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 June 30, 2015, we had revenue of €1,906.4 million and EBITDA of €173.1 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 June 30, 2015, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 4.1%, 2.3%, 47.3%, 32.8% and 13.5% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the Six Months period Ended June 30, 2014 with the Six Months period Ended June 30, 2015

Overview

The following table sets forth our operating results for the Six Months period Ended June 30, 2015 and 2014.

	Six Months ended June 30,		
	2014	**2015**	**% change**
	(audited) (€ in millions)		
Income Statement Information:			
Revenue	905.5	958.7	5.9%
Less: Cost of sales	-769.1	-828.7	7.7%
Gross profit	**136.4**	**130.0**	**-4.7%**
Other operating income	8.5	14.1	65.9%
Selling expenses	-29.8	-32.0	7.4%
Administrative expenses	-60.4	-62.2	3.0%
Research and development expenses	-4.5	-4.4	-2.2%
Other operating expenses	-3.7	-5.9	59.5%
EBIT	**46.6**	**39.5**	**-15.2%**
EBITDA	**89.5**	**87.2**	**-2.6%**
Interest and similar charges	-35.7	-37.4	4.8%
Interest and related income	6.9	10.9	58.0%
Exchange differences	3.8	6.4	68.4%
Profit/(loss) equity method consolidation	-1.3	-1.9	46.2%
Operating profit/loss before tax	**20.2**	**17.6**	**-12.9%**
Less taxes:	-26.4	-25.6	-3.0%
Net profit/loss from continuing operations	**-6.2**	**-8.0**	**29.0%**
Net Income Attributable to Owners of the Parent	**-24.1**	**-31.0**	**28.6%**

Sales Overview

Total revenue increased by €53.2 million, or 5.9%, from €905.5 million in the Six Months period Ended June 30, 2014 to €958.7 million in the Six Months period Ended June 30, 2015.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the Six Months period Ended June 30, 2015 and 2014.

	Six Months period ended June 30, 2014	2015	% change
	(audited) (€ in millions)		
Technology and support services	102.0	104.0	+2.0%
Management contracts	65.3	68.6	+5.1%
Licensed operations	738.2	786.1	+6.5%
Total	**905.5**	**958.7**	**+5.9%**

Revenue in our technology and support services line increased by €2.0 million, or 2.0%, from €102.0 million in the Six Months period Ended June 30, 2014 to €104.0 million in the Six Months period Ended June 30, 2015. This increase was primarily due to:

- a revenue increase of €10.7 million in US mainly due to revenues associated with new projects in Wyoming, Ohio and Georgia that did not exist in in the Six Months Ended June 30, 2014 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) and decreased revenues in Ireland, partly offset by 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 €3.3 million, or 5.1%, from €65.3 million in the Six Months Ended June 30, 2014 to €68.6 million in the Six Months Ended June 30, 2015. This increase was primarily due to:

- a revenue increase of €7.6 million in Turkey due to the growth of the sports betting game.

In addition, we had a decrease in our revenues from Romania in the Six Months Ended June 30, 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 €47.9 million, or 6.5%, from €738.2 million in the Six Months Ended June 30, 2014 to €786.1 million in the Six Months Ended June 30, 2015. This increase was primarily due to:

- a revenue increase of €37.4 million in Jamaica mainly due to the growth in lottery revenues and the positive contribution of two new numerical games.

- a revenue increase of €16.3 million in Italy due to the performance of INTRALOT Gaming Machines related to AWPs, a market that the company entered in April 2013;

- a revenue increase of €13.3 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 €9.7 million in Peru, due to the growth of the sports betting game that is in a growth phase;

- a revenue decrease of €14.6 in Australia, following the sale of INTRALOT Australia's lottery assets in the State of Victoria in February 2015 and

a revenue decrease of €13.9m in Azerbaijan due to a tough comparison with the Six Months period Ended June 30, 2014 during which the World Cup took place and negative FX rate changes.

