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"First Quarter Financial Results"

Conference Call

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Conductors:

Mr. Constantinos Louropoulos, Chairman of BoD & CEO

Conference Call Conducted by Chorus Call Hellas



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OPERATOR: Good afternoon ladies and gentlemen, this is the Chorus Call Conference Operator.

Welcome and thank you for joining OPAP's First Quarter 2013 Financial Results conference call.

At this time I would like to turn the conference over to Mr. Constantinos Louropoulos, Chairman of the Board and CEO of OPAP S.A.

Mr. Louropoulos, please go ahead.

LOUROPOULOS C: Good afternoon to everyone. Thank you very much again for your participation in OPAP's Q1 2013 Results Conference Call.

Starting our assessment on the reported numbers, although the economic sentiment and investors' confidence is gradually improving, Q1 macro figures were once again quite negative. According to the Hellenic Statistical Authority, the GDP has contracted by 5.3%, while retail sales dropped by 15% for the quarter.

Coming to our gaming market, as you all know, the 30% taxation on the gross gaming revenue is effective since January 1 and it is having an adverse impact on... of circa €85 million on our EBITDA.

In addition, player winnings taxation had a considerable effect on players' psychology that in turn affected our sales in a negative way. On top of that, and again due to new tax regime, since the unclaimed winnings are now returned to the state, we

incurred an additional cost related to our games' promotion. This was a one-time measure to reverse the sharp decline in Q1, 2013, up until the tax regime would be changed.

On a positive note, the taxation on player winnings from the very first euro has been amended since April the 1st, as we managed to convince the authorities to amend the tax regime. And I must say from the first few weeks of the new situation that a certain degree of recovery is already evident in our wagers.

Finally, let me point out that our Q1 financials were hit by one-off factors, such as a number of €2.1 million impairment of the Cypriot subsidiaries' bank deposits and the development expenses linked with the acquisition of new licenses in the Hellenic Lotteries Project.

Referring to our cash balance, we once more increased our net cash position to €247 million, even after excluding €96 million, which is restricted for the Hellenic Lotteries license payment.

Overall, the financial outlook for the year remains challenging, but we are confident that we will achieve the target of €116 million, as projected in our management presentation.

With regards to new projects, the review of the Court of Auditors which is a prerequisite for the VLTs operations... sorry, for the Hellenic Lotteries Project, has granted to our consortium approval for the Hellenic Lotteries concession. We are now finalizing the Articles of Incorporation of the new Company, and

other details with our partners in order to sign the relevant agreement with the Hellenic Republic Asset Development Fund.

As for the VLTs project, there are several elements to be mentioned. The regulation that was supposed to be released in April 2013 got a new standstill status by the EU until the 8th of July 2013. Nevertheless, we are doing preparations and planning work to select the standard system to evaluate vendors and identify best locations. In the last activity i.e. the definition of locations, we are in the middle of a process to engage our agents and obtain formal response by them as far as their intentions are concerned, if each and everyone is willing and capable to participate in the formation, the operation and financing of the VLT holds.

As far as the line is concerned, D2 is still our preferred company to discuss and we are evaluating the best way of setting up this business.

So this is the conclusion of my main presentation and we are now open to take any questions that you may have. Thank you.

Q&A

OPERATOR: The first question is from Mr. Draziotis Stamatios of Eurobank Equities. Please go ahead, sir.

DRAZIOTIS S: Yes, hi there and thanks for taking my questions. I actually missed the comment you made about the games promotion in the quarter to revert the wagers decline due to the tax on winnings. So, if you could maybe help us understand a bit

better the... you know, this decline and if..., you know, if you have an estimate based on the work you've done internally as to the extent to which this tax impacted performance in the quarter? And I guess this relates to how we should approach your performance in the remainder of the year, i.e., what sort of trends you've been experiencing in Q2?

LOUROPOULOS C: So, regarding this one-time measure, as we call it one-time, this was to allocate a few sales and marketing expenses, which in the past were spent from the so-called unclaimed winnings. With the new tax regime effective first of January, 2013, the unclaimed winnings have not yet... are not available for us. So we had to somehow divert the certain funds in the region of €5.9 million to marketing activities, but again this was an one-time decision. We do not anticipate that we will continue to do that in the next three quarters. And I missed your second part of your question, if you can repeat, please.

DRAZIOTIS S: Yes, but basically I am just trying to figure out here, effectively what the underlying decline you know, of the games was in Q1, because obviously, we had some, you know, the tax on winnings led to lower recycling. So, I am just trying to see here you know, if you have any estimate as to what this impact was, basically?

ROGAKOS V: We have started to notice some positive trends in the second Q due to the pace of the tax regime on player's winnings. But still it's quite early to elaborate and communicate any... very clear trends for the months to follow.

