April 27, 2012

ANNUAL REPORT OF CODERE, S.A.

PURSUANT TO SECTION 4.19(a)(i) OF THAT CERTAIN INDENTURE DATED JUNE 24, 2005, AS AMENDED AND SUPPLEMENTED FROM TIME TO TIME (THE "INDENTURE"), AMONG CODERE FINANCE (LUXEMBOURG) S.A. (THE "ISSUER"), THE GUARANTORS (AS DEFINED THEREIN), DEUTSCHE TRUSTEE COMPANY LIMITED, AS TRUSTEE (THE "TRUSTEE") AND THE OTHER PARTIES LISTED THEREIN, GOVERNING THE ISSUER'S 8 ¼% SENIOR NOTES DUE 2015 (THE "REPORT")

On our behalf, the Trustee is providing you with a copy of the Report in satisfaction of our obligation under Section 4.19(a)(i) of the Indenture to provide to holders of the Notes (as defined in the Indenture) certain information regarding Codere, S.A. and its subsidiaries (the "Codere Group"), including but not limited to the audited consolidated financial statements of the Codere Group.

This document does not constitute an offer or invitation to purchase or form part of an offer or invitation to purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. The Notes and the Guarantees (as defined in the Indenture) referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States and may not be offered or sold in the United States unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

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USE OF CERTAIN DEFINITIONS

As used in this Report, unless otherwise indicated, all references to:

- "AAMS" are to the *Amministrazione Autonoma dei Monopoli di Stato*, the Italian betting and gaming authority;
- "Argentine peso" or "AR$" are to the lawful currency of the Republic of Argentina;
- "AWP machines" or "AWPs" are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as "Type-B machines") and in Italy (as "Comma 6" or "Comma 6A" machines) to be placed in bars, cafés, arcades and bingo halls;
- "Brazilian reais" are to the lawful currency of Brazil;
- "Caliente Holdcos" are to Grupo Caliente, S.A.P.I. de C.V., Jomaharho, S.A.P.I. de C.V. and Grupo Inverjuego, S.A.P.I. de C.V., each a holding company of certain of the Legacy Caliente companies;
- "Caliente Restructuring" are to a restructuring agreement with Grupo Caliente, which closed on March 31, 2011, pursuant to which we acquired a majority stake in the Joint Opcos;
- "CdC" are to the Italian *Corte dei Conti*, a constitutional body in Italy charged with supervising and auditing the management and accounts of the public administration (including the exercise of certain jurisdictional activities relating thereto);
- "CIE" are to Corporación Interamericana de Entretenimiento, S.A.B. de C.V.;
- "Codere América" are to Codere América, S.A.U.;
- "Codere Group", "Group" or "Codere" are to Codere, S.A. and its subsidiaries; "we", "us" or "our" are also to Codere, S.A. and its subsidiaries unless the context otherwise requires such reference to be to Codere, S.A. or to the Issuer;
- "Codere Network" are to Rete Franco, S.p.A. which we acquired from Franco Distribución, S.A. on April 28, 2006 and renamed "Codere Network S.p.A." on September 7, 2006;
- "COFECO" are to the *Comisión Federal de Competencia*, the Mexican competition authority;
- "Colombian peso" or "COP$" are to the lawful currency of Colombia;
- "Consolidated Financial Statements" are to the audited consolidated annual accounts of Codere, S.A. and its subsidiaries as of and for the year ended December 31, 2011 including comparative financial information for the year ended December 31, 2010, prepared in accordance with IFRS and included in this Report;
- "Dollar Notes" are to U.S.$300,000,000 aggregate principal amount of 9.250% senior notes due 2019 issued by Codere Finance (Luxembourg) S.A. on February 8, 2012;
- "dollars", "U.S. dollars", "U.S.$" or "$" are to the lawful currency of the United States of America;
- "EBITDA" (earnings before interest, tax, depreciation and amortization) are to operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less gains or losses on asset disposals or acquisitions;
- "EBT" are to Electronic Bingo Terminals, which are similar to U.S. Class II machines;

- “EU” or “European Union” are to the European Union as constituted on April 30, 2004, specifically comprising the countries of Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which becomes a member of the European Union after April 30, 2004;

- “euro” or “€” are to the lawful currency of the Member States of the European Monetary Union;

- “free cash flow” are to EBITDA less net financial income (loss) excluding exchange gains (losses) less corporate income tax and less total capital expenditures;

- “gaming halls” are to venues, including bingo halls with machines, casinos, machine halls at racetracks and stand-alone machine halls that have a number of different gaming devices offering various types of games, the number of which varies from country to country;

- “gaming machines” are to traditional reel spinning slots, machines with video screens and progressive jackpot machines, which include the Type-B machines operated in Spain, the Comma 6, Comma 6A and VLTs operated in Italy, the EBTs operated in Mexico and Spain and the slot machines operated in Argentina, Mexico, Panama, Colombia and Uruguay, which are similar to U.S. Class III Machines or electronic gaming machines that are specifically defined under U.S. federal law as Class III gambling devices and are typically permitted in U.S. casinos;

- “Grupo Caliente” are to Jorge Hank Rohn and the Mexican companies engaged in the gaming business, including Turística Akallí, S.A. de C.V. and Hípodromo de Agua Caliente, S.A. de C.V., in which Jorge Hank Rohn, directly or indirectly, holds a controlling interest;

- “Guarantees” are to any guarantee of the Issuer’s obligations under the Indenture and the Notes by any Guarantor;

- “Guarantors” are to the Parent Guarantor and the Subsidiary Guarantors, collectively;

- “IASB” are to the International Accounting Standards Board;

- “ICELA” are to Impulsora de Centros de Entretenimiento de Las Américas, S.A.P.I. de C.V.;

- “ICELA Acquisition” are to the acquisition of 35.8% of the outstanding ordinary shares of ICELA by Codere, S.A. (through its wholly owned subsidiary Codere México, S.A. de C.V.) pursuant to the ICELA Acquisition Agreement;

- “ICELA Acquisition Agreement” are to the sale and purchase agreement dated January 25, 2012 between Codere, S.A., Codere México, S.A. de C.V., CIE, ICELA and Administradora Mexicana de Hipódromo, S.A. de C.V. pursuant to which Codere, S.A. (through its wholly owned subsidiary Codere México, S.A. de C.V.) purchased 35.8% of the outstanding ordinary shares of ICELA;

- “IFRS” are to International Financial Reporting Standards (formerly known as “International Accounting Standards”, or “IAS”) as endorsed by the European Union;

- “Indenture” are to the indenture governing the Notes dated June 24, 2005, as supplemented on February 10, 2006, February 27, 2006, May 17, 2007, July 17, 2007, April 24, 2009, June 25, 2009, March 22, 2011, December 21, 2011 and January 18, 2012, as further supplemented or amended from time to time, among the Issuer, the Guarantors, Deutsche Trustee Company Limited, as trustee, and the other parties listed therein;

- “IPLyC” are to the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, the gaming regulator of the Province of Buenos Aires;

- “IPO” are to the initial public offering of 10,780,469 shares of Codere, S.A. on October 19, 2007;

- "Joint Holdcos" are to Grupo Caliente, S.A.P.I. de C.V. and Jomaharho, S.A.P.I. de C.V.;
- "Joint Opcos" are to Operadora Cantabria, S.A. de C.V., Libros Foraneos, S.A. de C.V. and Operadora de Espectáculos Deportivos, S.A. de C.V., the licensees indirectly purchased from Grupo Caliente and others in March 2011;
- "Legacy Caliente" are to the Caliente Holdcos, the Joint Opcos, Promojuegos and Mio Games;
- "Mexican peso" or "Mex. Ps." are to the lawful currency of Mexico;
- "Mio Games" are to Mio Games S.A. de C.V.;
- "Net win" is to amounts wagered minus prizes paid in the gaming products which we offer (machines, bingo, sports betting and betting on horse races);
- "Notes" are to the €760,000,000 aggregate principal amount of $8^1/_4$% senior notes due 2015 issued by Codere Finance (Luxembourg) S.A. on June 24, 2005, April 19, 2006, November 7, 2006 and July 29, 2010 under the Indenture;
- "Operating Cash Flow" are to EBITDA less net interest and taxes from the income statement;
- "Panamanian balboa" are to the lawful currency of Panama, which are equivalent in value to the U.S. dollar;
- "Parent Guarantor" or "Codere, S.A." are to Codere, S.A., the parent company of the Codere Group;
- "Promojuegos" are to Promojuegos de México, S.A. de C.V.;
- "Senior Credit Facility" are to (i) a €60.0 million senior revolving credit facility, (ii) a €27.5 million letter of credit facility and (iii) a €40.0 million surety bond facility (provided that the maximum amount that can be drawn at any time under the letter of credit facility and the surety bond facility is €60.0 million) pursuant to a senior facilities agreement, dated October 19, 2007, as amended and restated and as further amended from time to time, among, Codere, S.A. and certain of its subsidiaries as subsidiary guarantors, and Barclays Bank PLC, as agent, Barclays Capital, Credit Suisse International and Banco Bilbao Vizcaya Argentaria, S.A. as mandated lead arrangers, Houston Casualty Company Europe, Seguros y Reaseguros, S.A.U., as surety bond provider, and Deutsche Trust Company Limited, as security trustee;
- "slot machines" are to gaming devices into which a player inserts a form of currency and, based on a set of probability variables, the player either loses the wager or is awarded a prize;
- "TAR Lazio" are to the Lazio Regional Administrative Court;
- "VLT machines" or "VLTs" are to video lottery terminals, which are prize machines that pay out cash prizes as a percentage of total wagers over a random statistical process, and are permitted in Italy (as Comma 6B machines) to be placed only in gaming halls, bingo halls and betting shops. The main difference between VLT machines and AWP machines is that the VLT machines are connected to a central system that provides the machine with a winning number based on a lottery system that makes the machine more random, while AWP machines are stand-alone machines that give prizes depending on a pre-determined cycle of games; and
- "William Hill" are to William Hill plc.

