

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 September 30, 2015, we had revenue of €1.903,5 million and EBITDA of €175,6 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 September 30, 2015, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 4,0%, 2,2%, 47,6%, 33,9% and 12,3% of total revenue, respectively.

Results of Operations of the Intralot Group

Comparison of the Nine Months period Ended September 30, 2014 with the Nine Months period Ended September 30, 2015

Overview

The following table sets forth our operating results for the Nine Months period Ended September, 2015 and 2014.

	Nine Months ended September 30,		% change
	2014	2015	
	(audited)		
	(€ in millions)		
Income Statement Information:			
Revenue	1.329,5	1.379,8	3,8%
Less: Cost of sales	<u>-1.136,0</u>	<u>-1.190,2</u>	4,8%
Gross profit	193,5	189,6	-2,0%
Other operating income	13,2	17,8	34,1%
Selling expenses	-42,6	-45,1	5,8%
Administrative expenses	-86,3	-91,2	5,6%
Research and development expenses	-6,8	-5,3	-22,0%
Other operating expenses	-4,8	-5,9	23,0%
EBIT	66,2	59,9	-9,5%
EBITDA	131,7	131,9	0,2%
Income/(expenses) from participations and investments	0,5	0,0	n/a
Gain/(losses) from assets disposal, impairment and write-off	-0,9	-0,1	-88,8%
Interest and similar charges	-52,6	-51,9	-1,3%
Interest and related income	9,0	11,4	26,7%
Exchange differences	6,9	1,5	-78,3%
Profit/(loss) equity method consolidation	<u>-1,8</u>	<u>-2,8</u>	55,6%
Operating profit/loss before tax	27,3	18,0	-34,1%
Less taxes:	<u>-30,5</u>	<u>-34,6</u>	13,4%
Net profit/loss from continuing operations	-3,2	-16,6	418,8%
Net Income Attributable to Owners of the Parent	-32,1	-50,4	57,0%

Sales Overview

Total revenue increased by €50,3 million, or 3,8%, from €1.329,5 million in the Nine Months period Ended September 30, 2014 to €1.379,8 million in the Nine Months period Ended September 30, 2015.

Revenue by Business Activity

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

	Nine Months ended September 30,		
	2014	2015	% change
	(unaudited) (€ in millions)		
Technology and support services	150,4	151,1	+0,5%
Management contracts	97,2	94,6	-2,7%
Licensed operations.....	1.081,9	1.134,1	+4,8%
Total	1.329,5	1.379,8	+3,8%

Revenue in our technology and support services line increased by €0,7 million, or 0,5%, from €150,4 million in the Nine Months period Ended September 30, 2014 to €151,1 million in the Nine Months period Ended September 30, 2015. This increase was primarily due to:

- A revenue increase of €8.1 million in US mainly due to revenues associated with new projects in Wyoming, Ohio and Georgia that did not exist in the Nine Months period Ended September 30, 2014 and due to the positive FX impact. We also had increases in revenues from the operation of Hellenic Lotteries in Greece, Argentina and Malaysia in the same period.
- 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.

Revenue in our management contracts activity decreased by €2,6 million, or 2,7%, from €97,2 million in the Nine Months period Ended September 30, 2014 to €94,6 million in the Nine Months period Ended September 30, 2015. This decrease was primarily due to:

- A decrease of €7.8m in our revenues from Romania in the Nine Months period Ended September 30, 2015 compared to the corresponding period in 2014 due to gradual fall-off of the relative contracts in the country, partly offset by
- a revenue increase of €6.8 million in Turkey due to the growth of the sports betting game

Revenue in our licensed operations activity increased by €52,2 million, or 4,8%, from €1.081,9 million in the Nine Months period Ended September 30, 2014 to €1.134,1 million in the Nine Months period Ended September 30, 2015. This increase was primarily due to:

- a revenue increase of €49.6 million in Jamaica mainly due to the growth in lottery revenues and the positive contribution of two new numerical games.
- a revenue increase of €22.2 million in Italy due to the performance of INTRALOT Gaming Machines related to AWP's, a market that the company entered in April 2013;
- a revenue increase of €20.8 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 €12.9 million in Peru, mainly due to the growth of the sports betting game that is in a growth phase;
- a revenue decrease of €23.5 in Australia, following the sale of INTRALOT Australia's lottery assets in the State of Victoria in February 2015 and
- a revenue decrease of €31.3m in Azerbaijan, that had a tough comparison with the Nine Months period Ended September 30, 2014 during which the World Cup took place and negative FX rate changes.

