INTRALOT Group

# MANAGEMENT'S DISCUSSION & ANALYSIS

**of our financial condition and results of operations**
**for the period 1/1-31/12/2018**

## 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 47 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.
In the twelve months period ended December 31, 2018, we had revenue of €870,8 million and EBITDA of €116,5 million on continuing basis for entities that we consolidate, though we have minority ownership in some of such subsidiaries. In addition, in the twelve months ended December 31, 2018, our revenue from Turkey, Greece, Rest of Europe, the Americas and the Rest of the World represented 7,0%, 2,8%, 63,1%, 21,4% and 5,7% of total revenue, respectively.

# Results of Operations of the INTRALOT Group

**Comparison of the twelve months period ended December 31, 2017 with the twelve months period ended December 31, 2018**

## Overview

| Income Statement Information (€ in millions) (audited) | twelve months ended December 31, 2017 | twelve months ended December 31, 2018 | % change |
|---|---|---|---|
| Revenue | 930,6 | 870,8 | -6,4% |
| Less: Cost of sales | -730,5 | -709,5 | -2,9% |
| **Gross profit** | **200,1** | **161,3** | **-19,4%** |
| Other operating income | 16,7 | 16,2 | -3,0% |
| Selling expenses | -40,7 | -38,7 | -4,9% |
| Administrative expenses | -74,7 | -73,8 | -1,2% |
| Research and development expenses | -6,1 | -3,7 | -39,3% |
| Other operating expenses | -7,0 | -10,0 | 42,9% |
| **EBIT** | **88,3** | **51,3** | **-41,9%** |
| **EBITDA** | **151,0** | **116,5** | **-22,8%** |
| Income/(expenses) from participations and investments | -24,1 | 18,4 | n/a |
| Gain/(loss) from assets disposal, impairment and write-off | -2,3 | -19,3 | n/a |
| Interest and similar expenses | -70,0 | -50,4 | -28,0% |
| Interest and related income | 6,9 | 8,1 | 17,4% |
| Exchange differences | -5,7 | 8,2 | n/a |
| Profit/(loss) equity method consolidation | -3,4 | -18,3 | n/a |
| Gain/(loss) on net monetary position | 0,0 | -0,1 | n/a |
| **Operating profit/(loss) before tax** | **-10,3** | **-2,1** | **79,6%** |
| Less: taxes | -18,9 | -13,3 | -29,6% |
| **Net profit/(loss) from continuing operations (a)** | **-29,2** | **-15,4** | **47,3%** |

| | | | |
|---|---|---|---|
| Net Profit / (loss) from Discontinued Operations (b) [1] | 23,2 | 42,4 | 82,8% |
| **Net Profit /(Loss) after taxes (Continuing and Discontinued Operations) (a) + (b)** | **-6,0** | **27,0** | **n/a** |
| Attributable to: | | | |
| Equity holders of parent | | | |
| -Profit/(loss) from continuing operations | -63,8 | -58,5 | 8,3% |
| -Profit/(loss) from discontinued operations [1] | 10,4 | 32,9 | n/a |
| | **-53,4** | **-25,6** | **52,1%** |
| Non-Controlling Interest | | | |
| -Profit/(loss) from continuing operations | 34,6 | 43,1 | 24,6% |
| -Profit/(loss) from discontinued operations [1] | 12,8 | 9,5 | -25,8% |
| | **47,4** | **52,6** | **11,0%** |

[1] The activities of Group subsidiaries in Azerinteltek AS (Azerbaijan), Favorit Bookmakers Office OOO (Russia), Intralot Caribbean Ventures Ltd (Santa Lucia), Supreme Ventures Ltd (Jamaica) and Slovenske Loterie AS (Slovakia) are presented as discontinued operations pursuant to IFRS 5 (note 2.31.A.VIII of Annual financial Report of 2018)

[2] Group's 2017 comparative figures of "Sale Proceeds", "Cost of Sales", "Gross Profit / (Loss)" and "Selling Expenses" are reclassified pursuant to IFRS 15 (note 2.35 of Annual financial Report of 2018)

# Sales Overview

Total revenue decreased by €59,8 million, or 6,4%, from €930,6 million in the twelve months period ended December 31, 2017 to €870,8 million in the twelve months period ended December 31, 2018. This decrease was mainly driven by decreased revenue in licensed operations and Technology and support services segments.

## Revenue by Business Activity

The following table sets forth our revenue for each business activity for the twelve months period ended December 31, 2018 and 2017.

| Revenue by Business Activity (€ in millions) | twelve months ended December 31, | | % change |
|---|---|---|---|
| (audited) | 2017 | 2018 | |
| Licensed operations | 598,6 | 577,7 | -3,5% |
| Management contracts | 99,5 | 90,2 | -9,3% |
| Technology and support services | 232,5 | 202,9 | -12,7% |
| **Total** | **930,6** | **870,8** | **-6,4%** |

Revenue in our licensed operations activity line decreased by €20,9 million, or 3,5%, from €598,6 million in the twelve months period ended December 31, 2017 to €577,7 million in the twelve months period ended December 31, 2018. The decrease is attributed to **Argentina's** lower revenue (€-22,6 million) as a result of the macro environment in the country (application of hyper-inflationary economy reporting standard[1]), the impact of the suspended license in **Cyprus** in 4Q 2017 (€-16,0 million), in part offset by our Licensed Operations in **Bulgaria** (€+13,8 million), mainly following the growth in Virtual Sports, Racing, and Sports Betting; with the growth in part fueled by the increasing Payout, and **Poland** with additional revenues of €6,2 million due to the growth of the interactive Sport Betting channel (following market regulation) and the introduction of Virtual Games in 2Q17.