PRESENTATION OF FINANCIAL AND OTHER DATA

Unless otherwise indicated, historical financial information in this Report has been prepared in accordance with IFRS. IFRS differs in certain significant respects from U.S. GAAP. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Except as otherwise indicated, the financial information and financial statements included in this Report are presented in euro. The euro is the common legal currency of the Member States participating in the third stage of the European Economic and Monetary Union, including Spain.

We define "EBITDA" as operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less the gains or losses on asset disposals or acquisitions. EBITDA and EBITDA margin (which we calculate as EBITDA divided by operating revenue) presented in this Report are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, IFRS. Furthermore, EBITDA and EBITDA margin should not be considered in isolation and are not measurements of our financial performance or liquidity under IFRS and should not be considered as an alternative to profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. These non-GAAP financial measures do not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, such measures as we define them may not be comparable to other similarly titled measures used by other companies.

Unless otherwise indicated, references to the amount of total debt outstanding as of any particular date in this Report are references to the amount of such debt recorded on our consolidated balance sheet. Such amount will be less than the nominal amount of our consolidated debt prior to the maturity date because, under IFRS, consolidated long-term debt on the balance sheet is recorded at amortized cost, using the effective interest rate method.

FORWARD LOOKING STATEMENTS

This Report includes forward looking statements that reflect our intentions, beliefs or current expectations and projections about our future results of operations, financial condition, liquidity, operating performance for 2012 and thereafter, prospects, anticipated growth, strategies, opportunities and the industry in which we operate. Forward looking statements involve all matters that are not historical fact. Forward looking statements may be found in sections of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business” and elsewhere.

These forward looking statements are subject to risks, uncertainties and assumptions and other factors that could cause our actual results of operations, financial condition, liquidity, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or suggested by, these forward looking statements. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section entitled “Business” and elsewhere in this Report. You should not place undue reliance on such forward looking statements, which speak only as of the date of this Report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained in this Report which may be made to reflect events or circumstances after the date of this Report, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events except as required by law.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

Our Selected Consolidated Financial Information and Other Data

The selected audited consolidated financial information as of and for the years ended December 31, 2010 and 2011 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2011. The audited consolidated financial statements as of and for the years ended December 31, 2010 and 2011 have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers Auditores, S.L., our independent auditors.

	Year ended December 31,	
	2010	2011
	(audited)	
	(€ in millions)	
Income statement data:		
Operating revenue	1,126.5	1,374.4
Operating expenses:		
Consumption and other external expenses	74.8	63.3
Personnel expenses	204.4	261.9
Depreciation	72.7	87.4
Amortization of intangible assets	27.1	38.2
Variation in provisions for trade transactions	1.0	(2.1)
Impairment loss	-	4.1
Other operating expenses:	606.2	759.5
Gaming and other taxes	357.5	429.9
Machine rental costs	11.5	44.3
Other	237.2	285.3
Total operating expenses	986.2	1,212.3
Gains (losses) on asset disposals or acquisitions	3.5	(1.4)
Operating profit	143.8	160.7
Financial items:		
Financial expenses	78.0	86.5
Financial income	8.7	16.9
Exchange gains (losses), net	1.0	3.1
Profit before tax of continuing activities	75.5	94.2
Corporate income tax	45.4	58.4
Profit after tax of continuing activities	30.1	35.8
Net income (loss) of discontinued operations(1)	1.3	-
Consolidated net income	31.4	35.8
Non-controlling interests	2.1	(16.4)
Net income (loss) attributable to owners of the parent	29.3	52.2

	Year ended December 31,	
	2010	2011
	(audited)	
	(€ in millions)	
Balance sheet data:		
Cash and cash equivalents[(2)]	90.6	135.7
Working capital[(3)]	(152.2)	(178.1)
Total assets[(5)]	1,443.3	1,565.5
Total debt[(4)]	850.0	867.0
Equity attributable to owners of the parent	106.4	115.5
Non-controlling interests[(5)]	38.8	51.2

	Year ended December 31,	
	2010	2011
	(audited)	
	(€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities	199.4	232.3
Net cash flow used in investing activities	(141.3)	(118.7)
Net cash flow provided by financing activities	(62.9)	(66.0)
Net increase (decrease) in cash	0.4	45.1

	Year ended December 31,	
	2010	2011
	(€ in millions)	
Other financial data:		
EBITDA[(6)]	241.1	289.7

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(1) The amount recorded in 2010 reflects a partial reversal of the provision recorded at the time of sale of the Italian direct AWP operations in the three months ended March 31, 2008, due to actual expenses incurred in relation to such sale being lower than those originally estimated.

(2) Cash and cash equivalents consists of cash at banks, cash on hand and short-term deposits with an original maturity of three months or less, which are not subject to significant fluctuations.

(3) We define working capital as current assets (excluding cash and cash equivalents) less current liabilities (excluding payables to credit entities and bonds and other marketable securities).

(4) We define total debt as non-current and current issued senior notes, plus non-current and current debt to credit entities.

(5) The balance as at December 31, 2010 was restated as a result of the application of the definite accounting treatment for businesses acquired in 2010.

(6) We define EBITDA as operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less gains or losses on asset disposals or acquisitions. EBITDA is not a measurement required by, or presented in accordance with, IFRS. EBITDA should not be considered in isolation and is not a measurement of our financial performance or liquidity under IFRS and should not be considered as an alternative to operating profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. EBITDA does not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, EBITDA as we define it may not be comparable to other similarly titled measures used by other companies.

The reconciliation of EBITDA to operating profit is as follows:

	Year ended December 31,	
	2010	2011
	(unaudited) (€ in millions)	
EBITDA	241.1	289.7
- Depreciation and amortization	99.8	125.6
- Variation in provisions for trade transactions	1.0	(2.1)
- Impairment loss	-	4.1
+ Gains (losses) on asset disposals or acquisitions	3.5	(1.4)
Operating profit	143.8	160.7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information set forth in "Selected Financial Information and Other Data" and our Consolidated Financial Statements and accompanying notes included elsewhere in this Report.

The following discussion contains certain forward looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section entitled "Business" and elsewhere in this Report.

Overview

We are a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of December 31, 2011, we managed 57,000 gaming machines, 190 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 798 sport betting locations and three horse racing tracks. In 2011, we generated operating revenue of €1,374.4 million and EBITDA of €289.7 million.

In Argentina, we believe we are the largest operator of gaming halls with 14 gaming halls in which we operated 5,279 slot machine seats in the Province of Buenos Aires as of December 31, 2011. In 2011, our business in Argentina generated operating revenue of €553.2 million and EBITDA of €165.2 million.

In Mexico, through ICELA (until recently, our joint venture with CIE in which we now hold an 84.8% stake, see "Business—Recent Developments—ICELA Acquisition Agreement") and Legacy Caliente, as of December 31, 2011, we were the largest operator of gaming sites with 94 gaming halls in which we operated 19,571 slot machines. As of December 31, 2011, we also operated 83 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City that included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2011, ICELA and Legacy Caliente held licenses to build and operate an additional 29 gaming halls. In 2011, our business in Mexico generated operating revenue of €291.5 million and EBITDA of €61.8 million.

