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"Nine Month 2014 Financial Results"
Conference Call

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&

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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 Nine Month 2014 Financial Results conference call.

Please note that a PDF presentation for the Results is now available on OPAP's website www.opap.gr under the section for Investor Relations.

At this time I would like to turn the conference over to Mr. Kamil Ziegler, Chairman & CEO, and Michal Houst, CFO, Executive Director, Mr. Nikos Polymenakos, Head of IR & Mr. George Vitorakis, IRO Business Analyst

Gentlemen, please go ahead.

ZIEGLER K: Okay, thank you very much. Good afternoon to everybody and thank you very much for taking the time to participate in OPAP's Nine Months 2014 Financial Results Conference Call.

Similar to the past, during the past couple of quarters, Quarter 3 again proved to be a solid quarter posting continuing top line growth. Positive for us is the fact that the growth was evident in both our legacy games portfolio as well as Hellenic Lotteries which kept performing well, following their successful launch in May this year.

Taking a more detailed view on the influencing factors, let me first refer to developments in our operating environment. Starting with a positive note, it was the first quarter that GDP demonstrated a convincing plus 1.7 year-over-year growth

according to the preliminary estimates of the Hellenic Statistic Authority. Obviously, this figure was positively affected by record numbers of inbound tourism. Nonetheless, it is an encouraging number that if sustained, will be positive for OPAP as well.

On the retail sales front, this turned better as well, however, it still remain on negative ground, by... down by 0.8% in the January to August period. On the top of the GDP development, OPAP managed to outperform versus the basic economic figures. Revenues demonstrated a notable 19% increase for the quarter, while EBITDA growth stood at 33%, 14 percentage points higher compared to the revenue increase on the back of the ongoing cost containment. Notably, our EBITDA margin on the GGR increased considerably, both on year-over-year as well as on a quarter-over-quarter level standing at 27.3% in third quarter 2014 versus 24.1% in quarter three 2013 at 23.2% in quarter 2 this year.

We believe that it is a substantial achievement given that the new businesses are still in early stages of operation. Finally, net profit increased to €55.9 million versus €44.4 million in the same period of last year, it means up 25.8% on year-over-year basis.

Overall, these figures makes us confident that our guidance for the double-digit revenue growth for the year will be met, which together with stable profitability conversion to free cash flow enable us to proceed with an interim payment of €0.23 per share back to our shareholders. We call our shareholders to

participate and approve at the Extraordinary General Meeting on 18th of December and we appreciate their support.

In line with our previous guidance, our dividend policy suggests that in the absence of considerable investing opportunities, the bulk of the free cash flow will be distributed back to the shareholders. Also note that the distribution comes on top of the full repayment of our bond facility earlier in the year, and at the same time, also achieving a very solid cash position and amount to €176.6 million at the end of the September this year.

Taking a deeper look to the game specifics and our legacy portfolio, let me firstly start with STIHIMA which once more demonstrated significant growth of 21.1%, up for a fifth consequential quarter. As mentioned in the past as well, the increase comes as a result of quite a few changes in the mix, higher number of events offered by the singles or doubles, more competitive over-round, but even more importantly, a shift towards live betting which grew ten times fold in the third quarter 2014 on year-over-year level. In addition, the fact that the World Cup held in July carried a small positive effect as well, of course.

With regards to the payout, the higher revenue generated by live betting events is the main reason behind its increase for the quarter reaching 71.4% versus 68.7% in the same period last year. That said, the total incremental impact was considerably positive as GGR increased again by 10.7% on year-over-year basis. Our strategy going forward will remain roughly the same. We will focus on the further qualitative enhancement of our

product and expect that our live betting revenues next year would again have an additional ground.

