

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 March 31, 2015, we had revenue of €1,906.8 million and EBITDA of €170.0 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 March 31, 2015, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 4.1%, 2.4%, 47.7%, 31.0% and 14.8% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the Three Months period Ended March 31, 2014 with the Three Months period Ended March 31, 2015

Overview

The following table sets forth our operating results for the Three Months period Ended March 31, 2015 and 2014.

	Three Months ended March 31,		% change
	2014	2015	
	(unaudited)		
	(€ in millions)		
Income Statement Information:			
Revenue	445.7	499.4	12.0%
Less: Cost of sales	<u>-373.3</u>	<u>-430.0</u>	15.2%
Gross profit	72.4	69.3	-4.3%
Other operating income	4.3	6.6	53.5%
Selling expenses.....	-13.8	-16.7	21.0%
Administrative expenses	-28.5	-30.3	6.3%
Research and development expenses	-2.1	-2.1	0.0%
Other operating expenses.....	-1.4	-2.3	64.3%
EBIT	31.1	23.9	-23.2%
EBITDA	51.6	46.2	-10.5%
Interest and similar charges	-16.2	-19.0	17.3%
Interest and related income	2.5	4.1	64.0%
Exchange differences.....	0.1	9.9	n.a
Profit/(loss) equity method consolidation	<u>-0.7</u>	<u>-0.8</u>	14.3%
Operating profit/loss before tax.....	16.6	18.7	12.7%
Less taxes:.....	<u>-13.9</u>	<u>-13.5</u>	-2.9%
Net profit/loss from continuing operations	2.7	5.2	92.6%
Net Income Attributable to Owners of the Parent	-8.5	-8.9	4.7%

Sales Overview

Total revenue increased by €53.6 million, or 12.0%, from €445.7 million in the Three Months period Ended March 31, 2014 to €499.4 million in the Three Months period Ended March 31, 2015.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the Three Months period Ended March 31, 2015 and 2014.

	Three Months period ended March 31,		
	2014	2015	% change
	(unaudited)		
	(€ in millions)		
Technology and support services	46.3	50.4	+8.8%
Management contracts	32.2	38.0	+18.0%
Licensed operations	367.2	411.0	+11.9%
Total	445.7	499.4	+12.0%

Revenue in our technology and support services line increased by €4.1 million, or 8.8%, from €46.3 million in the Three Months period Ended March 31, 2014 to €50.4 million in the Three Months period Ended March 31, 2015. This increase was primarily due to:

- a revenue increase of €6.1 million in US mainly due to revenues associated with our monitoring contract in Georgia that commenced operation in the beginning of 2015 and due to the positive FX impact.

In addition, we had a decrease in our revenues from OPAP in Greece due to the renegotiation of the relative contract (effective from 01.04.2014), partly offset by minor increases in revenues from the operation of Hellenic Lotteries in Greece, Argentina and Malaysia in the same period.

Revenue in our management contracts activity increased by €5.8 million, or 18.0%, from €32.2 million in the Three Months Ended March 31, 2014 to €38.0 million in the Three Months Ended March 31, 2015. This increase was primarily due to:

- a revenue increase of €7.3 million in Turkey due to the growth of the sports betting game, helped also by positive FX movements.

In addition, we had a decrease in our revenues from Romania in the Three Months Ended March 31, 2015 compared to the corresponding period in 2014 due to gradual fall-off of the contracts in the country, partly offset by minor increases in revenues in Morocco, Brazil and Russia in the same period.

Revenue in our licensed operations activity increased by €43.8 million, or 11.9%, from €367.2 million in the Three Months Ended March 31, 2014 to €411.0 million in the Three Months Ended March 31, 2015. This increase was primarily due to:

- a revenue increase of €21.1 million in Jamaica mainly due to the growth in lottery revenues and the positive contribution of two new numerical games.
- a revenue increase of €10.3 million in Italy due to the performance of INTRALOT Gaming Machines related to AWP, a market that the company entered in April 2013;
- a revenue increase of €6.5 million in Argentina, due to higher sales in the Salta State operation as a result of an increase in POS, the addition of one more game and due to favorable exchange rates;
- a revenue increase of €5.3 million in Peru, due to the growth of the sports betting game that is in a growth phase.
- a revenue increase of €5.2 million in Bulgaria, mainly due to the more attractive betting odds offered to players;
- a revenue decrease of €6.6 in Australia, following the sale of INTRALOT Australia's lottery assets in the State of Victoria in February 2015.