Gross Profit

Gross profit decreased by €3,9 million, or 2,0%, from €193,5 million in the Nine Months period Ended September 30, 2014 to €189,6 million in the Nine Months period Ended September 30, 2015, resulting in a decrease of the gross profit margin to 13,7% in the Nine Months period Ended September 30, 2015 from 14,6% in the Nine Months period Ended September 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.

Other Operating Income

Other operating income increased by €4,6 million, or 34,1%, from €13,2 million in the Nine Months period Ended September 30, 2014 to €17,8 million in the Nine Months period Ended September 30, 2015. This increase was primarily due to the growth of the instant ticket services in the US.

Selling Expenses

Selling expenses increased by €2,5 million, or 5,8%, from €42,6 million in the Nine Months period Ended September 30, 2014 to €45,1 million in the Nine Months period Ended September 30, 2015. This increase was primarily due to higher investment in selling and marketing initiatives to support the growth in revenue particularly in the online sport betting operations in Turkey.

Administrative Expenses

Administrative expenses increased by 4,9 million, or 5,6%, from €86,3 million in the Nine Months period Ended September 30, 2014 to €91,2 million in the Nine Months period Ended September 30, 2015. This increase was primarily driven by FX rate changes.

Research and Development Costs

Research and development expenses decreased by 1,5 million, or 22,0%, from €6,8 million in the Nine Months period Ended September 30, 2014 to €5,3 million in the Nine Months period Ended September 30, 2015.

Other Operating Expenses

Other operating expenses increased by €1,1 million, or 23,0%, from €4,8 million in the Nine Months period Ended September 30, 2014 to €5,9 million in the Nine Months period Ended September 30, 2015. This increase was primarily due to the provision for onerous contracts in the Nine Months period Ended September 30, 2015.

EBITDA

EBITDA increased by €0,2 million, or 0,2%, from €131,7 million in the Nine Months period Ended September 30, 2014 to €131,9 million in the Nine Months period Ended September 30, 2015. This decrease was mainly a result of the renegotiation of the OPAP contract (effective from 01.04.2014) and the end of our contracts in Romania by the end of year 2014. EBITDA margin decreased from 9,9% in the Nine Months period Ended September 30, 2014 to 9,6% in the Nine Months period Ended September 30, 2015.

Income / (expenses) from participations and investments

Income / (expenses) on investments and securities decreased by €0,5 million, from income €0,5 million in the Nine Months period Ended September 30, 2014 to expenses €0,01 million in the Nine Months period Ended September 30, 2015. This slight decrease was primarily due to higher net losses from sale of participations and securities partially sett-off by higher dividends income in the Nine Months period Ended September 30, 2015.

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

Gain/(losses) from assets disposal, impairment and write-off decreased by €0,8 million, from losses €0,9 million in the Nine Months period Ended September 30, 2014 to losses €0,1 million in the Nine

Months period Ended September 30, 2015. This decrease was primarily due to the gain from assets sale in Australia as well as to the lower impairment losses in the Nine Months period Ended September 30, 2015.

Interest and Similar Charges

Interest and similar charges decreased by €0,7 million, or 1,3%, from €52,6 million in the Nine Months period Ended September 30, 2014 to €51,9 million in the Nine Months period Ended September 30, 2015. This decrease was primarily due to savings from bond buybacks and renegotiated letter of guarantees costs.

Interest and Related Income

Interest and related income increased by €2,4 million, or 26,7%, from €9,0 million in the Nine Months period Ended September 30, 2014 to €11,4 million in the Nine Months period Ended September 30, 2015, due to higher bank deposits interest income in the Nine Months period Ended September 30, 2015.

Profit/loss from equity method consolidations

In the Nine Months period Ended September 30, 2015 we had a loss from equity method consolidations of €2,8 million from loss €1,8 million in the Nine Months period Ended September 30, 2014, mainly derived from of our associate companies in Asia.

Operating Profit Before Tax

As a result of the above and due to increased Depreciation and Amortization by €6,5m and lower Exchange differences by €5,3m in the Nine Months period Ended September 30, 2015 compared to the Nine Months period Ended September 30, 2014, operating profit before tax decreased by €9,3 million, or 34,1%, from €27,3 million in the Nine Months period Ended September 30, 2014 to €18,0 million in the Nine Months period Ended September 30, 2015.