Revenue in our management contracts activity line decreased by €9,3 million, or 9,3%, from €99,5 million in the twelve months period ended December 31, 2017 to €90,2 million in the twelve months period ended December 31, 2018. The variance is mainly driven by the deficit, in Euro terms, from our **Turkish** operations (€-13,2 million), where, in local currency terms, FY18 revenue showcased a c.+14,0% increase attributed both to the growth of the Sport Betting Market year over year (c.+17,0% in local currency) and the shift towards Online Sports Betting (c.62,0% sales mix participation vs. c.54,0% a year ago). Nevertheless, the benefit of the Sports Betting market expansion and mix change has been fully counterbalanced by the devaluation of the local currency (c.39,0% Euro appreciation versus a year ago – in YTD average terms). This deficit has been in part offset by **Morocco's** (€+4,8 million or c.+22% y-o-y growth) Sports Betting sales uplift attributed to the enhanced product offering.

[1] Argentina 2018 figures have been restated based on IAS 29 (Financial Reporting in Hyperinflationary Economies) so as to reflect current purchasing power. LY figures have not been restated based on IAS 21 (The Effects of Changes in Foreign Exchange Rates). For further information, you may refer to the Notes of the Financial Report for the period ended 31 December 2018.

Revenue in our technology and support services line decreased by €29,6 million, or 12,7%, from €232,5 million in the twelve months period ended December 31, 2017 to €202,9 million in the twelve months period ended December 31, 2018. This decrease was mainly due to lower sales in **Greece** (€-11,5m) primarily driven by the transition to the new OPAP contract, after July '18, that has a smaller contract value, due to its limited scope (vs. the previous contract), specifically in the field of numerical games, and last year's one-off fee in relation to the Hellenic Lotteries project, partially offset by increased revenue to associates (Peru and Taiwan), **Argentina's** lower recorded sales in Euro terms (€-10,2 million) as a result of the macro environment in the country (application of hyper-inflationary economy reporting standard[1]), **Australia's** lower recorded revenue (€-5,1 million) largely as a result of a software license right sale in 2Q17 coupled with adverse local currency movement (c.7,0% Euro appreciation – in YTD average terms) and our **US** operations' lower revenues in Euro terms (€-7,1 million) mainly as a result of last year's multi-play self-service lottery terminals sale in Ohio in 4Q17, significantly higher than this year's equipment sale in Massachusetts. In local currency base and excluding terminal sales in both years, our US operations presented a 6,8% increase (or +11,9% after excluding also the impact of South Carolina expired contract across the years), driven by the significant Jackpots in 4Q18 (including a record-high Mega Million Jackpot), the improved contract terms (e.g. Idaho) and the higher other services income that fully absorbed the South Carolina contract expiration, and the adverse USD movement (c.5,0% Euro appreciation versus a year ago — in YTD average terms). The maturing **Chilean** contract (€+2,4 million), that went live in early 1Q17, partially offset the decrease year over year.

## Gross Gaming Revenue (GGR) by Business Activity

The following table sets forth our gross gaming revenue for each business activity for the twelve months period ended December 31, 2018 and 2017.

| GGR by Business Activity (€ in millions) | twelve months ended December 31, | | % change |
|---|---|---|---|
| (unaudited) | 2017 | 2018 | |
| Licensed operations | 176,7 | 163,8 | -7,3% |
| Management contracts | 99,5 | 90,3 | -9,3% |
| Technology and support services | 232,5 | 202,9 | -12,7% |
| **Total** | **508,7** | **457,0** | **-10,2%** |

Gross Gaming Revenue (GGR) from continuing operations decreased by 10,2% (€-51,7 million to €457 million) year over year driven by the significant drop in the non-payout related GGR (€-40,7 million vs. FY17), following the top line performance of our Technology & Management contracts, and the decrease in our payout related GGR (-6,4% y-o-y or €-11,0m), following the lower top line performance of our licensed operations (-3,2% y-o-y on wagers[2]) and the increased YTD average Payout. FY18 Average Payout Ratio was up by 0,9pps vs. LY (72,0% vs. 71,1%) primarily due to an increasing weighted contribution from Bulgaria (payout and wagers driven), Poland (wagers driven), and Malta (payout and wagers driven) counterbalanced by the suspended license in Cyprus in 4Q 2017 (with a higher than average payout), Argentina (wagers and payout driven), and Brazil (wagers and payout driven).

## Gross Profit Margin

The Gross profit margin in the twelve months period ended December 31, 2018 was 18,5%, from 21,5% in the twelve months period ended December 31, 2017, negatively affected mainly by the worsening margin of the B2B/ B2G contracts compared to the same period a year ago. Overall, Gross Profit decreased by 19,4% (or €-38,8 million) compared to the FY17 levels.