With regards to KINO, no surprise took place this quarter. Revenues decreased by 4% in line with our indication in the half year results calling for mid-single digit drop for the remainder of the year. We stay with this view as the continued positive performance of Hellenic Lotteries seems to have a minor, but still lasting negative effect on KINO

Going forward, we have started addressing our options for the rejuvenation of the game and expect to have the first set of actions in place in the first half year 2015. Our initial focus will be on visual enhancement and attractiveness of this very good game.

Sharing with you our thoughts on JOKER, the game's revenues exhibited a much improved trend in this quarter, up by 15% on year-over-year basis. The uplift came on the back of favorable jackpot rollover after a streak of unfavorable rollovers in the first half of this year. Grabbing this opportunity, we carefully planned and managed to launch a successful advertising campaign which, together with a large series of jackpots, seem to have brought back considerable interest to this traditional game.

Now, allow me to go to the cost side. On the cost side, our focus on getting the right services at the right price is ongoing and as such, we are pleased that we can report a 30% reduction of our distribution costs for the quarter. The drop rate is particularly important since it also includes marketing costs for

the recently launched Hellenic Lotteries project. Going forward, having introduced new ticket series in October, the Lotteries marketing expenses are expected to pick up in the quarter four. Set aside distribution costs, following the successful negotiation with our IT members, the related cost containment that has started from second quarter this year is now in full force and here to stay.

Lastly, we are proud to mention that despite the aforementioned cost containment, we initialized in the third quarter two new cornerstones of our CSR policy.

On the public health front, we started the renovation of two largest pediatric hospitals in Greece while, as far as youth sport is concerned, we prepared the whole project of creating 250 sport academies for children between 7 to 10 years old, to be officially launched in very, very short period of time.

With regards to staff and headcount; as you already know, we concluded the voluntary separation program, which resulted in retirement of 347 employees. The benefit is not evident in the figures, both because a significant part of employees agreed to stay for a few months, transitional period, as well as new hires on the back of new product introduction.

Please allow me here also some short remark. We must also say that we expect some new costs in the coming periods, mainly related to our projects and mainly related to VLT project. Of course, we expect that these costs will be then fully absorbed and rewarded by the revenues coming from these new products.

Finally, with regards to some small costs elements, like administrative expenses, remaining costs of services, and so on, that, appear increased in the financial statements; please note that the rise comes as a result to the Hellenic Lotteries, while the like-for-like comparison on year-over-year basis is more favorable for the parent company.

When commenting on the Hellenic Lotteries performance, I would start by noting that following and beyond any expectations performance during the launch period, the revenue generation base of the third quarter has been as we are saying here normalized; it means that total revenues reached €131 million for this quarter.

As far as profitability is concerned, set aside the fact that the project achieved positive ground from the second month of operation. EBITDA margin for the quarter stood broadly inline with that of legacy business.

As for the future, we have recently launched four new series of tickets, aiming to refresh players' interest, at the same time taking cautious steps towards our network development.

Now going to much awaited VLTs project, we have mentioned quite a few times in the past, but let me note again that our primary aim is to install as many VLT machines as possible from day one, in order to maximize the potential return of the license.

In that context and by putting together the rollout puzzle pieces, we will conclude the rollout of 16.5 machines by the end

of 2015. We have also set now as the target, that for the early second quarter 2014 and '15 kickoff and have allocated all available resources in order to proceed with the implementation, both in timely, but equally important most effective way.

Providing you with a project road map; we have already scouted a significant part of the initial locations needed, and we are now concluding the process related to the selection of the Company that will deal with the gaming halls construction, respectively we already selected the majority of the suppliers for the building up of the gaming halls.

We finally also, a couple of days ago selected our VLT vendors, that's the four companies, GTECH, WMS/SGI, Inspired and Synot and are now finalizing the details of the relevant agreements with these vendors. All of them have already teams working with us together also with the GTECH, to proceed as quickly as possible and to solve all the necessary issues.

We believe that our selection ensures the quality of both machines and games, at the same time enhancing the offerings variety and providing with incentives for outperformance between the vendors. As I said, we are also working closely with GTECH to build a central system that will be able to accommodate different kind of machines and subsystems.