In Italy, we believe we are the leading gaming hall operator with 14 gaming halls as of December 31, 2011 in which we operate VLT and AWP machines and offer bingo. We also operate AWP machines in non-specialized locations, such as bars. As of December 31, 2011, we operated 5,138 AWPs, 962 VLTs and 5,950 bingo seats, and 11,155 gaming machines (which include the ones operated by us and by other operators) were connected to our network in Italy. In 2011, our business in Italy generated operating revenue of €224.2 million and EBITDA of €44.3 million.

In Spain, we believe we are the second largest operator of AWP machines with 14,677 machines located in over 8,907 bars, restaurants, machine halls and one gaming hall as of December 31, 2011. The gaming hall we operate is the Canoe gaming hall in Madrid, which features a bingo venue, AWPs and sports betting locations. In total, we operated 600 sports betting locations in Spain as of December 31, 2011. In 2011, our business in Spain generated operating revenue of €165.7 million and EBITDA of €19.6 million.

Our Other Operations, which generated operating revenue of €139.8 million and EBITDA of €26.5 million in 2011, included (i) 12 gaming halls (including 11 casinos and a machine hall at the racetrack), one racetrack and 81 sports betting locations in Panama, (ii) 50 gaming halls, including three casinos, in Colombia, (iii) a joint venture in horse racing, five gaming halls and 27 sports betting locations in Uruguay and (iv) seven sports betting locations in Brazil.

Presentation of Financial Information

The financial statements contained in this Report include our audited consolidated financial statements as of and for the years ended December 31, 2011, including comparative financial information for the year ended December 31, 2010 prepared in accordance with IFRS (the "Consolidated Financial Statements").

Segment Reporting

In the discussion below we review our results of operations on a consolidated basis and on the basis of our four principal businesses: Argentina, Mexico, Italy and Spain. We also have operations in Colombia, Uruguay, Panama and Brazil, which are of a smaller scale or in initial stages of development. A limited discussion of these operations has been included below under the heading Other Operations. From January 1, 2011, we began reporting the Spain AWP, Spain bingo business and sports betting business units, which we had previously reported as separate segments, as a single reportable segment under Spain. See "Business—Factors Affecting the Comparability of Our Results of Operations—Consolidation of the Spanish Businesses". Internet gaming operations, which we are developing in certain countries in which we operate, are included in the corresponding businesses.

In 2011, our four principal businesses comprised 40.3%, 21.2%, 16.3% and 12.1%, respectively, of our consolidated operating revenue and 52.0%, 19.5%, 14.0% and 6.2%, respectively, of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses). Our operations discussed under Other Operations comprised 10.2% of our consolidated operating revenue and 8.3% of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses) in 2011. The organization of our operations into our four principal businesses reflects the manner in which our management evaluates the performance of our various businesses and, on the basis of such information, makes financial and strategic decisions regarding our operations. We believe that the organization of our operations into the foregoing businesses also enhances our ability to adapt to the different market and regulatory environments of the countries in which we conduct our operations.

Our Group headquarters in Spain provide central corporate services including information technology, accounting, finance, tax, legal and strategic support to our four principal businesses and all of our Other Operations. We do not allocate any of the expenses associated with such services to the four principal businesses or Other Operations receiving such services and therefore the operating profit and EBITDA for our four principal businesses and Other Operations described below do not include headquarters expenses corresponding to the four principal businesses and Other Operations.

Factors Affecting the Comparability of Our Results of Operations

As a result of the factors discussed below, our operating results for certain of the financial periods discussed in this Report are not directly comparable with the operating results for other financial periods discussed herein and may not be directly comparable with our operating results for future financial periods.

Latin American Currency Depreciation

We are exposed to foreign exchange rate risk in that our reporting currency is the euro, whereas the majority of our subsidiaries keep their accounts in other currencies, principally Argentine peso and Mexican peso and also Panamanian balboa (equivalent to the U.S. dollar), Colombian peso, Uruguayan peso and Brazilian reais, and a portion of our costs and revenues are referenced to U.S. dollars. If we continue to expand our operations in Latin America, we will increase the proportion of our operating revenue that we generate in currencies other than the euro. In 2011, 40.3% and 21.2% of our operating revenue (including the gains and losses on foreign exchange currency contracts and excluding in each case headquarters revenues) was denominated in Argentine peso and Mexican peso, respectively, and a total of 71.6% of our operating revenue was in non-euro denominated currencies. During the periods under review, Latin American currencies have generally depreciated against the euro (despite the euro's depreciation in 2010) and this has had a significant impact on our financial condition and results of operations when expressed in euro. As a result of the Latin American currencies depreciating against the euro, the euro value of the operating results of our Latin American subsidiaries upon inclusion in our Consolidated Financial Statements has decreased even if, in local currency terms, their results of operations and financial condition have remained the same or improved relative to the prior year. Accordingly, declining exchange rates may limit the ability of our results of operations, stated in euro, to fully describe the performance in local currency terms of our Latin American subsidiaries. Our Latin American subsidiaries generally generate revenues and incur expenses and liabilities in their local currency, which provides them with a natural hedge against foreign currency fluctuations.

The assets and liabilities of our subsidiaries, which keep their accounts in currencies other than the euro, have been translated to euro at the period-end exchange rates for inclusion in our balance sheet. Income statement items are translated into euro at the end of each month and these monthly results in euro are added to produce quarterly or annual results, as applicable.

The table below sets forth the period end exchange rates of the euro relative to the Mexican peso, the Argentine peso and the U.S. dollar for the periods indicated.

	Year ended December 31,		
	2010	**2011**	**2010/2011 % change**
Mexican peso/euro (€1.00 = Mex. Ps.)			
Period end	16.54	18.09	*9.4%*
Argentine peso/euro (€1.00 = Arg. Ps)			
Period end	5.27	5.59	*6.1%*
U.S. dollar/euro (€1.00 = U.S.$)			
Period end	1.34	1.29	*(3.7)%*

Source: Mexico's Tax Administration Service (*Servicio Administración Tributaria del Gobierno de México*), Bank of the Argentine Nation (*Banco de la Nación Argentina*) and European Central Bank.

The table below sets forth the average of the monthly average exchange rate of the euro to the Mexican peso, the Argentine peso and the U.S. dollar for the periods indicated.

	Year ended December 31,		
	2010	**2011**	**2010/2011 % change**
Mexican peso/euro (€1.00 = Mex. Ps.)			
Average	16.74	17.33	*3.5%*
Argentine peso/euro (€1.00 = Arg. Ps)			
Average	5.18	5.76	*11.2%*
U.S. dollar/euro (€1.00 = U.S.$)			
Average	1.32	1.39	*5.3%*

Source: Mexico's Tax Administration Service (*Servicio Administración Tributaria del Gobierno de México*), Bank of the Argentine Nation (*Banco de la Nación Argentina*) and European Central Bank.

The table below sets forth the period end exchange rates of the U.S. dollar relative to the Mexican peso and the Argentine peso for the periods indicated.

	Year ended December 31,		
	2010	**2011**	**2010/2011 % change**
Mexican peso/U.S. dollar (U.S.1.00 = Mex. Ps.)			
Period end	12.38	13.98	*12.9%*
Argentine peso/ U.S. dollar (U.S.1.00 = Arg. Ps)			
Period end	3.98	4.30	*8.0%*

Source: Mexico's Tax Administration Service (*Servicio Administración Tributaria del Gobierno de México*) and Bank of the Argentine Nation (*Banco de la Nación Argentina*).

The table below sets forth the average of the monthly average exchange rate of the U.S. dollar to the Mexican peso and the Argentine peso for the periods indicated.

	Year ended December 31,		
	2010	**2011**	**2010/2011 % change**
Mexican peso/U.S. dollar (U.S.$1.00 = Mex. Ps.)			
Average	12.65	12.44	*(1.7)%*
Argentine peso/U.S. dollar (U.S.$1.00 = Arg. Ps)			
Average	3.91	4.13	*5.6%*

Source: Mexico's Tax Administration Service (*Servicio Administración Tributaria del Gobierno de México*) and Bank of the Argentine Nation (*Banco de la Nación Argentina*).

As of March 31, 2012, the exchange rate of the euro to the Mexican peso was €1.00 = Mex. Ps. 17.16, the exchange rate of the euro to the Argentine peso was €1.00 = AR$5.84 and the exchange rate of the euro to the U.S.$ was €1.00 = U.S.$1.34. As of March 31, 2012, the exchange rate of the U.S. dollar to the Mexican peso was U.S.$1.00 = Mex. Ps. 12.85 and the exchange rate of the U.S. dollar to the Argentine peso was U.S.$1.00 = AR$4.38.