## Other Operating Income

Other operating income decreased by €0,5 million, or 3,0%, from €16,7 million in the twelve months period ended December 31, 2017 to €16,2 million in the twelve months period ended December 31, 2018. The major driver of this decrease was the adverse effect of ARS movement against the Euro.

[2] Licensed Operations Revenue include also a small portion of non-Payout related revenue, i.e. value-added services, which totaled €3.2 million and €5.0 million for FY18 and FY17, and €0.3 million and €1.2 million for 4Q18 and 4Q17 respectively.

## Selling Expenses

Selling expenses decreased by €2,0 million, or 4,9%, from €40,7 million in the twelve months period ended December 31, 2017 to €38,7 million in the twelve months period ended December 31, 2018. This decrease was primarily due to lower advertising costs in Morocco, as well as in Turkey because of the effect of TRY movement against the Euro.

## Administrative Expenses

Administrative expenses decreased by €0,9 million, or 1,2%, from €74,7 million in the twelve months period ended December 31, 2017 to €73,8 million in the twelve months period ended December 31, 2018. This decrease was primarily due to lower costs in Turkey and Argentina because of the effect of TRY and ARS movement against the Euro, partially offset by higher costs in USA.

## Research and Development Expenses

Research and development expenses decreased by 2,4 million or 39,3%, from €6,1 million in the twelve months period ended December 31, 2017 to €3,7 million in the twelve months period ended December 31, 2018.

## Other Operating Expenses

Other operating expenses increased by €3,0 million, or 42,9%, from €7,0 million in the twelve months period ended December 31, 2017 to €10,0 million in the twelve months period ended December 31, 2018. This increase was mainly due to higher provisions for penalties in Morocco in 2018.

## EBITDA

As a result of the above and the FX loss (€29,0 million) from translation to EUR , EBITDA decreased by €34,5 million, or 22,8%, from €151,0 million in the twelve months period ended December 31, 2017 to €116,5 million in the twelve months period ended December 31, 2018 while EBITDA margin decreased from 16,2% in the twelve months period ended December 31, 2017 to 13,4% in the twelve months period ended December 31, 2018, impacted negatively by the worsening margins of the B2B/ B2G segment; mainly due to OPAP's new contract scope, USA's margin contraction (lack of significant terminals sale, SC contract discontinuation, and IL implementation expenses), Australia's software license right sale in 2Q17, and first-time consolidation of Bit8.

## Income / (expenses) from participations and investments

Income / (expenses) on participations and investments improved by €42,5 million, from expense of €24,1 million in the twelve months period ended December 31, 2017 to income of €18,4 million in the twelve months period ended December 31, 2018. This improvement was primarily due to the reversal (€16 million) of prior year impairment provision regarding the investment in Gamenet (Italy), as well as due to higher dividend income from dividends and lower impairment losses from other investments in 2018.

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

Gain/(loss) from assets disposal, impairment and write-off deteriorated by €17,0 million, from loss of €2,3 million in the twelve months period ended December 31, 2017 to loss of €19,3 million in the twelve months period ended December 31, 2018. This deterioration was primarily due to higher assets impairment losses in 2018, mainly because of the goodwill impairment provision (€14,4 million) regarding Inteltek (Turkey).

## Interest and Similar Expenses

Interest and similar expenses decreased by €19,6 million, or 28,0%, from €70,0 million in the twelve months period ended December 31, 2017 to €50,4 million in the twelve months period ended December 31, 2018. This decrease was primarily due to May2021 bond and bank facilities accelerated amortization of issue costs and redemption premium charged in 2H2017 because of early repayments in 2017, as well as lower LG costs in 2018.

## Interest and Related Income

Interest and related income increased by €1,2 million, or 17,4%, from €6,9 million in the twelve months period ended December 31, 2017 to €8,1 million in the twelve months period ended December 31, 2018, primarily due to higher interest income on bank deposits and debtors in 2018.

## Profit/(loss) from equity method consolidation

In the twelve months period ended December 31, 2018 we had a net loss from equity method consolidation of €18,3 million, compared to a net loss €3,4 million in the twelve months period ended December 31, 2017, mainly derived from of our associate companies in Asia, Peru and Italy.

## Operating Profit before Tax

As a result of the above and due to exchange differences from a loss of €5,7 million in the twelve months period ended December 31, 2017 to a gain of €8,2 million in the twelve months period ended December 31, 2018 and increased depreciation and amortization by €2,5 million, operating profit before tax improved by €8,2 million from a loss of €10,3 million in the twelve months period ended December 31, 2017 to a loss of €2,1 million in the twelve months period ended December 31, 2018.

## Taxes

Taxes decreased by €5,6 million, or 29,6%, from €18,9 million in the twelve months period ended December 31, 2017 to €13,3 million in the twelve months period ended December 31, 2018. This decrease was primarily due to the lower taxable 2018 profits in Argentina, and Australia, as well as positive effect of deferred taxation in various jurisdictions.