I left for the end the reference to our agents, as we need to brief you in detail regarding our efforts with regards to VLTs. Our long lasting thesis, also expressed in past conference calls results, is that we are committed to our agents as preferred POS operators. This was exactly the reason, why we postponed the

selection of the gaming halls operators before we reached a final solution with agents.

In that context, we long time discussed and negotiated the specifics pertaining to VLTs operation, such as, commission levels envisaged; CAPEX, OPEX and so on.

Following the discussion, we made feasible and fair for all parties proposal to their union, even providing with alternative options including a compensation method for those agents that would not directly participate in the project.

Unfortunately, the feedback from their union resulting to such proposal which can make successful execution of this project not doable from operational, time wise required execution, commercial, public protection interest, including effective combat against current or the existing huge illegal market; and other supervision points of view. And also having in mind the fact, that OPAP already and continuously invested and will invest with heavy money into this project and bears all related risks, and also OPAP has contractual and legal commitments to Hellenic Republic, other stakeholders including its shareholders, and also as responsible corporate citizen in Greece being aware of the fact that this project can create thousands of new job opportunities, we were forced to refuse their proposal.

However, we still consider as our priority options, the successful cooperation with the agents that are willing to invest in the project. And as such, we believe that we will work a way, work out a way into reasonable collaborations with all interested agents.

That said, we once more stress that we firmly believe in a fruitful cooperation with our agents in the future, not only for VLTs but also for all OPAP production businesses and we are prepared and committed to support our agents.

Finally, I'd just and before taking your questions, I would like to make a reference to milestones developments on the regulatory front, which in our view set the base for our operations and future growth. Following a long legal procedure, the plenary of the Hellenic Council of State issued two decisions by which it is considered unquestionable that OPAP's exclusive rights to organize gambling games is totally in line with the European Union's law.

The Council of State based its judgment on undeniable fact that the Greek regulatory framework concerning the conduct of OPAP SA games is very strict and consistent due to both, to wholly enhanced regulatory and audit mechanisms of the independent gaming authority and the substantive limitations that have been set to fight effectively relevant crime and illegal money trading as well as protection of vulnerable groups of people from addiction.

These decisions are irrevocable and no appeal can be raised against them before a National or EU Court, thus confirming the relevant choices of the Greek State and the standing position of OPAP, while shielding the legal interests of the Company.

With this final remark, I'm concluding this opening statement and we are now ready to take your questions. Thank you very much for your attention.

Q&A

OPERATOR: The first question comes from the line of Mr. Draziotis Stamatis of Eurobank Equities. Please go ahead, sir.

DRAZIOTIS S: Yes, hi there. Thank you very much for taking my questions. May I start with one question regarding VLTs; you referred to this updated timeline saying that deployment of VLTs will start in early Q2. Could you just tell us where we stand with regard to the negotiations with the agents? Has there been any new progress the last few days and have you all... will you soon send to the agents the request for submission of interest for the VLT project? And I am just wondering how fast should we expect things to develop from the time the agents submit their interest; basically, just wondering whether there might be...there is risk that there might be a further you know, time slippage, if... I don't know if negotiations continue or for some other reason?

ZIEGLER K: Okay. I just want to make one reservation that this is mainly the relation between OPAP and agents. And it means that agents should know from us first what will be done, and very quickly and very soon something will be done from our side. The second comment which I want to say that we committed ourselves to the negotiations with the trade unions of agents for a couple of months, spending a lot of time and lot of will to find the appropriate solution. I feel you know well that we proposed

to our agents, the three options, how to participate, having in mind it's their potential risk appetite and also the financial means, which they can have at disposal.

Just to summarize, the first option was that agent can directly ask or can apply for one gaming hall and to operate one gaming hall. The second one is that we also offered that there could be some consortiums of agents to operate one gaming hall, up to seven agents in consortium, in very, very extraordinary cases up to 10. And the last one, it means it was the first... let's say the first option is for these or those who wants to take the risk, operational risk to operate gaming hall and they have the means to finance this.