In order to mitigate part of the foreign exchange risk to which we are subject, we enter into hedge agreements to cover sales for an amount approximately equivalent to 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. The hedges consist of forward purchases of foreign currency (local currency to U.S. dollar or euro, and on certain occasions, U.S. dollar to euro). The application of the policy takes into account our expectations of the amount of funds we expect to upstream, the amount of euro or U.S. dollar commitments we have, the currency these are denominated in, and our expectations about U.S. dollar and euro currency market movements. As of February 29, 2012, we had in place foreign exchange forward contracts to purchase a total of U.S.$118.0 million in exchange for Argentine peso (U.S.$28.0 million, U.S.$30.0 million, U.S.$30.0 million and U.S.$30.0 million for each of the quarters ended March 31, 2012, June 30, 2012, September 30, 2012 and December 31, 2012, respectively).

Our Argentine peso foreign exchange forward contract that matured during 2011 amounted to a net loss of €2.2 million in 2011. Realized losses on the Mexican peso foreign exchange forward contract that matured during 2011 amounted to €1.0 million in 2011. The realized losses have been recorded as other operating revenue in our Argentine and Mexico businesses as applicable.

Caliente Management Services

Through June 30, 2010 our operating revenue under the previous management services agreement with Grupo Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Grupo Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Grupo Caliente's behalf, such as hall managers' salaries and fees paid in connection with the use of machines. From July 1, 2010, the new management services agreements with the Joint Opcos provide for an annual fee of up to U.S. $36.0 million as well as an aggregate monthly fee of U.S.$1.0 million until December 31, 2010. In 2010, we entered into a restructuring agreement with Grupo Caliente, which closed on March 31, 2011 (the "Caliente Restructuring") pursuant to which we acquired a majority stake in the Joint Opcos, which held an aggregate of 46 gaming licenses in Mexico in March 2011. In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished gaming halls and Grupo Caliente bought such halls at cost. Following the closing of the Caliente Restructuring, we began fully consolidating the Joint Opcos (reflecting Grupo Caliente's stake in each of these entities, as well as its stake in Promojuegos and

Mio Games, as non-controlling interests) effective March 31, 2011 for balance sheet purposes and April 1, 2011 for income statement purposes.

License Renewals in Argentina

On June 18, 2010 and July 26, 2010, respectively, the IPLyC (the gaming regulator of the Province of Buenos Aires) renewed our San Martin and Puerto licenses, in each case through June 30, 2021. The resolution pursuant to which the San Martin license was renewed provides that the license is subject to an up-front renewal fee of AR$55.5 million (equivalent to €9.5 million as of March 31, 2012) and a canon tax surcharge of AR$72.3 million (equivalent to €12.4 million as of March 31, 2012). The resolution pursuant to which the Puerto license was renewed provides that the license is subject to an up-front renewal fee of AR$5.5 million (equivalent to approximately €0.9 million as of March 31, 2012), and a canon tax surcharge of AR$7.2 million (equivalent to €1.2 million as of March 31, 2012). The up-front renewal fees for both halls were recorded in capital expenditures as intangible assets in the three months ended December 31, 2009. The canon tax surcharges for both halls are accrued and payable in 60 monthly installments starting in the three months ended December 31, 2010.

Closure of Casino Colón in Panama

We opened Casino Colón in December 2008 but had to close the casino on June 1, 2009 upon receipt of a letter from the Junta de Control de Juegos ("JCJ"), the Panamanian gaming regulator, ordering the closure and alleging that the casino lacked the necessary authorization from the Controller General of Panama. On September 25, 2010, we reopened Casino Colón following the receipt from the JCJ of a copy of the license agreement duly executed by the Controller General of Panama and Casino Colón has been in operation since that time.

Purchase of 100% of Spain Sports Betting Venture

Following a strategic review by William Hill plc ("William Hill") and Codere, S.A. of Victoria Apuestas, our joint venture in Spain, the parties agreed on May 13, 2009 to the gradual withdrawal of William Hill from the joint venture because William Hill decided to focus its international sports betting strategy on the Internet via William Hill Online. Pursuant to the terms of the agreement, on January 20, 2010, Codere completed the purchase of William Hill's 50% stake in the company for a nominal amount of €1.0. As a result of the purchase and as required under IFRS, we valued 100% of the assets of the Spain sports betting business at fair value based on results through 2009 and the budget for 2010, which resulted in a €7.5 million gain in 2010 as an assignment of goodwill to assets.

Spain Impairment Charge

In 2011, we recorded a goodwill impairment charge of €4.1 million in our Spain business as a result of a goodwill impairment test conducted in relation to the audit of our 2011 financial statements, which impairment was triggered by a reduction in the net win of the AWPs and in bingo cards sold due to the severe macroeconomic crisis in Spain. The impairment is a non-cash charge to operating profit and does not affect our liquidity, operating cash flow or debt service capacity.

Acquisitions

During 2010 and 2011, we acquired companies in several countries in which we operate. These acquisitions have affected the comparability of our results of operations. The table below shows our significant acquisitions during this period (for more information on acquisitions, see Note 6 to our Consolidated Financial Statements):

Company	Date	Segment	Percentage stake
Codere Apuestas España, S.L.U.[1]	January 2010	Spain	100.0%
Panama Thunderbird	August 2010	Other Operations (Panamá)	63.6%
King Slot, S.r.l.[2]	September 2010	Italy	75.0%
King Bingo, S.r.l.[2]	September 2010	Italy	75.0%
FG Slot Service S.r.l.	December 2010	Italy	55.0%
Grupo Caliente SAPI de C.V.	March 2011	Mexico	67.3%
Operadora de Espectáculos Deportivos S.A. de C.V.	March 2011	Mexico	67.3%
Jomaharho SAPI de CV	March 2011	Mexico	67.3%
Operadora Cantabria S.A. de CV	March 2011	Mexico	67.3%
Libros Foráneos S.A. de CV	March 2011	Mexico	67.3%
Gap Games, S.r.l.	May 2011	Italy	51.0%
Gaming Re, S.r.l.	July 2011	Italy	75.0%
Gaming Service, S.r.l.	July 2011	Italy	75.0%

(1) Before January 2010, we held a 50% stake in this company.

(2) King Slot, S.r.l. and King Bingo, S.r.l. together constitute our Royal Hall in Caserta.

Consolidation of the Spanish Businesses

Following a series of regulatory changes in Spain that progressively allow for more gaming products to be offered in the same premise (for example, self service terminals for sports betting allowed in bars in the Basque region and Navarra; sports betting, electronic poker and roulette allowed in gaming halls, and B3/EBTs allowed in bingo halls in Madrid), we have combined all of our Spanish operations to extract commercial and cost synergies among the businesses. As such, results previously reported under the Spain AWP, Spain bingo business and sports betting business units, including results as of and for the year ended December 31, 2010 previously reported, have been reported as a single reported segment under Spain beginning January 1, 2011.

Reduction of Gaming Tax in Spanish Bingo Business

In December 2010, in an effort to boost the bingo sector, the Community of Madrid increased the prize pay-out ratio by 6 percentage points from 65% of card sales to 71% and decreased the gaming taxes applicable to bingo operators by 7% from 22% to 15% in each case, effective January 1, 2011. A decrease in gaming taxes of 1% increased the margin to bingo operators, including our business in Spain.

Ballesteros Litigation Settlement

On September 23, 2009, the Madrid Provincial Court issued a judgment on our appeal requiring Mr. José Ballesteros and his wife (the "Ballesteros") to repay Codere approximately €12.0 million of the €15.5 million we paid in connection with the purchase and sale agreement for 50% of the shares of all entities that operated Ballesteros' businesses in Spain and Venezuela (the "Ballesteros transaction"). Such amount was repaid to us in December 2009. In September 2009, we filed an appeal to the Madrid Provincial Court's judgment requesting payment of interest accrued since March 2000, the date of the initial claim. The appeal was granted by the Supreme Court in November 2011, ordering Mr. Ballesteros to make a payment of €5.0 million in accrued interest. €2.0 million was repaid in February 2012 and the remaining €3.0 million is being repaid in 40 monthly installments. The €0.8 million costs related to the appeal are reflected as a non recurring cost in corporate overheads.

Exceptional Items

In addition to the items mentioned above, in 2011 we recorded exceptional gains of: €3.5 million associated with the reversal of gaming tax in Italy associated with the recalculation of the 2010 PREU (gaming tax) by the Italian regulator, €1.3 million associated with the reclassification of VLT costs in Italy and €2.0 million relating to the reversal of expenses in Mexico. We recorded exceptional losses of: €1.2 million relating to a provision for a fiscal contingency in Mexico, €0.4 million associated with the ICELA Acquisition, and €1.1 million associated with personnel restructuring expenses in Spain.