Gross Profit

Gross profit decreased by €3.1 million, or 4.3%, from €72.4 million in the Three Months period Ended March 31, 2014 to €69.3 million in the Three Months period Ended March 31, 2015, resulting in a decrease of the gross profit margin to 13.9% in the Three Months period Ended March 31, 2015 from 16.2% in the Three Months period Ended March 31, 2014. The decrease in profit margin is mainly attributed to the renegotiation of the OPAP contract (effective from 01.04.2014), the end of our contracts in Romania by the end of year 2014 and due to the higher payout from our betting operations in the Three Months period Ended March 31, 2015 compared to the same period last year.

Other Operating Income

Other operating income increased by €2.3 million, or 53.5%, from €4.3 million in the Three Months period Ended March 31, 2014 to €6.6 million in the Three Months period Ended March 31, 2015. This increase was primarily due to an increase in fees from our operations in Argentina and USA, as well as to the gain from the license sale in Australia in 2015.

Selling Expenses

Selling expenses increased by €2.9 million, or 21.0%, from €13.8 million in the Three Months period Ended March 31, 2014 to €16.7 million in the Three Months period Ended March 31, 2015. This increase was primarily due to the increased sales of Bilyoner and higher advertising costs in Peru in the Three Months Ended March 31, 2015.

Administrative Expenses

Administrative expenses increased by 1.8 million, or 6.3%, from €28.5 million in the Three Months period Ended March 31, 2014 to €30.3 million in the Three Months period Ended March 31, 2015. This slight increase was primarily driven by FX rate changes.

Research and Development Costs

Research and development expenses were constant to €2.1 million in the Three Months period Ended March 31, 2015.

Other Operating Expenses

Other operating expenses increased by €0.9 million, or 64.3%, from €1.4 million in the Three Months period Ended March 31, 2014 to €2.3 million in the Three Months period Ended March 31, 2015. This increase was primarily due to higher provisions for potential impairments and write-offs in the Three Months Ended March 31, 2015.

EBITDA

EBITDA decreased by €5.4 million, or 10.5%, from €51.6 million in the Three Months period Ended March 31, 2014 to €46.2 million in the Three Months period Ended March 31, 2015. This decrease was mainly a result of the renegotiation of the OPAP contract (effective from 01.04.2014), the end of our contracts in Romania by the end of year 2014 and due to the higher payout from our betting operations in the Three Months period Ended March 31, 2015 compared to the same period last year. EBITDA margin decreased from 11.6% in the Three Months period Ended March 31, 2014 to 9.2% in the Three Months period Ended March 31, 2015.

Interest and Similar Charges

Interest and similar charges increased by €2.8 million, or 17.3%, from €16.2 million in the Three Months period Ended March 31, 2014 to €19.0 million in the Three Months period Ended March 31, 2015. This increase was primarily due to the 2021 Notes issuance.

Interest and Related Income

Interest and related income increased by €1.6 million, or 64.0%, from €2.5 million in the Three Months period Ended March 31, 2014 to €4.1 million in the Three Months period Ended March 31, 2015, due to higher bank deposits interest income in the Three Months Ended March 31, 2015.

Profit/loss from equity method consolidations

In the Three Months period Ended March 31, 2015 we had a loss from equity method consolidations of €0.8 million from loss €0.7 million in the Three Months period Ended March 31, 2014, mainly derived from of our associate companies in Asia.

Operating Profit Before Tax

Operating profit before tax increased by €2.1 million, or 12.7%, from €16.6 million in the Three Months period Ended March 31, 2014 to €18.7 million in the Three Months period Ended March 31, 2015. This increase was primarily due to the higher Exchange differences sett-off by the lower EBITDA.

Taxes

Taxes decreased by €0.4 million, or 2.9%, from €13.9 million in the Three Months period Ended March 31, 2014 to €13.5 million in the Three Months Ended March 31, 2015. This slight decrease was primarily attributed to the lower taxable profit in the Three Months Ended March 31, 2015 as compared to the same period of 2014.