The second is, let's say that's to take some risk, small risk because of the shared structure and also to allow to participate to some agents which don't have the full money or they don't want to invest full money in one gaming hall. And the third option was that we developed and proposed investment to some special financial instrument issued just for our agents by OPAP SA and guaranteed by OPAP SA where the revenue of this financial instrument to be fully dependent upon the performance of VLTs operated by OPAP.

It means this is the proposal to everybody who wants to invest and participate in the potential success of VLTs project with OPAP, starting with €1,000 and not taking any risk. It means that this is the huge variety in our opinion to be able to address every agent with the serious interest to participate in VLT project. It means that... and this is the proposal which we consider to as valid and still interesting. But on the other side,

we spent with this negotiations with unionists the time which was longer than we originally expected, but it's we consider as necessary and to show that we really want to realize this option, but there is no time now to anyhow to prolong this negotiation, so that we will act.

DRAZIOTIS S: All right, thank you. And may I ask a second question with regard to the cost, looking at your Q3 performance, it was interesting to see that OPEX was kind of flattish or slightly up despite the consolidation of Hellenic Lotteries. You already said that the EBITDA margin of this business was actually on my understanding broadly similar to the legacy business. I am just wondering how should we think about legacy games, the cost gains of this segment going forward? I mean there has been quite a significant amount of cost containment particularly regarding the distribution expenses and other areas such as IT and third party outsourcing costs, which you briefly mentioned, that basically everything that was supposed to be done, has already been done? I am just wondering, you know what's... you know, how much room is there for further cost saves, you know, in this segment, in distribution expenses in particular?

HOUST M: Right, it's Michal Houst speaking, to be honest, that's correct, that's the... let's say the both, let's say legs of our both subsidiaries like OPAP SA and as well the subsidiary of Hellenic Lotteries is currently working at let's say more or less at roughly the same margin; EBITDA margin.

With respect to the cost of the... let's say of the legacy game. We are not disclosing the breakdown between the cost of Hellenic Lotteries and OPAP. So I think, the margin is enough to

understand basically what is going on. And that with respect to, let's say, the future and potential of the further cost cutting and stuff like this. As we have said, even on the last conference call, that we are broadly, let's say, finished and done with... let's say the major initiatives on the cost containment front. So I would say, that, let's say, the current profitability of the Company is something that I would take as stable going forward.

So let's say the room for further downsizing of the cost is, let's say rather limited. We have done, I would say 90% of the exercise already.

DRAZIOTIS S: Okay, thanks. That's very helpful. And just to clarify, as a follow-up, you mentioned about your staff headcount reduction. Is there going to be any cash restructuring cost in the fourth quarter?

HOUST M: Well, let's say with current headcount reduction, we said last conference call that everything was booked in the second half, and this is correct. So nothing is changed in this. So nothing was really booked on this front in the third quarter, nothing would be in the fourth quarter.

DRAZIOTIS S: Okay.

HOUST M: The only thing which Kamil mentioned was that, part of the employees we had some, let's say, kind of the smooth transition. So let's say the people already basically agreed to participate in the VRS. However, they still were employed by OPAP, let's say, up to, October this year; many of them.

DRAZIOTIS S: That's clear. Thank you and last question would be on the dividend. I mean, my understanding is that the interim dividend was the highest that could be distributed from the parent Company profits. You mentioned earlier that the bulk of your free cash flow will be... your intention is to distribute the bulk of free cash flow to the shareholders. I mean, is this how we should approach your dividend policy, going forward i.e., that you are, you know, you are not targeting a specific payout ratio, but you have you know, some sort of cash flow cover, I guess, you know, in mind?