DRAZIOTIS S: Okay. And can I also ask a question on STIHIMA, in particular, I mean, I was just looking at the payout and noticed that this was, well similar to Q4 2012. But basically you know, near the lowest level in many quarters; I mean, I am just trying to understand here, is this attributed to favorable football results in the quarter, risk management or does it relate to the mix i.e. more multiple bets, more quadruples, for example. And, I mean, you know, you also mentioned in the Business Plan that the payout will increase from 2014 onwards to 73%. And I was wondering you know, whether you expect this change to...you know, to stop the migration to online channels, especially you know, OPAP is to retain the monopoly in online sports betting?

ROGAKOS V: The results for the first quarter were quite positive as communicated by other players. So practically, most of the European players have shown very positive payouts.

DRAZIOTIS S: Okay and.. so, this was not a mix effect, you would say, because of more multiple bets, it was mainly driven by results?

ROGAKOS V: We are focusing in promoting the multi-betting and this is our intention to guide our players, but for the first quarter it was not the case. We will try to develop and to promote the multi-betting to our players as well in order to keep the favorite payout.

DRAZIOTIS S: Okay, that's clear. And just a final question; about the... well regulation, basically, and I am referring to the online market in particular, if you could have an update on that and you know, what's happening there?

LOUROPOULOS C: Yes, I think I forgot to mention in my main body of my presentation that we are... we have already finished the drafting of the new regulations there is new rules of the games, the so-called *Kanonismoi* in Greek. We now have a new ability and new regime that the rules are developed by the Company. They are reviewed by the three member committee of the Gaming Commission. They are approved by the Gaming Commission. I hope, if I take the estimates of the timing ahead of us, that by September we will be in a position to have new rules of the games and that includes also the online games as well. And a very important element in the new rules is the scalable commission scheme, the variable commission scheme, that will allow us to have a more aggressive, say a payout strategy, and it would definitely increase the payout. And in that situation, we will have also attracting... we will attract more revenue and more players. So, that is the dimension that is very important, the rules of the games and hopefully by the end of the summer we will have this in place.

DRAZIOTIS S: Thanks, and just to clarify something, is this... I understand that the standstill period you know, after the gaming commission's prior decision regarding all these enforcement measures for the online segment, this standstill period ended in April, is this... has this... all these decisions have they started to come into effect or not really?

LOUROPOULOS C: The standstill comes from the European Union, from the Digi... I think Digimarc or Digicom. And the standstill is a suggestion to the National Authorities which is the gaming commission that certain points of the regulation should be reconsidered. It... based on what we know, not the whole regulation is affected.

However, up until we see a very clear total regulation cleared by the EU and the Greek Gaming Commission, we are just cautious. That is not to say that we cannot do the homework ourselves. Nevertheless, up until we have the full clearance by the regulating... the regulation authorities, we don't have a formal, I would say, go ahead the situation. So, the standstill does not affect our internal preparation work up until we are fully ready to deploy our new games.

DRAZIOTIS S: Okay, thanks very much.

OPERATOR: The next question is from Mr. Kourtesis Iakkovos of National Securities. Please go ahead, sir.

KOURTESIS I: Yes, good afternoon gentlemen. What I would like to ask, as we've seen in your Business Plan, your net profit for 2013 stands at €116 million. Taking into account that in the first quarter you have a net profitability of nearly €40 million, if you could reiterate this guidance provided to us. Second thing is about the Lotteries; Lotteries and scratch cards. In your Business Plan, you project that you are going to have in terms of GGR €45 million in 2013. However, recently we had some press reports there, some technical issues among the partners of the consortium that is led by you. And there may be some delays. So if you could further clarify what are these technical issues, and when do you expect to complete and fulfill the agreement with the Hellenic Republic Asset Development Fund? That will be my two questions.

LOUROPOULOS C: I cannot comment and I don't want to comment on publications on the press or the internet, I think as far as we are concerned,

the plan is to proceed as we have announced in our Business Plan. The only thing which is external to us and in fact there are two things that are external and they will affect, they may affect our timeline, is the process of acquiring the approval from the Competition Committee of Greece and Cyprus and the approval from the Greek Parliament. These are external processes, I cannot predict how much and what time these processes will be completed. But as far as we are concerned, we proceed according to our plan.

KOURTESIS I: And about your guidance for €116 million remains as it is?

ROGAKOS V: Yes, the guidance, we reiterate that net profits will be as about €116 million. We would not like to elaborate any further on that and on the assumptions behind, but we are insisting in this target.

KOURTESIS I: Okay, thank you.

OPERATOR: The next question is from Mr. Lewis Vaughan of Morgan Stanley. Please go ahead, sir.

LEWIS V: Hi, there. I have a few questions if that's okay. The first one is on VLTs. Can you just give us a bit more of a flavor about when you think you'll start rolling out the machines? So once the standstill period has ended, how long will it take to actually get the terminals and get them out and get some money? The second one, previously you talked about looking for acquisitions. Is that still the case? And, if not, would you consider re-leveraging the balance sheet? There seems to be a bit more access to financing there. And then on the third one, you

mentioned the new agent commission structure. Can you just expand on that, what is the new structure? When will it come into force, and how much flexibility does it give you on STIHIMA to increase the payout ratio? Thanks.