Gross Profit

Gross profit decreased by €6.4 million, or 4.7%, from €136.4 million in the Six Months period Ended June 30, 2014 to €130.0 million in the Six Months period Ended June 30, 2015, resulting in a decrease of the gross profit margin to 13.6% in the Six Months period Ended June 30, 2015 from 15.1% in the Six Months period Ended June 30, 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 Six Months period Ended June 30, 2015 compared to the same period last year.

Other Operating Income

Other operating income increased by €5.6 million, or 65.9%, from €8.5 million in the Six Months period Ended June 30, 2014 to €14.1 million in the Six Months period Ended June 30, 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 €2.2 million, or 7.4%, from €29.8 million in the Six Months period Ended June 30, 2014 to €32.0 million in the Six Months period Ended June 30, 2015. This increase was primarily due to the increased sales of Bilyoner and higher advertising costs in Peru in the Six Months Ended June 30, 2015.

Administrative Expenses

Administrative expenses increased by 1.8 million, or 3.0%, from €60.4 million in the Six Months period Ended June 30, 2014 to €62.2 million in the Six Months period Ended June 30, 2015. This slight increase was primarily driven by FX rate changes.

Research and Development Costs

Research and development expenses decreased by 0.1 million, or 2.2%, from €4.5 million in the Six Months period Ended June 30, 2014 to €4.4 million in the Six Months period Ended June 30, 2015

Other Operating Expenses

Other operating expenses increased by €2.2 million, or 59.5%, from €3.7 million in the Six Months period Ended June 30, 2014 to €5.9 million in the Six Months period Ended June 30, 2015. This increase was primarily due to higher provisions for potential impairments, write-offs and onerous contracts in the Six Months Ended June 30, 2015.

EBITDA

EBITDA decreased by €2.3 million, or 2.6%, from €89.5 million in the Six Months period Ended June 30, 2014 to €87.2 million in the Six Months period Ended June 30, 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 Six Months period Ended June 30, 2015 compared to the same period last year. EBITDA margin decreased from 9.9% in the Six Months period Ended June 30, 2014 to 9.1% in the Six Months period Ended June 30, 2015.

Interest and Similar Charges

Interest and similar charges increased by €1.7 million, or 4.8%, from €35.7 million in the Six Months period Ended June 30, 2014 to €37.4 million in the Six Months period Ended June 30, 2015. This increase was primarily due to the 2021 Notes issuance.

Interest and Related Income

Interest and related income increased by €4.0 million, or 58.0%, from €6.9 million in the Six Months period Ended June 30, 2014 to €10.9 million in the Six Months period Ended June 30, 2015, due to higher bank deposits interest income, as well as the dividend income from Hellenic Lotteries, in the Six Months Ended June 30, 2015.

Profit/loss from equity method consolidations

In the Six Months period Ended June 30, 2015 we had a loss from equity method consolidations of €1.9 million from loss €1.3 million in the Six Months period Ended June 30, 2014, mainly derived from of our associate companies in Asia.

Operating Profit Before Tax

Operating profit before tax decreased by €2.6 million, or 12.9%, from €20.2 million in the Six Months period Ended June 30, 2014 to €17.6 million in the Six Months period Ended June 30, 2015. This decrease was primarily due to the lower EBITDA.

Taxes

Taxes decreased by €0.8 million, or 3.0%, from €26.4 million in the Six Months period Ended June 30, 2014 to €25.6 million in the Six Months Ended June 30, 2015. This slight decrease was primarily attributed to the lower taxable profit in the Six Months Ended June 30, 2015 as compared to the same period of 2014.

Net Profit/Loss (Continuing and Discontinuing Operations)

For the reasons described above, net loss increased by €1.8 million, from loss of €6.2 million in the Six Months Ended June 30, 2014 to losses of €8.0 million in the Six Months Ended June 30, 2015. This net loss increase was due to lower operating profit before tax.