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

As a result of the above, net profit/(loss) from continuing operations improved by €13,8 million, from a loss of €29,2 million in the twelve months period ended December 31, 2017 to a loss of €15,4 million in the twelve months period ended December 31, 2018.

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

Net profit/(loss) from discontinued operations in Azerbaijan, Russia, Santa Lucia, Jamaica and Slovakia increased by €19,2 million, from a profit of €23,2 million in the twelve months period ended December 31, 2017 to a profit of €42,4 million in the twelve months period ended December 31, 2018.

## Analysis of discontinued operations:

## A) Azerbaijan

The management of the subsidiary Inteltek Internet AS (45%), parent of Azerinteltek AS, decided in mid-February 2018 to investigate the possibility of selling its 51% stake in Azerinteltek AS. At the end of October 2018, Inteltek Internet AS's management decided to sell 51% of Azerinteltek AS shares (nominal value AZN51.000) to Baltech Investment LLC, which owns 24,5% of Azerinteltek AS's share capital. On 15/11/2018 the final Share Purchase Agreement (SPA) was signed for a total consideration of approximately €19,5 million.
Below are presented the results of discontinued operations of the Group in Azerbaijan for the period 1/1-31/12/2018 (in 2018 it was consolidated with the full consolidation method until 31/12/2018), as well as the corresponding period of 2017:

| | 1/1-31/12/2017 | 1/1-31/12/2018 |
|---|---|---|
| Sale proceeds | 153,3 | 163,6 |
| **EBITDA** | **20,4** | **25,0** |
| **Profit/(loss) after tax** | **11,3** | **15,1** |
| | | |
| Gain/(loss) from disposal of discontinued operations | 0,0 | 27,3 |
| Corresponding tax | 0,0 | 0,0 |
| **Profit/(loss) after tax from discontinued operations** | **11,3** | **42,4** |
| | | |
| Attributable to: | | |
| Equity holders of parent | 5,2 | 32,9 |

| | | |
|---|---|---|
| Non-Controlling Interest | 6,1 | 9,5 |

## B) 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. In June 2017, the Group signed a disposal agreement for the 100% of Favorit Bookmakers Office OOO.
Below are presented the results of discontinued operations of the Group in Russia (Favorit Bookmakers Office OOO) for the first half of 2017:

| | 1/1-30/06/2017 |
|---|---|
| Sale proceeds | 0,0 |
| **EBITDA** | **-0,2** |
| **Profit/(loss) after tax** | **-0,3** |
| | |
| Gain/(loss) from disposal of discontinued operations | -11,6 |
| Corresponding tax | 0,0 |
| **Profit/(loss) after tax from discontinued operations** | **-11,9** |

## C) Jamaica

The Group signed a Sales and Purchase Agreement (SPA) with Zodiac International Investments Ltd in the beginning of October 2017 for the sale of its 50,05% stake in Intralot Caribbean Ventures Ltd, which owns 49,9% of the subsidiary Supreme Ventures Limited - a company listed on the Jamaica Stock Exchange. The consideration price was agreed at USD 40 million, which corresponds to approximately 12 times the annual (reference period of the last twelve months to 30.6.2017) profit after tax attributable to the shareholders of the Group.
Below are presented the results of the discontinued operations of the Group in Jamaica and Santa Lucia (Supreme Ventures Ltd and Intralot Caribbean Ventures Ltd) for the period 1/1-02/10/2017 (in 2017 they were consolidated with the full consolidation method until 2/10/2017):

| | 1/1-02/10/2017 |
|---|---|
| Sale proceeds | 287,6 |
| **EBITDA** | **14,2** |
| **Profit/(loss) after tax** | **9,5** |
| | |
| Gain/(loss) from disposal of discontinued operations | 15,7 |
| Corresponding tax | 0,0 |
| **Profit/(loss) after tax from discontinued operations** | **25,2** |
| | |
| Attributable to: | |
| Equity holders of parent | 18,3 |
| Non-Controlling Interest | 6,9 |

## D) Slovakia

The Group signed on 18 December 2017 a Sales and Purchase Agreement (SPA) with Olbena S.R.O. to sell its 51% stake in subsidiary Slovenske Loterie AS. The consideration price was agreed at €1,75 million, which corresponds to approximately 12 times the annual (reference period of the last twelve months to 30.9.2017) EBITDA.

Below are presented the results of the Group's discontinued operations in Slovakia (Slovenske Loterie AS) for the period 1/1-18/12/2017 (in 2017 they were consolidated with the full consolidation method until 18/12/2017):

| | 1/1-18/12/2017 |
|---|---|
| Sale proceeds | 4,4 |
| **EBITDA** | **-0,2** |
| **Profit/(loss) after tax** | **-0,4** |
| | |
| Gain/(loss) from disposal of discontinued operations | -1,0 |

| | |
|---|---|
| Corresponding tax | 0,0 |
| **Profit/(loss) after tax from discontinued operations** | **-1,4** |
| Attributable to: | |
| Equity holders of parent | -1,2 |
| Non-Controlling Interest | -0,2 |

## 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 €33,0 million, from a loss of €6,0 million in the twelve months period ended December 31, 2017 to a profit of €27,0 million in the twelve months period ended December 31, 2018.