HOUST M: Yes, that's correct. We are not changing anything on this, let's say, approach. We don't have any specific payout ratio policy. We rather are repeatedly saying that, we need to invest into the future of the Company, as well, into whatever else necessary to be covered by the cash, and then it should be distributed to the shareholder. So and it is correct, that now it was the maximum by law, because this is for interim dividend, this is a percent of the net income.

DRAZIOTIS S: Okay. That's very helpful. Thank you very much.

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

LEWIS V: Hi there. I have a few on VLTs, if that's okay, please. The first one, have you decided, if you will be buying the machines or leasing them and what sort of mix of leased and owned machines there might be? And secondly, what sort of commission rate should we think about for the VLTs? I guess

you have got more of an idea on that now. And then, the last one on machine is... when might the rollout of the sub-licensed machines begin, will that be next year or is that slipped into the year after? And then, one final one on online; how has online sports performed and when might the rollout of the other games be? Thanks.

HOUST M: Thanks, so with respect to the questions. First question, the model with respect to the machines would be the revenue sharing model. We agreed with all this aforementioned vendors on this model. So it would be the same for everybody.

Second question with regard to commission scheme, this is something that we cannot disclose. So, you will probably see it from our numbers when we start operations, but currently, this is something which we cannot disclose. But what we can say is that, we think that we have a long, let's say, a long negotiations with the vendors, and we are quite satisfied about the condition. So I would say most probably this is below the expectations of what we have seen from some market estimates.

Then the third question was on the rollout of the sub concession. Yes, the plan is still the same, so the sub concessions should follow with something like six months delay...

ZIEGLER K: Six to nine months.

HOUST M: ...six to nine months delay and that's the afterhours operations. So it should basically commence in the next areas With respect to the fourth question, I will handover to Kamil Ziegler.

ZIEGLER K: Okay. Related to online; in the third quarter we could see some improvement of the performance of our online, even though I must say this is not in line with our expectations. And as we just, I want to say that we are still in the situation and position that also in the third quarter we operated our online business in worst conditions then it was the conditions of so-called 24 interim operators operating in very gray zone. And it means that still commercially and also operationally the conditions were tougher on us.

LEWIS V: And just a final one, is there any timetable for rolling out other games online or not?

ZIEGLER K: Yes. At that moment, we don't expect and we don't want to reveal this... any plans to go with other games online.

LEWIS V: Great. Thank you.

OPERATOR: The next question comes from the line of Mr. Hegedus Erik of Wood & Co. Please go ahead, sir.

HEGEDUS E: Yes, good afternoon. Just one follow-up question, on your CAPEX expectations, could you please give us an indication what do you expect in the fourth quarter of this year, whether we should have the same run rate as in the first nine months, and also, if you can give us anything for 2015?

HOUST M: Yes, I think this is probably the same as I... as we are basically indicating. So for the fourth quarter, no, we don't have to... you should not expect anything major for the fourth quarter, so you

should expect the same let's say run rate, I mean for the operational CAPEX. Then, with regard to the free cash outflow, we are basically in a phases of acquiring or we have already finalized the Payzone acquisition. So this is some outflow of the cash, and as well we are basically finalizing the ODR acquisition, which most probably would be somehow finalized in the next year. So it would be most probably some outflow in the first quarter of the next year, but this is not operational CAPEX.

Then with respect to the next year, as I said, these two acquisitions you should consider and with respect to operational CAPEX, I think this is broadly in line with what we've been guiding you. So it means that let's say there is some recurring CAPEX, €10 million to €20 million and there is some CAPEX into the investment for the VLTs, €20 million to €30 million I would say, and that's more or less it.

HEGEDUS E: Okay, thank you very much.

OPERATOR: The next question comes from the line of Mr. Klahr Michael of Citibank. Please go ahead.

KLAHR M: Hi, good afternoon. Thanks for taking my questions. On... I've got a question about the revenues, if you take out the Hellenic Lotteries, the legacy games, and then you take out from there the World Cup impact, the online, what's the... is that legacy business still growing? Is there year-on-year growth, if you take out all... if you compare apples to apples?

