 million on 30/06/2016, while the value of the Group's participation in the combined operation (Gamenet Group SpA) was estimated at €83,5 million, forming the gain from disposal (merge) of discontinued operations to €45,2million.

The net cash outflow of the Group during the transfer of discontinued operations in Italy amounted to €24,6 million, consisting of the cash contribution of the Group in the new combined operation amounting €13,6 million, the derecognition of the cash reserves of the merging subsidiaries of the Group amounting €7,5 million and the guarantee payment for tax losses of previous years of the Group amounting €3,5 million, which can be offset against future taxable profits of the new combined operation.

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 period 1/1-24/11/2016 (in 2016 they were consolidated with the full consolidation method until 24/11/2016) and for the twelve months of 2015:

	1/1-24/11/2016	1/1-31/12/2015
Sale proceeds	120,4	103,6
EBITDA	**9,0**	**9,7**
Profit/(loss) after tax	**3,3**	**2,8**
Gain/(loss) from disposal of discontinued operations	62,4	0
Corresponding tax	-10,6	0
Profit/(loss) after tax from discontinued operations	**55,1**	**2,8**

The consideration price for the disposal of Intralot De Peru S.A.C. amounted to €64,7 million paid in November 2016. The net assets held for sale of Intralot De Peru S.A.C. on 24/11/2016 amounted to €15,2 million, while the value of the remaining participation of the Group (20%) was estimated at €16,2 million, forming the gross gain from disposal of discontinued operations to €65,7 million. Net of disposal costs, corresponding taxes and exchange differences reclassified from the translation reserve in the Group results, net gain from the disposal of discontinued operations amounted to €51,7 million.

The net cash inflow for the Group during the transfer of discontinued operations in Peru amounted to €54,2 million, consisting of the consideration price, the derecognition of cash and cash equivalents of Intralot de Peru S.A.C. and the payment of taxes and transfer costs.

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 twelve months of 2016 and 2015:

	1/1-31/12/2016	1/1-31/12/2015
Sale proceeds	0	0
EBITDA	**-0,2**	**-0,4**
Profit/(loss) after tax from discontinued operations	**-15,9**	**-1,3**

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 €65,6 million, from a loss of €20,7 million in the twelve months period ended December 31, 2015 to a profit of €44,9 million in the twelve months period ended December 31, 2016.

Net Income Attributable to Owners of the Parent

After deducting non-controlling interests, net income attributable to the owners of the parent increased by €66 million, from a loss of €65,1 million in the twelve months period ended December 31, 2015 to a profit of €0,9 million in the twelve months period ended December 31, 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 €54,3 million, or 47,7%, from €113,8 million in the twelve months period ended December 31, 2015 to €168,1 million in the twelve months period ended December 31, 2016. This increase was primarily driven by the following:

- net profit before taxation from total operations (continuing and discontinued) increased by €63,6 million, or 247,5%, from €25,7 million in the twelve months period ended December 31, 2015 to €89,3 million in the twelve months period ended December 31, 2016 as described above;

- depreciation and amortization decreased by 11,5% from €98,2 million in the twelve months period ended December 31, 2015 to €86,9 million in the twelve months period ended December 31, 2016.

- the effect of provisions on cash flow was positive €9,6 million in the twelve months period ended December 31, 2015 and positive €25,4 million in the twelve months period ended December 31, 2016, including non-recurring loss of €14,5 million from licenses and software impairment held by Favorit Bookmakers Office OOO in Russia.

- the effect of results from investing activities on cash flow was negative €0,2 million in the twelve months period ended December 31, 2015 and negative €88,9 million in the twelve months period ended December 31, 2016, including non-recurring gain from Italian operations merger amounting to €45,2 million and gross gain of 65,7m from Intralot de Peru S.A.C. disposal.

- changes in our working capital, which led to a cash inflow of €4,8 million in the twelve months period ended December 31, 2016, compared with a cash outflow of €42,0 million in the twelve months period ended December 31, 2015;

  - In particular, there was a decrease of €2,8 million in inventories in the twelve months period ended December 31, 2016, compared to a decrease of €1,2 million in the twelve months period ended December 31, 2015.

  - also there was an increase of €9,2 million in receivables in the twelve months period ended December 31, 2016, compared to an increase of €19,3 million in the twelve months period ended December 31, 2015.

  - also there was an increase of €11,2 million in payables towards our suppliers in the twelve months period ended December 31, 2016 compared to a decrease of €23,9 million in the twelve months period ended December 31, 2015; and

- income tax paid decreased by 7,0% from €28,2 million in the twelve months period ended December 31, 2015 to €26,2 million in the twelve months period ended December 31, 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 twelve months period ended December 31, 2016, net cash outflows from investing activities was €49,6 million, which was a decrease of €10,2 million, or 17,1%, from outflows of €59,8 million in the twelve months period ended December 31, 2015. This decrease is mainly attributable to an inflow of 9,8m million for (Purchases)/Sales of subsidiaries, associates, joint ventures and other investments in the twelve months period ended December 31, 2016 (mainly due to inflow from Intralot de Peru disposal, partially set-off with outflows for the Italian operations merger and Eurobet acquisition in Bulgaria), to a lower inflow of €4,6 million for interest received due to lower bank deposits and to lower capital expenditures, as mentioned below.

Our capital expenditure in the twelve months period ended December 31, 2016 reached €65,4 million while in the twelve months period ended December 31, 2015 reached €70,8 million. Major capital expenditure items in the twelve months period ended December 31, 2016 include investments in our business in US of €11,4 million, in Chile €6,2 million and R&D of €12,0 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 twelve months period ended December 31, 2016, net cash outflows from financing activities was €225,3 million, compared to net cash outflows of €182,3 million in the twelve months period ended December 31, 2015. This increase of net cash outflows from financing activities consisted of €45,4 million outflow in net cash flows from financing arrangements mainly due to partial repayment of the syndicated facility (€40,0 million) and the fully repayment of local facility in Malta, higher interest payments by €18,6 million in the twelve months of 2016 due to the redemption costs of 2018 Notes, as well as lower dividends distribution, in the twelve months of 2016, to minority interests amounting to €25,5 million, the non-recurring capital return, in the twelve months of 2016, to minority interests amounting to €3,3 million and the outflow of €1,2 million for repurchase of treasury shares in the twelve months of 2016.