Taxes

Taxes increased by €4,1 million, or 13,4%, from €30,5 million in the Nine Months period Ended September 30, 2014 to €34,6 million in the Nine Months period Ended September 30, 2015. This increase was primarily attributed to the higher taxable profit in the Nine Months period Ended September 30, 2015 as compared to the same period of 2014.

Net Profit/Loss (Continuing and Discontinuing Operations)

As a result of the above above, net loss increased by €13,4 million, from loss of €3,2 million in the Nine Months period Ended September 30, 2014 to losses of €16,6 million in the Nine Months period Ended September 30, 2015.

Net Income Attributable to Owners of the Parent

After deducting minority interests, Net income attributable to the owners of the parent decreased by €18,3 million, from losses of €32,1 million in the Nine Months period Ended September 30, 2014 to losses of €50,4 million in the Nine Months period Ended September 30, 2015.

Net Cash Flows

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 decreased by €29,3 million, or 31,1%, from €94,1 million in the Nine Months period Ended September 30, 2014 to €64,8 million in the Nine Months period Ended September 30, 2015. This decrease was primarily driven by the following:

- net profit before taxation decreased by €9,3 million, or 34,1%, from €27,3 million in the Nine Months period Ended September 30, 2014 to €18,0 million in the Nine Months period Ended September 30, 2015 as described above;
- depreciation and amortization increased by 9,9% from €65,4 million in the Nine Months period Ended September 30, 2014 to €71,9 million in the Nine Months period Ended September 30, 2015.
- the effect of provisions on cash flow was positive €2,4 million in the Nine Months period Ended September 30, 2014 and positive €3,4 million in the Nine Months period Ended September 30, 2015.
- changes in our working capital, which led to a cash outflow of €46,8 million in the Nine Months period Ended September 30, 2015, compared with a cash outflow of €14,0 million in the Nine Months period Ended September 30, 2014;
 - In particular, there was a decrease of €0,8 million in inventories in the Nine Months period Ended September 30, 2015, compared to an increase of €5,9 million in the Nine Months period Ended September 30, 2014.
 - also there was an increase of €23,0 million in receivables in the Nine Months period Ended September 30, 2015, compared to a decrease of €9,1 million in the Nine Months period Ended September 30, 2014.
 - also there was a decrease of €24,7 million in payables towards our suppliers in the Nine Months period Ended September 30, 2015 compared to a decrease of €17,2 million in the Nine Months period Ended September 30, 2014.
- income tax paid slightly decreased by 2,5% from €23,4 million in the Nine Months period Ended September 30, 2014 to €22,8 million in the Nine Months period Ended September 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 Nine Months period Ended September 30, 2015, net cash outflows from investing activities was €38,5 million, which was an increase of €13,2 million, or 52,2%, from outflows of €25,3 million in the Nine Months period ended September 30, 2014. This increase is attributed to an inflow of €2,8 million for (Purchases) / Sales of subsidiaries, associates, joint ventures and other investments in the Nine Months period Ended September 30, 2015, compared to an inflow of €7,4 million in the respective period of 2014 due to the capital return from Hellenic Lotteries in 2015 partially set-off by Bit8 and Intralot Inc shares acquisitions, to an inflow of €1,8 million for proceeds from sales of tangible and intangible assets in the Nine Months period Ended September 30, 2015, compared to an inflow of €0,1 million in the respective period of 2014 due to the assets sold in Australia in 2015, to an inflow of €10,6 million for interest received in the Nine Months period Ended September 30, 2015, compared to an inflow of €9,0 million in the respective period of 2014, to an inflow of €1,9 million for dividends received in the Nine Months period Ended September 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 Nine Months period Ended September 30, 2015 reached €55,5 million while in the Nine Months period Ended September 30, 2014 reached €42,8 million. A substantial part of this increase is attributed to the new business in the US, product development costs, and one-off restructuring and relocation costs.

Net Cash from Financing Activities

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

In the Nine Months period Ended September 30, 2015, net cash outflows from financing activities was €152,0 million, compared to net cash inflows of €17,6 million in the Nine Months period Ended September 30, 2014. This increase of net cash outflows from financing activities consisted of a €98.0 million increase in net cash outflows from financing arrangements mainly due to a drawdown of the syndicated facility in the first nine months of 2014, repurchases of the 2018 and 2021 Notes in the first nine months of 2015, flat interest payments, as well as the higher dividends distribution, in the first nine months of 2015, to minority interests amounting to €36.4 million.