

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 Nine Months period Ended September 30, 2014, we had revenue of € 1.329.5 million and EBITDA of €131.7 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 Nine Months Ended September 30, 2014, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 3.2%, 4.0%, 48.2%, 28.8% and 15.8% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the Nine Months period Ended September 30, 2013 with the Nine Months period Ended September 30, 2014

Overview

The following table sets forth our operating results for the Nine Months period Ended September 30, 2013 and 2014.

	Nine Months ended September 30,		% change
	2013	2014	
	(unaudited)		
	(€ in millions)		
Income Statement Information:			
Revenue	1.080.0	1.329.5	23.1%
Less: Cost of sales	<u>-884.0</u>	<u>-1.136.0</u>	28.5%
Gross profit	196.0	193.5	-1.3%
Other operating income	12.5	13.9	11.2%
Selling expenses.....	-28.5	-42.6	49.5%
Administrative expenses	-93.0	-86.3	-7.2%
Research and development expenses	-5.8	-6.8	17.2%
Other operating expenses	-5.0	-5.8	16.0%
EBIT	76.4	66.2	-13.4%
EBITDA	143.5	131.7	-8.2%
Interest and similar charges	-39.5	-53.7	35.9%
Interest and related income	14.1	10.0	-29.1%
Exchange differences	-10.6	6.9	n.m.
Profit/(loss) equity method consolidation	<u>-0.1</u>	<u>-1.8</u>	n.m.
Operating profit/loss before tax.....	40.1	27.3	-31.9%
Less taxes:.....	<u>-20.2</u>	<u>-30.5</u>	51.0%
Net profit/loss from continuing operations	19.9	-3.2	n.m.
 Net Income Attributable to Owners of the Parent	 0.5	 -32.1	 n.m.

Sales Overview

Total revenue increased by €249.5 million, or 23.1%, from €1.080.0 million in the Nine Months period Ended September 30, 2013 to €1.329.5 million in the Nine Months period Ended September 30, 2014.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the Nine Months period Ended September 30, 2013 and 2014.

	Nine Months period ended September 30,		
	2013	2014	% change
	(unaudited)		
	(€ in millions)		
Technology and support services	191.9	150.4	-21.6%
Management contracts	82.3	97.2	+18.1%
Licensed operations	805.8	1.081.9	+34.3%
Total	1.080.0	1.329.5	+23.1%

Revenue in our technology and support services line decreased by €41.5 million, or 21.6%, from €191.9 million in the Nine Months period Ended September 30, 2013 to €150.4 million in the Nine Months period Ended September 30, 2014. This decrease was primarily due to:

- a revenue increase of €5.3 million in US mainly due to the sale of MPNG terminals to Ohio in the Nine Months Ended September 30, 2014;
- a revenue decrease of €20.5 million mainly due to lower one-off IT revenues in the EU in the Nine Months Ended September 30, 2014 than in the Nine Months Ended September 30, 2013;
- a revenue decrease of €16.1 million in Taiwan, due to one-off sales in the Nine Months Ended September 30, 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 €5.2 million in Australia, due to one-off installation revenues in the Nine Months Ended September 30, 2013 related to our contract to connect up to 27,500 VLTs to our central monitoring system in the State of Victoria; and
- a revenue decrease of €5.1 million in Argentina, due to the depreciation of the local currency against the Euro in the Nine Months Ended September 30, 2014 as compared to the Nine Months Ended September 30, 2013.

Revenue in our management contracts activity increased by €14.9 million, or 18.1%, from €82.3 million in the Nine Months period Ended September 30, 2013 to €97.2 million in the Nine Months period Ended September 30, 2014. This increase was primarily due to:

- a revenue increase of €18.4 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 Nine Months Ended September 30, 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 €276.1 million, or 34.3%, from €805.8 million in the Nine Months period Ended September 30, 2013 to €1.081.9 million in the Nine Months period Ended September 30, 2014. This increase was primarily due to:

- a revenue increase of €167.4 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 €34.2 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 €33.9 million in Argentina, due to the commence of operations in the province of Salta in the November of 2013;
- a revenue increase of €24.6 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 €11.5 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 €252.0 million, or 28.5%, from €884.0 million in the Nine Months period Ended September 30, 2013 to €1.136.0 million in the Nine Months period Ended September 30, 2014. The increase in the cost of sales is mainly attributed to the shift in the revenues mix towards licensed operations that in the Nine Months period Ended September 30, 2014 increased to 81.4% of consolidated sales from 74.6% in the Nine Months Ended September 30, 2013.

Gross Profit

Gross profit decreased by €2.5 million, or 1.3%, from €196.0 million in the Nine Months period Ended September 30, 2013 to €193.5 million in the Nine Months period Ended September 30, 2014, resulting in a decrease of the gross profit margin to 14.6% in the Nine Months period Ended September 30, 2014 from 18.1% in the Nine Months period Ended September 30, 2013.

Other Operating Income

Other operating income increased by €1.4 million, or 11.2%, from €12.5 million in the Nine Months period Ended September 30, 2013 to €13.9 million in the Nine Months period Ended September 30, 2014. This increase was primarily due to an increase in fees from our operations in Italy, 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 €14.1 million, or 49.5%, from €28.5 million in the Nine Months period Ended September 30, 2013 to €42.6 million in the Nine Months period Ended September 30, 2014. This increase was primarily due to the consolidation through the full method of Bilyoner in the Nine Months Ended September 30, 2014.

Administrative Expenses

Administrative expenses decreased by 6.7 million, or 7.2%, from €93.0 million in the Nine Months period Ended September 30, 2013 to €86.3 million in the Nine Months period Ended September 30, 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 Nine Months Ended September 30, 2013.