Key Factors Affecting Our Results of Operations

General Factors

Regulation

Our operations are highly regulated and many of the factors that affect our results of operations are prescribed by applicable regulation. These factors include the minimum payout ratio, such as in the case of gaming machines in many of the markets where we are present, gaming taxes, maximum wager, minimum average gaming time, and the number of gaming machines that we may install in bars, restaurants and our bingo halls. Furthermore, our operations are affected by regulations not specific to the gaming industry, such as the introduction of smoking bans or limitations, and limitations to the hours of operations of the location in which we operate gaming activities. These factors are generally fixed by regulation and may be favorably or unfavorably modified only as a result of the legislative process in the applicable country, region or municipality. As a result of the highly regulated nature of the gaming industry, we are required to focus on the limited number of factors that are within our control to improve our results of operations.

In addition, our results of operations are dependent upon the granting and timely renewal of the necessary licenses by the gaming authorities in the countries in which we operate. Gaming authorities in such countries have the authority to deny, revoke, suspend or refuse to renew licenses we or our partners or clients hold and impose fines or seize assets if we or our partners or clients are found to be in violation of any of these regulations, any of which could have a material adverse effect on our business, financial condition and results of operations.

Macroeconomic Factors and Demographics

Gaming is a form of entertainment and, as such, competes with other forms of entertainment for the discretionary spending of the local population. In general, countries and regions with higher GDPs will tend to have higher levels of discretionary spending that can be directed to gaming and other forms of entertainment. Similarly, although we believe gaming tends to be more resilient than other forms of entertainment, when a country or region experiences a decline in GDP or a rise in inflation, spending on gaming may also decline. Demographic changes may also affect our results of operations. In addition, changing social habits in the countries in which we operate, such as longer working hours that result in a decrease in time spent on entertainment, may adversely affect our results of operations.

Competition

Consolidation of smaller gaming companies or the appearance of a new competitor, including illegal operators, close to the area of one of our key gaming sites could significantly affect our results of operations. In many of the countries and regions in which our businesses are located, the number of gaming sites in a given area is limited by regulation. However, illegal operators are, by nature, not controlled by regulation and their existence will depend on the desire or ability of regulators to regulate the activity. If such regulations were to be modified to allow for an increased number of gaming sites close to the location of our gaming sites, our clients could choose to visit our competitors' sites rather than our own. A decrease in visitors to our gaming sites could result in lower operating revenue and, in certain cases, our eventual closing or relocating of our gaming sites.

For more information on our competitors in the markets in which we operate, see "Business".

Argentina

Our Argentina business principally operates gaming halls with slot machines and bingo. The key factors that affect the results of operations of our Argentina business's slot machine operations are the number of installed slot machines and the average daily net win per slot machine. The factors that most significantly affect the number of our installed slot machines are the number of gaming halls that we are able to open in Argentina, our ability to expand or relocate existing halls and Argentine regulation that limits the number of slot machines that may be installed in any bingo hall to one for every two bingo seats. The average daily net win per slot machine is most significantly affected by our ability to select high production slot machines and efficiently rotate our portfolio of slot machines. We believe our ability to select attractive, high production slot machines results from our experience in the slot machine business and the size of our business, which enables us to test numerous machines at the same time. The Argentina business principally purchases its slot machines. The results of operations of our Argentina business are also affected by gaming taxes which are levied at the provincial level. The operating results of our bingo operations are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales.

The license renewals in Argentina result in additional up front payments and a canon tax surcharge which have affected results, and which we expect to affect results in the coming years. As of the date of this Report, and since 2007, we have renewed eight licenses. See "Business—Argentina" for additional detail regarding these license renewals.

Mexico

Our principal business in Mexico is the operation of gaming halls in which we operate slot machines and, in certain cases, traditional bingo. We also operate sports betting books and, through ICELA, a 52 hectare gaming complex in Mexico City, which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. On January 25, 2012 we signed the ICELA Acquisition Agreement with CIE, pursuant to which we purchased an additional 35.8% stake in ICELA on February 8, 2012. See "Business—Recent Developments—ICELA Acquisition Agreement". Our Mexico business's operating revenue is significantly affected by the locations of the gaming halls. In general, the most desirable locations for gaming halls in large metropolitan areas are in city shopping malls due to their accessibility by car or public transportation and their perception of security.

As in the case of our Argentine slot machine business, beyond regulatory changes, the key factors that affect the results of operations of our Mexican slot machine operations are the number of installed machines and the average daily net win per machine. The factors that most significantly affect the number of our installed machines are the number of gaming halls that we are able to open and our ability to expand or relocate existing halls. The average daily net win per machine is most significantly affected by our ability to select high production machines and efficiently rotate our portfolio. We believe our ability to select attractive, high production machines results from the size of our business and our experience in the gaming machine business, which enables us to test numerous machines at the same time. The Mexican business has purchase as well as lease arrangements for its machines. The bingo operations of our Mexico business are affected by many of the same factors as our Argentine bingo business such as the availability of larger cash pools, the number of players in the halls, and in particular by factors affecting bingo card sales. Our Mexican business operations are also affected by taxes, both at the federal and the state level.

The sports betting books which we operate in Mexico do not assume any financial risk for the bets placed at our sites. The financial risk is assumed by Grupo Caliente as we only act as agent for Grupo Caliente and receive a commission on all betting regardless of the outcome. Therefore the key factor affecting the sports betting books operating revenue is the volume of betting by visitors to Grupo Caliente's sports betting locations. Betting volume is principally affected by traffic at the gaming halls and the ability of the books to attract betting, which is most significantly affected by the number and type of sporting events and races on which betting is made available and the availability of televised simulcasts of such events displayed on televisions throughout the site.

Italy

Our Italy business principally operates AWP machines located in third-party locations as well as gaming halls in which we offer VLTs, AWPs and bingo. The key factors that affect the results of operations of our Italy AWP and VLTs business are the number of our installed AWP and VLTs machines and the average daily net win per AWP and VLTs machine. The factors that most significantly affect the number of our AWP and VLTs machines are our ability to enter into new agreements, or renew existing agreements, with site owners and our ability to identify and undertake acquisitions. The key factors affecting our gaming hall business are the location of the halls and our ability to expand our existing halls or acquire new halls. The average daily net win per AWP and VLTs machine is most significantly affected by regulation and our ability to select high producing gaming machines. The operating results of our bingo operations are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales.

Spain

Our Spain business principally operates AWP machines located in third-party locations as well as betting locations and gaming halls in which we offer bingo, gaming machines and sports betting. The key factors that affect the results of operations of our Spain AWP business are the number of our installed AWP machines and the average daily net win per AWP machine. The factors that most significantly affect the number of our installed AWP machines are our ability to enter into new agreements, or renew existing agreements, with site owners and our ability to identify and undertake acquisitions. In addition to regulation, the average daily net win per AWP machine is most significantly affected by our ability to select high producing AWP machines and to efficiently rotate our AWP machine portfolio. In many cases, our success in entering into agreements with site owners depends on our making of exclusivity payments or loans and advances to the site owners, which payments, loans and advances are customary in the market. The key factors affecting our sports betting business are the location of our shops, corners or self-service terminals, the number and type of events on which the client can bet and the odds offered. In the case of the Spanish business we assume financial risk for the bets placed. The operating results of the bingo business in our gaming hall operation are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales.

Critical Accounting Policies

Our Consolidated Financial Statements and the accompanying notes contain information that is pertinent to the discussion and analysis of our results of operations and financial condition set forth below. The preparation of financial statements in accordance with IFRS requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimates under different assumptions or conditions. We believe that, in particular, the critical accounting policies and estimates discussed below involve significant management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. For a detailed description of our significant accounting policies, see Note 2 of our Consolidated Financial Statements.

Intangible Assets

The intangible assets acquired by the Group are stated at cost less accumulated amortization and impairment losses. Exclusivity or installation rights are capitalized at acquisition cost and amortized over the term of the related contract, which generally ranges from three to ten years. Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Gaming licenses are amortized during their useful lives. Likewise, the only intangible assets that the Group have with an indefinite lifetime are the non-redeemable installation rights and the brands, which are not amortized. For those intangible assets having finite useful lives, amortization is charged to the consolidated income statement on a straight-line basis over the relevant estimated useful life. Intangible assets are amortized from the date they are available for use. The amortization rates applied are as follows:

	Annual Depreciation Rate
Computer software	20.0%
Installation rights	10.0% - 33.0%
Gaming licenses	2.5% - 7.1%
Leasehold assignment rights	10.0% - 20.0%
Client portfolio	4.5%
Exclusivity rights	15.0% - 25.0%

Tangible Fixed Assets

Tangible fixed assets are carried at cost except for land and buildings, which are valued at fair value on independent appraisals using this value as cost. We regularly review the fair values recorded to ensure that the amounts do not differ significantly from current market values. This revaluation of such land and buildings is recognized directly in equity. A decrease in carrying amount arising on the revaluation of such land and buildings is first charged as an expense in the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. Depreciation on revalued buildings is charged to the income statement.