## Net Income Attributable to Owners of the Parent

After deducting non-controlling interests, total operations net income attributable to the owners of the parent improved by €27,8 million, from a loss of €53,4 million in the twelve months period ended December 31, 2017 to a loss of €25,6 million in the twelve months period ended December 31, 2018.

Net income from continuing operations attributable to the owners of the parent improved by €5,3 million, from a loss of €63,8 million in the twelve months period ended December 31, 2017 to a loss of €58,5 million in the twelve months period ended December 31, 2018.

## 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 decreased by €65,4 million, or 42,5%, from €154,0 million in the twelve months period ended December 31, 2017 to €88,6 million in the twelve months period ended December 31, 2018. This decrease was primarily driven by the following:

- profit before taxation from total operations (continuing and discontinued) increased by €24,7 million, or 97,2%, from €25,4 million in the twelve months period ended December 31, 2017 to €50,1 million in the twelve months period ended December 31, 2018, mainly due to the improvement by €16,5 million of profit before taxation from discontinuing operations (€35,7 million in 2017 versus €52,2 million in 2018), as well as due to improvement by €8,2 million of profit before taxation from continued operations as described above;
- depreciation and amortization from total operations increased by 1,5% from €64,6 million in the twelve months period ended December 31, 2017 to €65,6 million in the twelve months period ended December 31, 2018, due to increased capital expenditure during the last two years;
- the effect of provisions on cash flow was positive €5,7 million in the twelve months period ended December 31, 2017 and positive €22,2 million in the twelve months period ended December 31, 2018, mainly due to higher assets impairment provisions in 2018, such as Inteltek goodwill impairment by 14,4 million ;
- the effect of results from investing activities on cash flow was positive €29,4 million in the twelve months period ended December 31, 2017 and negative €33,7 million in the twelve months period ended December 31, 2018, mainly due to higher (€26,1 million y-o-y) net FX losses in 2017 mainly because of the FX reserve recycling to P&L for discontinued operations, as well as higher (€2,5 million y-o-y) dividend income in 2018, higher net gains from disposals of discontinued operations in 2018 (€8,9 million y-o-y), positive effect from provisions of investments impairment (€40 million y-o-y), partially set-off by (€14,9 million y-o-y) net loss from associates results in 2018;
- net interest results was €63,0 million in the twelve months period ended December 31, 2017 and €42,1 million in the twelve months period ended December 31, 2018, mainly due to May2021 bond and bank facilities accelerated amortization of issue costs and redemption premium charged in 2H2017 because of early repayments in 2017, as well as lower LG costs in 2018, and higher interest income on bank deposits and debtors in 2018;

- changes in our working capital, which led to a cash outflow of €33,8 million in the twelve months period ended December 31, 2018, compared with a cash inflow of €2,1 million in the twelve months period ended December 31, 2017;
    - In particular, there was an increase of €10,3 million in inventories in the twelve months period ended December 31, 2018, compared to an increase of €5,1 million in the twelve months period ended December 31, 2017, mainly due to new the projects under construction in America segment in 2018.
    - also, there was a decrease of €1,2 million in receivables in the twelve months period ended December 31, 2018, compared to an increase of €13,7 million in the twelve months period ended December 31, 2017, mainly due to the timing of revenue receipts in various projects.
    - also, there was a decrease of €24,7 million in payables towards our suppliers in the twelve months period ended December 31, 2018 compared to an increase of €20,9 million in the twelve months period ended December 31, 2017, mainly due to the repayment of a long due interest bearing liability of €13,0 million in 2018, as well as other suppliers payments related to new projects under construction in various segments in 2018; and
- income tax paid decreased by 33,7% from €36,2 million in the twelve months period ended December 31, 2017 to €24,0 million in the twelve months period ended December 31, 2018, mainly due to higher tax payments made in 2017 in Australia, Argentina, Morocco, Greece and discontinued operations in Jamaica.

On a pro-forma basis, i.e., excluding the operating cash-flow contribution of our discontinued operations in Azerbaijan, Russia, Jamaica and Slovakia, there is a decrease of €56,2m in Cash inflows from operating activities (€74,3m in 12M18 vs. €130,5m in 12M17 pro-forma).

## 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, 2018, net cash outflows from investing activities was €83,7 million, which was an increase of €37,4 million, or 80,8%, from outflows of €46,3 million in the twelve months period ended December 31, 2017. This increase is mainly attributable to higher net outflow of €12,4 million for (Purchases)/Sales of subsidiaries, associates, joint ventures and other investments in the twelve months period ended December 31, 2018 (mainly due to the inflow by the net consideration of €9,6 million from Azerinteltek disposal in 2018, inflow of €3,1 million capital return from Hellenic Lotteries in 2018, partially set-off by the outflow for the indirect investment of €6,8 million in Hellenic Casino Parnitha, compared to net inflow of €18,3 million in 2017 from cash collateral release and the M&A transactions net inflows), higher outflow of €29,4 million for capital expenditure, lower inflow of €1,2 million for interest received from bank deposits and debtors, and higher inflow of €5,6 million for dividend income.