Research and Development Costs

Research and development expenses increased by €1.0 million, or 17.2%, from €5.8 million in the Nine Months period Ended September 30, 2013 to €6.8 million in the Nine Months period Ended September 30, 2014. This increase was primarily due to higher costs in relation to our central system software.

Other Operating Expenses

Other operating expenses increased by €0.8 million, or 16.0%, from €5.0 million in the Nine Months period Ended September 30, 2013 to €5.8 million in the Nine Months period Ended September 30, 2014. This slight increase was primarily due to higher provisions for potential impairments and write-offs in the Nine Months Ended September 30, 2014.

EBITDA

EBITDA decreased by €11.8 million, or 8.2%, from €143.5 million in the Nine Months period Ended September 30, 2013 to €131.7 million in the Nine Months period Ended September 30, 2014. This decrease was mainly a result of the increased selling expenses. EBITDA margin decreased from 13.3% in the Nine Months period Ended September 30, 2013 to 9.9% in the Nine Months period Ended September 30, 2014.

Interest and Similar Charges

Interest and similar charges increased by €14.2 million, or 35.9%, from €39.5 million in the Nine Months period Ended September 30, 2013 to €53.7 million in the Nine Months period Ended September 30, 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 €4.1 million, or 29.1%, from €14.1 million in the Nine Months period Ended September 30, 2013 to €10.0 million in the Nine Months period Ended September 30, 2014, due to the gain from convertible bonds repurchase in the Nine Months Ended September 30, 2013.

Profit/loss from equity method consolidations

In the Nine Months period Ended September 30, 2014 we had a loss from equity method consolidations of €1.8 million from loss €0.1 million in the Nine Months period Ended September 30, 2013, mainly derived from of our associate companies in Asia and the consolidation through the full method of Bilyoner in the Nine Months Ended September 30, 2014.

Operating Profit Before Tax

Operating profit before tax decreased by €12.8 million, or 31.9%, from €40.1 million in the Nine Months period Ended September 30, 2013 to €27.3 million in the Nine Months period Ended September 30, 2014. This decrease was primarily due to lower EBITDA, higher net interest charges and losses from the equity method consolidation.

Taxes

Taxes increased by €10.3 million, or 51.0%, from €20.2 million in the Nine Months period Ended September 30, 2013 to €30.5 million in the Nine Months Ended September 30, 2014. The increase was primarily attributed to the higher taxable profit in the Nine Months Ended September 30, 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 €23.1 million, from profit of €19.9 million in the Nine Months Ended September 30, 2013 to losses of €3.2 million in the Nine Months Ended September 30, 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 €32.6 million, from profits of €0.5 million in the Nine Months Ended September 30, 2013 to losses of €32.1 million in the Nine Months Ended September 30, 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 decreased by €0.4 million 0.9%, from €45.5 million in the Nine Months period Ended September 30, 2013 to €45.1 million in the Nine Months period Ended September 30, 2014. This decrease was primarily driven by the following:

- net profit before taxation decreased by €12.8 million, or 31.9%, from €40.1 million in the Nine Months period Ended September 30, 2013 to €27.3 million in the Nine Months period Ended September 30, 2014 as described above;
- depreciation and amortization decreased by 2.4% from €67.0 million in the Nine Months period Ended September 30, 2013 to €65.4 million in the Nine Months period Ended September 30, 2014.
- the effect of provisions on cash flow was positive €2.9 million in the Nine Months period Ended September 30, 2013 and positive €2.4 million in the Nine Months period Ended September 30, 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 €14.0 million in the Nine Months period Ended September 30, 2014, compared with a cash outflow of €27.6 million in the Nine Months period Ended September 30, 2013;
 - In particular, there was an increase of €6.0 million in inventories in the Nine Months period Ended September 30, 2014, compared to an increase of €1.7 million in the Nine Months period Ended September 30, 2013.
 - also there was a decrease of €9.1 million in receivables in the Nine Months period Ended September 30, 2014, compared to an increase of €38.0 million in the Nine Months period Ended September 30, 2013.
 - also there was a decrease of €17.2 million in payables towards our suppliers in the Nine Months period Ended September 30, 2014 compared to an increase of €12.0 million in the Nine Months period Ended September 30, 2013.
- cash interest paid and similar expenses paid increased by 79.7% from €30.0 million in the Nine Months period Ended September 30, 2013 to €53.9 million in the Nine Months period Ended September 30, 2014, as a result of the 2 first 6-month coupon payments of the 2018 Notes which was €32.3 million; and
- income tax paid decreased by 21.5% from €29.8 million in the Nine Months period Ended September 30, 2013 to €23.4 million in the Nine Months period Ended September 30, 2014 as a result of increased taxable profit across the Intralot Group coupled with an increase in the tax rate of Intralot S.A. in Greece from 20% to 26%.

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 Nine Months period Ended September 30, 2014, net cash outflows from investing activities was €25.3 million, which was a decrease of €48.9 million, or 65.9%, from outflows of €74.2 million in the Nine Months period Ended September 30, 2013. This decrease is attributed to an inflow of €7.4 million for purchases/sales of subsidiaries, associates and other investments in the Six Month period ended September 30, 2014, compared to an outflow of €43.6 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 of €42.7 million the Nine Months period Ended September 30, 2014 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 Nine Months period Ended September 30, 2014, net cash inflows from financing activities was €36.3 million, compared to net cash inflows of €43.7 million in the Nine Months period Ended September 30, 2013. This increase of net cash flows from financing activities in the Nine Months period Ended September 30, 2014 consisted of a € 65.0 million increase in net cash inflows from financing arrangements mainly due to the 2021 Notes issuance, as well as of the higher dividends distribution to minority interests amounting to €6.3 million.