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Subsequent expenditure on capitalized tangible fixed assets is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expended as incurred. Non-removable installations in bingo halls and casinos are depreciated over the shorter of the term of the related lease contracts or the depreciation period used for such assets.

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each component of the tangible fixed assets. The elements are depreciated from the date they are available for use. Land is not depreciated. The depreciation rates applied are as follows:

	Annual Depreciation Rate
Gaming machines	10% - 40%
Amusement machines	10% - 40%
Other installations, tools and furniture	7% - 30%
Information processing hardware	10% - 30%
Transport equipment	10% - 30%
Buildings	2% - 3%
Leasehold improvements	10% - 30%
Technical installations and machinery	7% - 30%

Financial expenses related to loans directly attributable to acquisition, construction or production of tangible assets, in the terms and conditions included in the revised IAS 23 (which came into effect in 2009), are recorded as part of the cost of that asset.

Goodwill

All business combinations are accounted for by applying the purchase method of accounting. Goodwill represents the difference between the acquisition cost and the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment. The goodwill is assigned to the Group's cash generating units which coincide, in general, with the operating segments, which correspond to geographical areas, as the cash generating units which make up the lines of activity (slot machines, bingo and casinos), do not provide sufficiently detailed information for individual analysis, since normally several different kinds of operations coincide in the same location; for example, gaming machines may be installed in bingo halls and casinos (Note 2(b)(6) to our Consolidated Financial Statements).

Impairment of Tangible and Intangible Assets

At each year-end, indications of possible impairment of the value of fixed noncurrent assets are evaluated, including goodwill and intangibles. If there are such indications of possible impairment, or when the nature of the assets requires an annual analysis of impairment, the Group estimates the recoverable value of the asset, which is the larger of the fair value, deducting transfer costs, and its value in use. The value in use is determined by the present value of future estimated cash flows, applying a discounted rate before tax which reflects the value of the money over time and takes into account the specific risks associated with the asset.

When the recoverable value of an asset is below its net accounting value, it is considered that there is an impairment of value. In this case, the carrying value is adjusted to the recoverable value, assigning the loss to the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to such cash-generating units and then to reduce the carrying amount of the other assets in the unit based on an individual analysis of the assets impaired.

For those assets which do not generate highly independent cash flows, the recoverable amount is determined for the cash generating units to which the valued assets belong.

The charges for depreciation of future periods are adjusted to the new accounting value during the remaining useful lifetime.

When new events take place, or changes of pre-existing circumstances, which show that a loss due to impairment recorded in a previous period might have disappeared or been reduced, a new estimate is made of the recoverable value of the corresponding asset. The losses due to impairment that have been recorded previously only revert if the hypotheses used in the calculation of the recoverable value had been changed since the most recent loss due to impairment was recognized. In this case, the carrying value of the asset is increased up to its new recoverable value, with the limit of the net accounting value which that asset would have had if no losses due to impairment in previous periods had been recorded. The reversion is recorded in the income statement and the charges for depreciation in future periods are adjusted to the new carrying value. The losses due to impairment of goodwill are not the object of reversion in subsequent periods. Additional details are set forth in Note 2(b)(7) to our Consolidated Financial Statements.

Provisions and Contingent Liabilities

A provision is recognized in the consolidated balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the consolidated balance sheet date. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect the current best estimate of the related liability. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are considered to be those possible obligations arising as a consequence of past events, the materialization of which is conditional upon one or more future events independently of the will of the consolidated companies. Contingent liabilities do not fall within the scope of the object of accounting record. Additional details are set forth in Note 2(b)(19) to our Consolidated Financial Statements.

Financial Liabilities

Financial liabilities are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, financial liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowing based on an effective interest rate. Contracts that create an obligation to purchase own equity instruments for cash or another financial asset give rise to a financial liability equal to the present value of the redemption amount. The financial liability is recognized initially under IAS 39, at fair value (the present value of the redemption amount) against equity. Subsequently, the financial liability is measured in accordance with current rules and movements in fair value are accounted for as gain or loss in the consolidated income statement. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. The Group records financial liabilities disposals when obligations are canceled or expired. Difference between the carrying amount of a financial liability canceled or transferred to third parties and the consideration paid is recorded in the income statement of the fiscal year.

Liabilities maturing less than 12 months from the consolidated balance sheet date are classified as current and those maturing at over 12 months, as noncurrent.

Income Tax

Income tax in the consolidated profit and loss account includes both current and deferred taxes. Income tax expense is recognized in the consolidated income statement except to the extent that the tax relates to items directly recognized in equity, in which case the tax is also recognized in equity. The consolidated income statement for the year includes the expense for company tax of the group companies by global and proportional integration the calculation of which contemplates the amount of the tax accrued over the financial year, the differences between the taxable base and the consolidated accounting result as well as the bonuses and deductions in the amount to which the group companies have a right. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred income tax is recorded, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes calculated at the consolidated balance sheet date. Deferred taxes relating to the following temporary differences are not recorded: goodwill not deductible for tax purposes and the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or loss. Deferred taxes relating to temporary differences that arise in investments in subsidiaries and associates are recognized except when the Group could control the date of the temporary differences reversal and it is likely that they will not be reverted in the foreseeable future. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates (and tax laws) that have been enacted at the consolidated balance sheet date. Deferred income tax assets are recognized for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. See Note 2(b)(17) to our Consolidated Financial Statements for additional details.

Use of Estimates

The preparation of consolidated annual accounts in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates based on such reviews are recognized in the period in which the estimates are revised if the review affects only that period, or in the period of the review and future periods if the review affects both current and future periods. The main estimates recorded by the Group are discussed in Note 4 and in Note 13 to our Consolidated Financial Statements.

Principal Consolidated Income Statement Line Items

The following is a brief description of certain line items included in our consolidated income statement.

Operating Revenue

Operating revenue principally comprises revenue from gaming activities less prizes paid. We recognize revenue on an accrual basis, that is, when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Revenues from the principal business divisions are recorded as follows:

- Slot machines: revenues from slot machines are recorded as the net amount collected by the operator (net of prizes).

- Bingo: revenues from bingo halls are recorded as the total amount of bingo cards sold, according to their face value, less bingo prizes, which are recorded as a deduction from gross receipts.

- Casinos and others: revenues are recorded as the net amount collected by the operator (net of prizes).

- Racetracks: revenues are recorded as the net amount collected by the operator (net of prizes).

- Sports betting: revenues are recorded as the net amount collected by the operator (net of prizes).

We employ a number of different revenue recognition methodologies across our different businesses. Our use of various revenue recognition methodologies is a result, in part, of historical adherence to a specified methodology and, in some cases, of an effort to make the reporting of our operating results more consistent with generally accepted accounting principles in the countries in which we operate. The manner in which our principal businesses record operating revenue is described below:

Argentina. The Argentina business's operating revenue principally comprises revenue collected from slot machines located in our bingo halls after prize payouts and from sales of bingo cards after prize payouts and revenues from food and beverages. It also reflects gains or losses from Argentine peso and U.S. dollar foreign exchange forward contracts that mature during the period. See "—Market and Credit Risks—Foreign Currency Risks".

Mexico. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA (until recently, our joint venture with CIE in which we now hold an 84.8% stake, see "Business—Recent Developments—ICELA Acquisition Agreement"), and the operating companies of Legacy Caliente (*i.e.*, the Joint Opcos, Promojuegos and Mio Games) as well as revenue from our management services agreement with the Joint Opcos until April 1, 2011 and previously with Grupo Caliente. Through June 30, 2010, our operating revenue under the previous management services agreements with Grupo Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Grupo Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Grupo Caliente's behalf, such as hall managers' salaries and fees paid in connection with the use of machines. From July 1, 2010, the new management services agreements with the Joint Opcos provided for an annual fee of up to U.S.$36.0 million as well as an aggregate monthly fee of U.S.$1.0 million through December 31, 2010. In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished gaming halls and Grupo Caliente bought such halls at cost. Following the closing of the Caliente Restructuring, we now fully consolidate Legacy Caliente, reflecting Grupo Caliente's stake in each of the Legacy Caliente entities as a non-controlling interest. On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE for Mex. Ps. 2,653 million (equivalent to approximately U.S.$209.0 million and €158.0 million as of the date of closing of the acquisition). The acquisition of the 35.8% stake was in addition to Codere México's already existing 49% stake in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements. Our operating revenue also includes gains and losses from the Mexican peso forward exchange contracts which mature during the relevant period. See "—Market and Credit Risks—Foreign Currency Risks".