Our capital expenditure in the twelve months period ended December 31, 2018 reached €103,7 million while in the twelve months period ended December 31, 2017 reached €74,3 million. Major capital expenditure items in the twelve months period ended December 31, 2018 include investments in R&D of €17,5 million, investments in our business in USA €59,1 million, AMELCO project €5,8 million, Turkey €1,3 million, Morocco €1,5 million, Argentina of €0,9 million, Netherland €0,9 million and Oceania €0,6 million.

Maintenance capital expenditure during the twelve months period ended period December 31, 2018 was €19,9 million in comparison to €21,3 million in the twelve months period ended December 31, 2017 (excluding discontinued operations in Azerbaijan, Jamaica, Slovakia & Russia).

## 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, 2018, net cash outflows from financing activities was €73,2 million, compared to net cash outflows of €16,3 million in the twelve months period ended December 31, 2017. This increase of net cash outflows from financing activities consisted of €54,0 million outflow in net cash flows from financing arrangements (mainly due to net outflow of €235,7 million because of the September2024 bond issued in 2017, May2021 bond redemption in 2017 and the bond buybacks in 2018, net inflow of Intralot Finance UK Ltd syndicated/term loans of €175,0 million mainly because of the facilities repayments in 2017, net inflow of €6,7 million of local facilities and leasing arrangements in USA, Brazil, Bulgaria, Jamaica, Turkey, Poland and Netherlands), lower interest payments by €3,0 million in

2018 due to timing difference in bonds coupon payments and lower dividends distribution in 2018 to minority interests amounting to €2,3 million.

## Cash & Cash Equivalents

The following table sets forth our Cash & Cash Equivalents as of December 31, 2018 and December 31, 2017.

| Cash & Cash Equivalents (€ in millions) | December 31, 2017 | December 31, 2018 | % change |
|---|---|---|---|
| Partnerships[1] | 80,7 | 77,8 | -3,6% |
| All other Operating Entities (with revenue contracts) & HQ | 157,3 | 84,7 | -46,2% |
| **Total** | **238,0** | **162,5** | **-31,7%** |

[1] As Partnerships we define our Operations in Turkey (Inteltek & Bilyoner), Bulgaria (Eurofootball Group & Eurobet Group), Azerbaijan, and Argentina

Cash and cash equivalents at the end of the FY18 period decreased by €75,5 million vs. FY17. Of the Cash & Cash Equivalents at the end of December 31 2018, €77,8 million are located in our partnerships, and the rest across all other Operating entities (with revenue contracts) and HQ (€84,7 million), with an amount of approximately €30,0 million allotted as Working Capital in the operating entities (with revenue contracts).

# Proportionate & Pro Forma Results of Operations of the INTRALOT Group

## Proportionate Financial Metrics

Pro-Forma comparison of selected Proportionate Financial Metrics for the twelve months period ended December 31, 2017 with the twelve months period ended December 31, 2018

| Proportionate Financial Metrics[1] – Pro Forma (€ in millions) | twelve months ended December 31, | | % change |
|---|---|---|---|
| | 2017 | 2018 | |
| Proportionate Revenue | 637,6 | 606,1 | -4,9% |
| Proportionate GGR | 384,7 | 352,9 | -8,3% |
| Proportionate **EBITDA** | **102,7** | **77,3** | **-24,7%** |
| Adjusted EBITDA [2] | 126,4 | 106,7 | -15,6% |
| | December 31, 2017 | December 31, 2018 | |
| Proportionate Gross Debt [3] | 747,5 | 776,8 | - |
| Proportionate Cash & Cash Equivalents [3] | 188,4 | 116,7 | - |

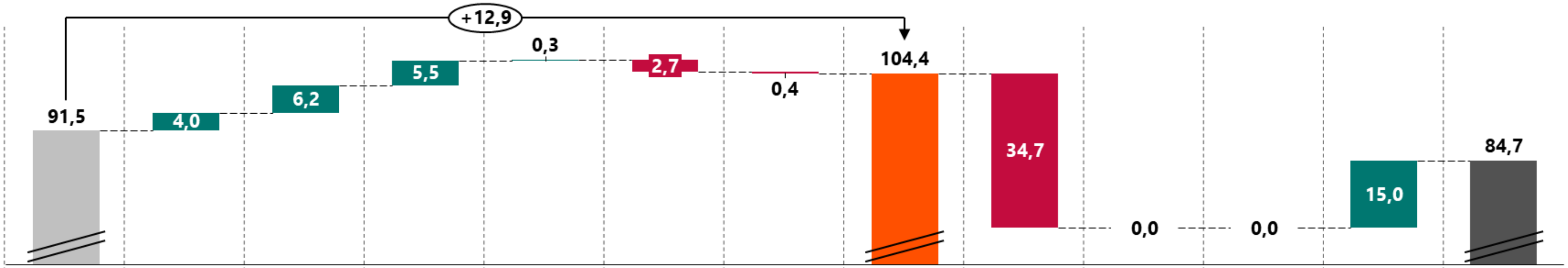
[1] The activities of Group subsidiaries Azerinteltek AS (Azerbaijan), Favorit Bookmakers Office OOO (Russia), Intralot Caribbean Ventures Ltd (Santa Lucia), Supreme Ventures Ltd (Jamaica) and Slovenske Loterie AS (Slovakia) are presented as discontinued operations pursuant to IFRS 5 (note 2.31.A.VIII of annual financial report of 2018)
[2] Calculated as Proportionate EBITDA of fully consolidated entities including EBITDA from equity investments in Italy, Peru, Greece and Taiwan
[3] 31/12/2017 figures have been adjusted to exclude balances of Group discontinued operations in Azerinteltek AS.