HOUST M: Yes, because let's go step by step. First thing is, let's say sport betting, the impact of the World Cup was very minimal, it was

less than €10 million. So it's really something marginal in the third quarter. Then... so, STIHIMA is growing quite nicely I would say.

Then with respect to let's say the numerical games, we see, basically, if you exclude the KINO, then we see overall growth of the games in the third quarter. And then with respect to KINO, it's not so... you cannot judge that, I will subtract Hellenic Lotteries and I would say this is KINO, because the KINO was let's say, cannibalized. So if there was no Hellenic Lotteries, then most probably we will see a different pattern on the KINO. And what I think we would see on the KINO would be something like flat performance of the KINO.

KLAHR M: Okay, great, thanks. And just a housekeeping question on depreciation, is the €14 million, €15 million a quarter the new run rate until we get to VLT?

HOUST M: Yes, yes that's correct. Until we get to VLTs, nothing would change.

KLAHR M: Okay, thank you.

OPERATOR: The next question comes from the line of Mr. Kourtesis Iakovos of Piraeus Bank. Please go ahead.

KOURTESIS I: Yes, good afternoon gentlemen. As far as I understand, you have already mentioned that the VLT business should start in second quarter and you target to deploy as many machines as possible. Do you have a target on the number of machines you want to deploy that you can disclose? For example, it will be close to 10,000? How should I think about it?

HOUST M: Yes, definitely for a launch we have a target and this is within the range of 3,500 to 5,000 machines, let's say for the first day of the operations.

KOURTESIS I: Okay, thank you.

OPERATOR: The next question comes from the line of Mr. Chatzidakis Manos of Beta Securities. Please go ahead.

CHATZIDAKIS M: Good afternoon. Just two questions from my side. Do you have any indications for the demand from private investors regarding the concessions of the VLTs? And also, could you give us some color regarding the situation with online market, online betting in Greece? Should we expect any regulatory changes or a stricter supervision ahead? Thank you.

ZIENGLER K: Related to the first question, this is the interested parties for VLTs. Yes, they... we are contacted or you we are contacted by some interested parties and... but currently, of course, this is very preliminary. We were also addressed by parties or partners interested to invest in the individual gaming halls which is to be operated by OPAP, but also it's currently... they are focused on the priority of discussions with our agents. It means generally, without any party investigation and providing any party information, we can see interest, relatively very strong interest of different parties to invest in this project.

The second question was on the regulation. I feel there are some let's say changes in the regulatory framework which can have some impact.

Firstly, they were sent to the public consultation, the rules for the communication to be effective in first quarter 2015, which should have an impact into the way of communication of the online games, there are some restrictive rules which are not anyhow effecting the current conditions for OPAP.

And secondly, also as you can be aware, last week was published the new anti money-laundering regulation, which, where OPAP cooperated very much because it's the practice when the winning certificates of OPAP were misused for the money laundering. It was the practice which since the very beginning was not acceptable for us and we will do everything to solve this issue, not to be linked with this malpractice.

It means that also this regulation will have some impacts into the let's say operation of the online business generally in Greece. And again, I want to stress that OPAP is currently working and operating in the very strict rules that they shouldn't reflect or bring related to OPAP any limitations or any negative impact.

CHATZIDAKIS M: Okay.

OPERATOR: Gentlemen, there are no more questions registered. You may proceed with your closing statements. Thank you.

ZIENGLER K: Okay, thank you very much. It means that allows us towards the final conclusion statement or comment statement. We thank you very much for your time spent with us, for your interest related to our Company, also for the questions.

I hope that we were able satisfactory to answer your questions. And of course, as you know, always our investor relations department is like always able to answer your questions to contact you or to provide any feedback you needed.

It means that with this final comment, allow us to wish you all the best, and we are looking forward to see you, hear you in the near future. Thank you very much.