Italy. Operating revenue in Italy comprises revenue from our network operation, resulting from the interconnection fees for the AWP machines connected to the network as well as from the participation in revenues after prizes and taxes from the totality of the VLTs connected to the network. Operating revenue is also derived from our bingo operations, which includes revenues from sales of bingo cards, amounts collected from AWP machines placed in our gaming halls and the participation corresponding to the retail location for VLTs placed in the gaming halls (after prize payouts in all three cases) as well as revenues from food and beverage sales in our gaming halls. Operating revenue also includes revenues from our gaming machine operations, which includes amounts collected from AWP machines placed in non-specialized locations (*i.e.*, bars) after prize payouts and excluding the site owner's share as well as revenues after prize payouts for VLTs placed in dedicated gaming halls. Operating revenue also includes revenues from Internet operations.

Spain. Operating revenue in Spain comprises revenues obtained from AWP machines and from our sports betting business, including self-service terminals, which we operate at third party locations (such as bars and stand-alone machine halls) after prize payouts, and excluding the site owner's share as well as ancillary services provided to site owners. Operating revenue also includes revenue obtained in our gaming halls from bingo cards sales, sports bets, AWP machines (after prize payouts in all cases) as well as from food and beverage sales at these halls.

The following table summarizes the manner in which revenue is recognized in 2011 across our businesses and certain business lines within certain businesses under IFRS:

Main Gaming Income Statement Items	Recognition of Gaming Revenue
Amounts Wagered	
Less	
Prizes Payout	
Equals	
Net Box (Net Win)	Spain bingo, Argentina slots and bingo, Italy bingo, Brazil, Panama casinos and racetrack, Colombia casino, Mexico ICELA, Legacy Caliente, Uruguay racetrack
Less	
Site Owner[1]	
Equals	
Operator Revenues	Spain AWP, Colombia, Italy AWP, Spain sports betting
Less	
Gaming Taxes	
Equals	
Operator Revenues after Gaming Taxes	Uruguay slots
Less	
Operator Expenses	
Less	
Financial Expenses	
Equals	
Profit before Tax	
Less	
Income Tax	
Equals	
Net Profit	

(1) Share of net box to site owners.

Operating Expenses

Operating expenses comprise:

- *Consumption and Other External Expenses.* In Argentina and Italy, consumption and other external expenses principally comprises food and beverage cost of sales. In Mexico, it primarily includes food and beverage cost of sales for ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning in the three months ended June 30, 2011). Through March 31, 2011, it also included fees paid in connection with the use of gaming machines, expenses primarily in connection with the installation of gaming machines, and personnel costs related to the salaries of hall managers whom we provided for Grupo Caliente's halls, and through June 30, 2010 it also included the cost of building out and equipping halls sold to Grupo Caliente. In Spain, it includes payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and other costs, including food and beverage, incurred at our gaming halls and sports betting locations.

- *Personnel Expenses.* Our personnel expenses include wages and salaries and social security costs.

- *Depreciation and Amortization.* Tangible fixed assets are depreciated on a straight-line basis over the estimated useful lives of each component of the assets. Other intangible assets are depreciated in the same way. The elements are depreciated from the date they are available for use. Land is not depreciated.

- *Variation in Provisions for Trade Transactions.* Variation in provisions for trade transactions principally relates to movements in provisions we have taken in connection with doubtful account receivables and loans that we have made to site owners. The amount of the variation in provisions is principally affected by our assessment of the likelihood that the account receivables will be paid or the loans will be repaid.

- *Other Operating Expenses.* Other operating expenses comprise gaming and other taxes, machine and other leases, payment for independent professional services, such as legal and auditing services, travel and advertising expenses, repair and maintenance and insurance premiums, among others.

- *Impairment.* Impairment includes the amount by which asset values have been reduced at period end. See Note 2(b)(7) to our Consolidated Financial Statements.

- *Gains or Losses on Asset Disposals or Acquisitions.* Gains or losses on asset disposals or acquisitions includes the profit or losses obtained from disposals completed during the period.

Operating Profit

Operating profit represents the excess of operating revenue over operating expenses.

Financial Items

- *Finance Income.* Finance income principally comprises other interests, income from marketable securities and noncurrent loans.

- *Finance Costs.* Finance costs principally comprise interest paid on our outstanding indebtedness and variation in provisions for decline in value of financial investments.

- *Exchange Gains (Losses), net.* Exchange gains (losses), net, principally comprise gains and losses recorded upon translation of non-euro assets and liabilities into euro.

Corporate Income Tax

Corporate income tax includes all current and deferred taxes, as calculated in accordance with the relevant tax laws in force in the jurisdictions in which we operate.

As a result of our history of acquisitions and disposals and internal corporate reorganizations, our significant international operations and our financing structure, our tax position is complex.

In the last years, we have endeavored to achieve a more tax efficient structure for the Group by merging certain subsidiaries in Spain out of existence and seeking to increase the number of subsidiaries that are more than 75% owned and, therefore, members of our consolidated tax group. Additionally, on an international level, we are increasing the flow of funds to Codere, S.A. through intercompany transactions related to the development of intangibles assets by Codere, S.A. and the lending of funds within the Group by Codere, S.A. to offshore business units in order to assign interest expense directly to operating income. In addition, our non-Spanish subsidiaries have directly obtained financing.

For Spanish tax purposes, in 2011, 32 Spanish companies in our consolidated group filed their tax returns as a consolidated tax group. Under Spanish tax legislation, we must have owned more than 75% (70% if the shares of the owned company are traded on an official secondary market) of the capital stock of a company at the start of the tax year in order to include the company in our consolidated tax group. Spanish companies that are not part of our consolidated tax group pay tax on an individual basis (unless such companies belong to another tax group).

26 Italian companies are included in the consolidated tax regime applicable in Italy. This consolidated regime was applied from January 1, 2005 for companies included in the tax group headed by Codere Italia, S.p.A., and since January 1, 2006, for companies included in the tax group headed by Operbingo Italia, S.p.A. The remainder of the companies file individual tax returns.

The statutory corporate income tax rate in Spain is 30% as of the date of this Report. Companies resident abroad are subject to corporate income tax according to local tax laws in the range of 25% to 35%. We define our effective tax rate as our income tax expense over our income (loss) before tax.

VAT taxes are generally not deductible for gaming companies and, accordingly, are recorded as an operating expense. Since January 1, 2009, 33 Spanish companies in our Group are taxed under the Special VAT Regime for groups of companies. This has allowed us to minimize the VAT cost of Spanish intra-group transactions.

Non-Controlling Interests

Non-controlling interests comprise the portion of the net income or loss of companies we consolidate that is attributable to such companies' other shareholders. During the periods under review, non-controlling interests were principally attributable to our subsidiaries in Spain, Argentina and Mexico.

Results of Operations

The following tables set forth, by principal business and for our Other Operations, operating revenue, operating expenses, operating profit (loss) and EBITDA for the years ended December 31, 2010 and 2011 prepared in accordance with IFRS:

	Year ended December 31,		
	2010	**2011**	**% change**
	(€ in millions, except percentages)		
Operating Revenue:			
Argentina	461.0	553.2	*20.0%*
Mexico	219.3	291.5	*32.9%*
Italy(1)	137.4	224.2	*63.2%*
Spain(2)	199.0	165.7	*(16.7%)*
Other Operations:			
Brazil	2.9	3.6	*24.1%*
Colombia	27.5	28.9	*5.1%*
Panama	62.3	87.0	*39.6%*
Uruguay	16.9	20.3	*20.1%*
Corporate Overhead	0.2	0.0	*(100.0)*
Total	**1,126.5**	**1,374.4**	***22.0%***

	Year ended December 31,		
	2010	**2011**	**% change**
	(€ in millions, except percentages)		
Operating Expenses:			
Argentina	342.0	405.3	*18.5%*
Mexico	174.9	264.7	*51.3%*
Italy(1)	131.5	189.8	*44.3%*
Spain(2)	194.9	187.2	*(4.0%)*
Other Operations:			
Brazil	5.7	5.2	*(8.8%)*
Colombia	25.6	26.3	*2.7%*
Panama	68.4	85.2	*24.6%*
Uruguay	15.7	18.8	*19.7%*
Corporate Overhead	27.5	29.8	*8.4%*
Total	**986.2**	**1,212.3**	***22.9%***