## Pro-Forma Cash Flow – Shareholders of the Parent View (1/2)

The following chart portrays the Shareholders of the Parent View of the Cash Flow Movement (Pro-Forma) for the three months period ended December 31, 2018, as well as the historical values of 4Q17 and 3Q18.

**Pro-Forma Cash Flow – Shareholders of the Parent View, 4Q18**

*€m*




| Historical Values | Cash & Cash Equivalents, 3Q18 | EBITDA | Net Dividends, and Fees from Partnerships & Equity Stakes | WC, FX & All Other | Tax | Maintenance CAPEX | Net Interest | Cash Available for Investments | Growth & Contract Renewals CAPEX | Disposals/ M&A/ Investments | Refinancing Fees & Expenses | Net Loan & Leases Movement | Cash & Cash Equivalents, 4Q18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 4Q17 | **407,5** | 16,4 | 5,8 | -5,8 | -7,8 | -6,0 | -3,8 | **406,3** | -7,7 | 27,8 | -23.9 | -245,2 | **157,3** |
| 2 3Q18 | **136,3** | 10,7 | 6,2 | -5,0 | -1,9 | -4,6 | -22,4 | **119,3** | -17,6 | | | -10,2 | **91,5** |

The main variance (YoY and QoQ) drivers are portrayed in the table below

| Shareholders of the Parent View | YoY Variances Explained 1 | QoQ Variances Explained 2 |
|---|---|---|
| **EBITDA** | ▪ EBITDA deficit mainly driven by OPAP new contract scope, HL related one-off fee in 4Q17, and US EBITDA shortfall (terminals sale in 4Q17, SC contract discontinuation, and IL implementation expenses' impact in part offset by the 4Q18 USA jackpots) | ▪ EBITDA lower than 3Q18, mainly driven by OPAP new contract scope, and the penalty provisions in Morocco, in part offset by the performance of our US operations (boosted by significant Jackpots in 4Q18) |
| **Net Dividends, and Fees from Partnerships** | ▪ Positive variance driven by Bilyoner 2018 advance dividend distribution | ▪ Similar QoQ performance |
| **WC, FX & All Other** | ▪ Better WC mainly following the inventory transfers to CAPEX (US projects) vs. an unfavorable receivables timing variance in the US in 4Q17 (related to equipment sale)<br>▪ Favorable FX variance vs. a year ago<br>▪ No treasury shares purchases in 4Q18 | ▪ QoQ WC improvement mainly following the inventory transfers to CAPEX (US project)<br>▪ Slightly worse FX impact QoQ<br>▪ No treasury shares purchases in 4Q18 vs. 3Q17 |
| **Tax** | ▪ Lower tax outflows compared to 4Q17 mainly driven by INTRALOT SA's prior year tax payments (related to one-off profits in 2016) coupled with a tax refund received in 4Q18 by INTRALOT SA | ▪ Lower tax outflows driven mainly by a tax refund received by INTRALOT SA in 4Q18 |
| **Maintenance CAPEX** | ▪ Maintenance CAPEX outflow in line with FY17 figure, of around €20,0m | ▪ Maintenance CAPEX outflow in line with FY17 figure, of around €20,0m |
| **Net Interest** | ▪ Lower interest vs. 4Q17 mainly due to bond coupons payments schedule transition after 2017 refinancing (4Q17 included a payment of 250HYB 6.00% accrued interest) | ▪ Lower interest due to coupon payments timing (2 coupon payments in 3Q18 vs. none in 4Q18) |
| **Growth & Contract Renewals CAPEX** | ▪ Higher outflows (vs. 4Q17) given the US contract investments (mainly Illinois and Ohio) | ▪ Increased CAPEX in 4Q18 following significant Illinois and Ohio outflows |
| **Disposals/ M&A/ Investments** | ▪ The prior year main driver is the disposal of our Jamaican business stake in 4Q17 partially offset by the Bit8 acquisition (4Q17) | ▪ Not applicable |
| **Refinancing Fees & Expenses** | ▪ 2017 Refinancing expenses | ▪ Not applicable |
| **Net Loan & Leases Movement** | ▪ Net loan/ leases uptake in 4Q18 (US operations driven) vs. mainly the 250HYB 6.00% repayment in 4Q17 | ▪ Net loan/ leases movements in both Qs mainly driven by our US operations |

## Pro-Forma Cash Flow – Shareholders of the Parent View (2/2)

The following chart portrays the Shareholders of the Parent View of the Cash Flow Movement (Pro-Forma) for the last twelve months ended December 31, 2018, as well as the historical values of LTM 3Q18 and LTM 2Q18.