Net Income Attributable to Owners of the Parent

Net income attributable to the owners of the parent decreased by €6.9 million, from losses of €24.1 million in the Six Months Ended June 30, 2014 to losses of €31.0 million in the Six Months Ended June 30, 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 decreased by €23.0 million, or 74.2%, from €31.0 million in the Six Months period Ended June 30, 2014 to €8.0 million in the Six Months period Ended June 30, 2015. This decrease was primarily driven by the following:

- net profit before taxation decreased by €2.6 million, or 12.9%, from €20.2 million in the Six Months period Ended June 30, 2014 to €17.6 million in the Six Months period Ended June 30, 2015 as described above;

- depreciation and amortization increased by 11.0% from €42.9 million in the Six Months period Ended June 30, 2014 to €47.6 million in the Six Months period Ended June 30, 2015.

- the effect of provisions on cash flow was positive €0.9 million in the Six Months period Ended June 30, 2014 and positive €2.4 million in the Six Months period Ended June 30, 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 €30.7 million in the Six Months period Ended June 30, 2015, compared with a cash outflow of €10.9 million in the Six Months period Ended June 30, 2014;

    - In particular, there was a decrease of €1.6 million in inventories in the Six Months period Ended June 30, 2015, compared to an increase of €2.6 million in the Six Months period Ended June 30, 2014.

    - also there was an increase of €13.1 million in receivables in the Six Months period Ended June 30, 2015, compared to a decrease of €4.3 million in the Six Months period Ended June 30, 2014.

    - also there was a decrease of €19.2 million in payables towards our suppliers in the Six Months period Ended June 30, 2015 compared to a decrease of €12.6 million in the Six Months period Ended June 30, 2014.

- cash interest paid and similar expenses paid increased by 6.3% from €31.8 million in the Six Months period Ended June 30, 2014 to €33.8 million in the Six Months period Ended June 30, 2015, as a result of the higher coupon payments in 2015 due to the 2021 Notes issued in May 2014; and

- income tax paid slightly increased by 0.6% from €16.4 million in the Six Months period Ended June 30, 2014 to €16.5 million in the Six Months period Ended June 30, 2015.

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, 2015, net cash outflows from investing activities was €14.6 million, which was a decrease of €1.5 million, or 9.3%, from outflows of €16.1 million in the Six Months period Ended June 30, 2014. This decrease is attributed to an inflow of €10.6 million for (Purchases) / Sales of subsidiaries, associates, joint ventures and other investments in the Six Month period ended June 30, 2015, compared to an inflow of €6.7 million in the respective period of 2014 due to the capital return form Hellenic Lotteries in 2015, to an inflow of €1.5 million for proceeds from sales of tangible and intangible assets in the Six Month period ended June 30, 2015, compared to an inflow of €0.1 million in the respective period of 2014, to an inflow of €7.4 million for interest received in the Six Month period ended June 30, 2015, compared to an inflow of €5.5 million in the respective period of 2014, to an inflow of €1.9 million for dividends received in the Six Month period ended June 30, 2015, compared to an inflow of €1.0 million in the respective period of 2014 due to the dividend received from Hellenic Lotteries in 2015 and to higher capital expenditures, as mentioned below.

Our capital expenditure in the Six Months period Ended June 30, 2015 reached €36.0 million while in in the Six Months period Ended June 30, 2014 reached €29.4 million. CAPEX in 2015 comprised of maintenance CAPEX as well as CAPEX related to projects in USA, Turkey, Peru, Australia, Bulgaria and Argentina.

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 Six Months period Ended June 30, 2015, net cash outflows from financing activities was €64,8 million, compared to net cash inflows of €46.7 million in the Six Months period Ended June 30, 2014. This decrease of net cash flows from financing activities consisted of a €105.7 million decrease in net cash flows from financing arrangements mainly due to a partial drawdown of the syndicated facility in the first half of 2014, repurchases of the 2018 and 2021 Notes in the first half of 2015, as well as the higher dividends distribution, in the first half of 2015, to minority interests amounting to €5.8 million.