LOUROPOULOS C: The VLTs is an issue again with an external parameter which is the approval of the regulation, this second standstill was unexpected, and we were quite confident that April, this year, would be the final resolution of the rules. Nevertheless, we have this second standstill, so if there is... now, let me put in other way, this is something we cannot control. However, if there is no other standstill, we still plan to honor our plan that in Q1 '14, we shall have VLTs in place. Now, the acquisition, I didn't understand the question, what kind of acquisition you mean.

LEWIS V: Previously, the Company has talked about looking at professional acquisitions. I was wondering if that's still a possibility, and if not, whether you might re-leverage the balance sheet and what your plans there?

LOUROPOULOS C: I cannot recall any acquisitions reference to our plans. Is... I am asking my CFO here if there is anything that you can add to that.

ROGAKOS V: It was something discussed with the previous management and well before the new plants and the projects that they have developed mainly with the lotteries and the VLTs. So, no; there is not such a plan and the only plan that it's in place right now, is the latest that was published back in March.

LOUROPOULOS C: The scalable commission which was the last, the third element of your question, is going to help us in the following way. First of all, it will help us provide the better commission to the best performers, I mean, it will... we will link commission with performance, the performance of agents. And that will provide incentive for their agents to become sales persons. In fact, we also have a new training approach with our agents, we have performed for the first time in the recent history of this Company an energetic training approach to our agents, and we have visited many of them. We have organized regional training sessions around the country, and we are now launching a new program, which we will call it... we call it *positive sales attitude*. We are sending out the sales reps in the agencies and we help the agents, help the customers get more plays and play more. I can tell you that, we experienced impressive results in the sales that... in the agencies we have visited where there was a sales rep from us, from the headquarters, I mean, helping the agent promote certain plays and certain games. We have achieved double or triple increase in revenues in this case. If we couple the scalable commission with an incentives program to the agents to sell better, that will help us improve not only the top-line, but also and most importantly the bottom line. So that's basically the philosophy behind the new commission structure.

LEWIS V: Okay, that makes sense. But can you explain exactly what the new commission structure is? does it change for all of the products or is this just the variable commission on STIHIMA we are looking at?

LOUROPOULOS C: I will want to be more specific at this point that we have some loose ends to discuss with our agents.

LEWIS V: Okay. I think, on the last call, you were talking about 28% of gross win for the other games, outside STIHIMA or is... is that still the case or not?

LOUROPOULOS C: It is an option, but we have not finalized that yet, and I would prefer not to say anything final at this point.

LEWIS V: Okay and when might this go into force, then?

LOUROPOULOS C: We tried to split the implementation of the sales commission structure from the rest of the rules approval. As I told you the new rules of the games approval process may take two, three months. I hope that we will manage to separate the approval process of the scalable commission and implement it, as soon as possible i.e. next month. But that's not a promise, I mean, this is something that we will have to discuss with the gaming commission.

LEWIS V: Okay, but just for the purpose of this year, should we assume the commission level increases in the rest of the year or stays the same?

LOUROPOULOS C: That's my objective; my objective is to have the positive results affecting this year.

LEWIS V: Okay, thank you.

LOUROPOULOS C: Thank you.

OPERATOR: The next question is from Mr. Hatzidakis Manos of Beta Securities. Please go ahead, sir.

CHATZIDAKIS M: Hello, everybody. Just two questions from my side. The first one is to extend Mr. Kourtesis question, regarding Scratch Ticket and Lotteries. When do you think under the worst-case scenario the Scratch Ticket will be out in the market, I mean, is there a possibility to see this at the end of this year? And the second question is a technical issue. What was the reason for changing the date of the General Meeting? Thank you.

LOUROPOULOS C: The reason for changing the General Meeting was to have a... more time to make some preparatory work, because there wasn't enough time for certain decisions to be made. And regarding the lotteries expected... I cannot talk about worst case. I will stick to the plan that in Q4, we shall have the first revenues. Again, I remind here to you that we have two externalities. We will try to control those externalities, but it is beyond the boundaries of our authority. I am optimistic that the usual base of approvals will be followed and in this case we will honor our plan.

OPERATOR: The next question is from Mr. Arapoglou Ioannis of Piraeus Securities. Please go ahead, sir.

ARAPOGLOU I: Thank you, good afternoon. One question on my side; I see that distribution costs were up from 3% in the first quarter, actually the best in course, related to the last quarters of 2012. Is this something related to what you said about the one-off

promotional efforts or something we should also expect for the year? Thank you very much.

LOUROPOULOS C: Yes, it is related to the one-off promotional efforts, we hope, we see, we forecast that it will slow down in the next quarters.

ARAPOGLOU I: Thank you very much, sir.

OPERATOR: Gentlemen, there were no more questions registered at this time. You may now proceed with your closing statements.

LOUROPOULOS C: I think, I have to thank again everybody. It was a very interesting quarter, and I thank everybody for his or her participation in looking after our numbers, and I look forward for the next conference call. Thank you very much.