Net Profit/Loss (Continuing and Discontinuing Operations)

For the reasons described above, net profit increased by €2.5 million, from profit of €2.7 million in the Three Months Ended March 31, 2014 to losses of €5.2 million in the Three Months Ended March 31, 2015. This increase was due to higher operating profit before tax.

Net Income Attributable to Owners of the Parent

Net income attributable to the owners of the parent increased by €0.4 million, from losses of €8.5 million in the Three Months Ended March 31, 2014 to losses of €8.9 million in the Three Months Ended March 31, 2015 as a result of the factors identified above.

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 €2.0 million 45.5%, from €4.4 million in the Three Months period Ended March 31, 2014 to €6.4 million in the Three Months period Ended March 31, 2015. This increase was primarily driven by the following:

- net profit before taxation increased by €2.1 million, or 12.7%, from €16.6 million in the Three Months period Ended March 31, 2014 to €18.7 million in the Three Months period Ended March 31, 2015 as described above;
- depreciation and amortization increased by 8.8% from €20.5 million in the Three Months period Ended March 31, 2014 to €22.3 million in the Three Months period Ended March 31, 2015.
- the effect of provisions on cash flow was negative €1.0 million in the Three Months period Ended March 31, 2014 and positive €1.0 million in the Three Months period Ended March 31, 2015, due primarily to provisions for potential impairments and write-offs related to assets and receivables in Jamaica and Italia in 2015.
- changes in our working capital, which led to a cash outflow of €17.7 million in the Three Months period Ended March 31, 2015, compared with a cash outflow of €14.6 million in the Three Months period Ended March 31, 2014;

- In particular, there was a decrease of €0.7 thousand in inventories in the Three Months period Ended March 31, 2015, compared to an increase of €0.1 thousand in the Three Months period Ended March 31, 2014.
- also there was an increase of €2.4 million in receivables in the Three Months period Ended March 31, 2015, compared to an increase of €7.9 million in the Three Months period Ended March 31, 2014.
- also there was a decrease of €16.0 million in payables towards our suppliers in the Three Months period Ended March 31, 2015 compared to a decrease of €6.6 million in the Three Months period Ended March 31, 2014.
- cash interest paid and similar expenses paid decreased by 7.8% from €23.0 million in the Three Months period Ended March 31, 2014 to €21.2 million in the Three Months period Ended March 31, 2015, as a result of the lower coupon payments in 2015 as for the 2018 Notes due to the repurchases made by the Group in 2014-15, as well as of the payments made in 2014 for interest rate derivatives; and
- income tax paid decreased by 38.2% from €7.6 million in the Three Months period Ended March 31, 2014 to €4.7 million in the Three Months period Ended March 31, 2015 as a result of the fact that some Group subsidiaries paid 2014 income taxes during the second quarter of 2015, while in 2014 the respective 2013 income taxes were paid during the first quarter of 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 Three Months period Ended March 31, 2015, net cash outflows from investing activities was €10.7 million, which was a decrease of €0.8 thousands, or 7.8%, from outflows of €11.6 million in the Three Months period Ended March 31, 2014. This decrease is attributed to an inflow of €1.5 million for proceeds from sales of tangible and intangible assets in the Three Month period ended March 31, 2015, compared to an inflow of €0.1 million in the respective period of 2014, to an inflow of €1.3 million for interest received in the Three Month period ended March 31, 2015, compared to an inflow of €2.1 million in the respective period of 2014 and to lower capital expenditures, as mentioned below.

Our capital expenditure in the Three Months period Ended March 31, 2015 reached €13.6 million while in the Three Months period Ended March 31, 2014 reached €13.9 million. CAPEX in 2015 comprised of maintenance CAPEX as well as CAPEX related to projects in USA, Turkey, Peru, Australia, Argentina, and Azerbaijan.

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 Three Months period Ended March 31, 2015, net cash outflows from financing activities was €24.2 million, compared to net cash inflows of €10.5 million in the Three Months period Ended March 31, 2014. This decrease of net cash flows from financing activities consisted of a €30.5 million decrease in net cash flows from financing arrangements mainly due to a partial drawdown of the syndicated facility in the first quarter of 2014, as well as the higher dividends distribution, in the first quarter of 2015, to minority interests amounting to €4.3 million.