**Pro-Forma Cash Flow – Shareholders of the Parent View, FY18**
*€m*


| Historical Values | Cash & Cash Equivalents, FY17 | EBITDA | Net Dividends, and Fees from Partnerships & Equity Stakes | WC, FX & All Other | Tax | Maintenance CAPEX | Net Interest | Cash Available for Investments | Growth & Contract Renewals CAPEX | Disposals/ M&A/ Investments | Refinancing Fees & Expenses | Net Loan & Leases Movement | Cash & Cash Equivalents, FY18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 LTM 3Q18 | **407,5** | 59,7 | 41,9 | -37,8 | -14,3 | -21,2 | -50,0 | **385,8** | -55,5 | 24,2 | -23,9 | -239,1 | **91,5** |
| 2 LTM 2Q18 | **78,8** | 64,7 | 41,2 | -31,4 | -17,5 | -20,1 | -39,5 | **76,2** | -48,9 | 26,8 | -23,9 | 106,1 | **136,3** |

# Major Contracts Overview & Update

## Overview & LTM Contribution

Selected Entities/ Projects contribution in the twelve months ended December 31, 2018 after Intragroup eliminations.

| Entity/ Project/ Description | Partnership | Contract type | Revenue Contribution | GGR Contribution | GP Contribution[1] | EBITDA Contribution[1] | Contract Expiry (w/o Renewals)[6] |
|---|---|---|---|---|---|---|---|
| **13 Technology Contracts with State Lotteries[2]** | DC only | Technology | 10% | 20% | 9% | 25% | 2027 |
| **OPAP[3]** | | Technology | 2% | 4% | 4% | 3% | 2021 |
| **Hellenic Lotteries** | | Technology | 1% | 1% | 1% | 0% | 2026 |
| **12 Technology Contracts with State Lotteries and 1 Licensed Operation** | Yes | Technology/ Licensed Operations | 7% | 7% | 8% | 10% | 2024 |
| **2 VLT Monitoring Contracts and 1 Technology Contract[4]** | | Technology | 2% | 4% | 12% | 11% | 2027 |
| **Inteltek** | Yes | Management Contracts | 4% | 8% | 15% | 16% | August 2019 |
| **Bilyoner** | Yes | Management Contracts | 3% | 6% | 14% | 11% | 2019 - Renewable at the discretion of the Administration |
| **Intralot Maroc[5]** | | Management Contracts | 3% | 6% | 15% | 7% | 2019 |
| **Eurofootball Group** | Yes | Licensed Operations | 31% | 13% | 16% | 18% | Open Market License |
| **Eurobet Group** | Yes | Licensed Operations | 7% | 4% | 5% | 5% | Open Market License |
| **Maltco** | | Licensed Operations | 11% | 8% | 6% | 10% | 2022 |
| **Subtotal** *(% of FY18)* | | | **81%** | **81%** | **105%** | **116%** | |
| **FY18** *(in million €)* | | | **870,8** | **457,0** | **161,3** | **116,5** | |

*[1] Management estimation incorporating direct expenses and apportionment of indirect expenses related to the project/country*
*[2] USA figures include also the Philippines project contribution*
*[3] OPAP FY contribution refers to both the extended contract that ended July 31 2018 and the new contract, of a smaller contract value due to the limited scope (vs. the previous contract), thereafter*
*[4] New Zealand Monitoring ends in 2022 while that in Victoria (Australia) ends in 2027; the Lottery West contract ends in 2021 (without considering extension options)*
*[5] Contract with SGLN currently expired in December 2018. A one-year extension with MDJS up to December 2019 has been agreed (RFP process is underway)*
*[6] If multiple contracts exist, the one with the longest maturity is displayed (without considering extension options)*

# Headquarters in Greece

## Cost & Effort Allocation

In Greece, we provide technology support and support services for the operation of private gaming and the lottery through Intralot S.A., our parent company. Originally incorporated in Athens in 1992, we won our first domestic contract in 1993. We currently operate two contracts in Greece.

As the center of our operations, Greece is also home to our betting center that controls our global fixed-odds betting activity, and significant research and development programs (Technology Hub), as well as our corporate headquarters which supports the wider Intralot ecosystem, employing close to 690 employees currently (close to 780 headcount footprint in Greece). As such, Intralot S.A. expenses are allocated across the different projects, including among others the Greek projects, as follows:

| **Intralot S.A. expenses allocation per project** (Last twelve months ended December 31, 2018) | **OPAP** | **HL** | **Taiwan** | **Peru** | **Malaysia** | **All Other[8]** |
|---|---|---|---|---|---|---|
| CoS | 27,5% | 10,3% | 8,4% | 3,6% | 5,9% | 44,3% |
| Selling | 17,7% | 20,0% | 4,0% | 2,0% | 3,0% | 53,3% |
| Admin | 17,4% | 2,0% | 4,0% | 2,0% | 2,0% | 72,6% |
| R&D | 28,9% | 8,8% | 7,7% | 4,9% | 3,1% | 46,6% |

[8] Refers to other smaller contracts with 3rd party clients, costs related to Intralot Group subsidiaries as well as other general administration expenses, including the effort allocated to service and support the pipeline of won and upcoming contracts.