	Year ended December 31,		
	2010	**2011**	**% change**
	(€ in millions, except percentages)		
Operating Profit (Loss):			
Argentina	119.0	147.9	*24.3%*
Mexico	44.7	26.7	*(40.3%)*
Italy(1)	5.7	34..4	*n.a.*
Spain(2)	7.3	(22.9)	*n.a.*
Other Operations:			
Brazil	(2.8)	(1.6)	*42.9%.*
Colombia	1.9	2.6	*36.8%*
Panama	(6.2)	1.8	*129.0%*
Uruguay	1.3	1.5	*15.4%*
Corporate Overhead	(27.1)	(29.7)	*(9.6%)*

	Year ended December 31,		
	2010	2011	% change
	(€ in millions, except percentages)		
Total	**143.8**	**160.7**	***11.8%***

	Year ended December 31,		
	2010	2011	% change
	(unaudited)		
	(€ in millions, except percentages)		
EBITDA:			
Argentina	135.8	165.2	*21.6%*
Mexico	63.6	61.8	*(2.8%)*
Italy[(1)]	13.9	44.3	*n.a.*
Spain[(2)]	42.1	19.6	*(53.4%)*
Other Operations:			
Brazil	(2.1)	(0.9)	*(57.1%)*
Colombia	5.4	5.9	*9.3%*
Panama	4.1	17.6	*n.a.*
Uruguay	3.2	3.9	*21.9%*
Corporate Overhead	(24.9)	(27.7)	*(11.2%)*
Total	**241.1**	**289.7**	***20.2%***

(1) Includes Italy AWP, Italy Bingo and Italy Internet. In 2010, Italy Internet was reported as a separate category under Other Operations.
(2) Includes Spain AWP, Spain Bingo, Spain Sports Betting and Spain Internet. In 2010, Spain Internet was reported as a separate category under Other Operations.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Group Results of Operations

Operating Revenue

Operating revenue increased by €247.9 million, or 22.0%, to €1,374.4 million in 2011 from €1,126.5 million in 2010. The increase was principally attributable to:

- an increase in Argentina (€92.2 million) due to an increase in the net win per machine per day as a result of strong economic growth and inflation, an increase in the number of machines installed, and lower losses on the foreign exchange contracts which matured in 2011 compared to 2010, partially offset by the depreciation of the Argentine peso against the euro;

- an increase in Italy (€86.8 million) principally due to the increase of the VLTs and the consolidation of the acquisitions made during 2010 and 2011 (Caserta hall, FG Slot Services, Gap Games and Gaming Re);

- an increase in Mexico (€72.2 million) due to the global consolidation of the operations purchased from Grupo Caliente beginning April 1, 2011, compared to the management services agreement in place in 2010, which was a fixed fee since July 1, 2010, an increase in the net win per machine per day in ICELA, an increase in the number of machines installed, and lower losses on the foreign exchange contracts which matured in 2011 compared to 2010, partially offset by a decrease in the net win per machine per day in Legacy Caliente and the absence of sales to Grupo Caliente following the termination of the management services agreement effective June 30, 2010; and

- an increase in Panama (€24.7 million) principally due to the consolidation of the six casinos acquired and the re-opening of Casino Colón (both beginning in the three months ended September 30, 2010), partially offset by the depreciation of the U.S. dollar against the euro.

The increase in operating revenue was partially offset by Spain in 2011 (€33.3 million) due to a decrease in the net win per AWP machine per day and a decrease in the number of bingo cards sold due to the total smoking ban implemented on January 2, 2011, and adverse macroeconomic conditions.

Operating Expenses

Operating expenses increased by €226.1 million, or 22.9%, to €1,212.3 million in 2011 from €986.2 million in 2010. The increase was principally attributable to:

- an increase in Mexico (€89.8 million) due to the consolidation of the operations purchased from Grupo Caliente and an increase in the number of machines installed, partially offset by the depreciation of the Mexican peso against the euro and a decrease in consumption expenses due to the absence of expenses which we incurred on Grupo Caliente's behalf through June 30, 2010;

- an increase in Argentina (€63.3 million) principally due to an increase in commercial activity and personnel (attributable to the increase in the number of machines installed and inflation and an increase in gaming and other taxes as a result of the canon tax surcharge associated with the renewal of the San Martin and Puerto licenses; partially offset by the depreciation of the Argentine peso against the euro;

- an increase in Italy (€58.3 million) principally due to increased expenses (including gaming taxes) as a result of an increase in the number of VLTs installed and the consolidation of the acquisitions made during 2010 and 2011 (Caserta hall, FG Slot Services, Gap Games and Gaming Re); and

- an increase in Panama (€16.8 million) principally attributable to the consolidation of the six casinos acquired and the re-opening of Casino Colón (both beginning in the three months ended September 30, 2010), partially offset by lower expenses and the depreciation of the U.S. dollar against the euro.

In Spain, operating expenses decreased by €7.7 million primarily due to a decrease in gaming taxes resulting from the reduction in the bingo gaming tax beginning January 1, 2011, a decrease in the number of bingo cards sold, cost reduction initiatives and the reduction in exclusivity payments to bar owners.

Gains or Losses on Asset Disposals or Acquisitions

Gains on asset disposals or acquisitions decreased by €4.9 million due to a loss of €1.4 million in 2011 from a gain of €3.5 million in 2010 primarily due to the absence of a non-recurring gain of €7.5 million in 2011, which was recorded in 2010 in connection with the consolidation of 100% of the sports betting business following the purchase of William Hill plc's stake.

Operating Profit

Operating profit increased by €16.9 million, or 11.8%, to €160.7 million in 2011 from €143.8 million in 2010. Operating margin decreased to 11.7% in 2011 from 12.8% in 2010.

EBITDA

EBITDA increased by €48.6 million, or 20.2%, to €289.7 million in 2011 from €241.1 million in 2010. The increase in EBITDA was principally attributable to: Italy (€30.4 million) primarily due to an increase in the number of VLTs and the consolidation of the acquisitions made during 2010 and 2011; Argentina (€29.4 million) due to an increase in the net win per machine per day and in the number of machines installed and lower losses in foreign exchange contracts which matured in 2011 compared to 2010, partially offset by the depreciation of the Argentine peso against the euro; and Panama (€13.5 million) primarily due to the consolidation of the six casinos acquired and the reopening of Casino Colón (both beginning in the three months ended September 30, 2010). This increase was partially offset by a decrease in Spain (€22.5 million), principally as a result of the decrease in the net win per machine per day and a decrease in the number of bingo cards sold primarily due to the total smoking ban implemented on January 2, 2011 and adverse macroeconomic conditions. EBITDA margin decreased to 21.1% in 2011 from 21.4% in 2010.

Financial Income

Financial income increased by €8.2 million, or 94.3%, to €16.9 million in 2011 from €8.7 million in 2010. The increase in financial income was principally attributable to the favorable judgment in connection with the interest accrued associated with the Ballesteros transaction (€5.0 million), and to the recalculation of fair market value of our put option on an additional 7% stake in the Joint Opcos (€3.9 million) with no effect in cash; partially offset by lower interests earned in connection with financing provided to the Joint Opcos following the consolidation of their operations (consolidated beginning in the three months ended June 30, 2011).

Financial Expenses

Financial expenses increased by €8.5 million, or 10.9%, to €86.5 million in 2011 due to the higher debt balance resulting from the €100 million Notes issued in July 2010, increased amounts drawn under the Senior Credit Facility at higher interest rates (EURIBOR), debt assumed in the acquisition of the six casinos in Panama (consolidated beginning in the three months ended September 30, 2010) as well as higher debt levels in the Spanish and Italian businesses at higher interest rates.

Exchange Gains (Losses), Net

Exchange gains (losses), net, which principally reflect the impact of changes in exchange rates on balances in foreign currencies, increased by €2.1 million, from €1.0 million in 2010.

Corporate Income Tax

Corporate income tax increased by €13.0 million, or 28.6%, to €58.4 million in 2011. The increase in corporate income tax was principally attributable to withholding taxes in Mexico, an increase in profit before tax in Argentina and Italy, and the recognition of deferred taxes after having applied all net operating loss carryforwards in ICELA; partly offset by the realization of a tax asset of €3.2 million associated with tax incentives and inflation adjustments in Uruguay, and by a decrease in profit before tax in Spain.

Non-controlling Interests

Non-controlling interests was €(16.4) million compared to €2.1 million in 2010. This decrease is principally attributable to losses in the Joint Opcos associated with the decrease in commercial activity as well as the devaluation of the Mexican peso, as certain obligations, including the credit facility granted by us to the Joint Opcos, are denominated in U.S. dollars; and the decrease in profit in Spain.

Net Income

As a result of the foregoing, net income increased by €22.9 million, or 78.2%, to €52.2 million in 2011 from €29.3 million in 2010.

Results of Operations by Business

Argentina

	Year ended December 31,		
	2010	2011	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue	461.0	553.2	*20.0%*
Operating expenses:			
Consumption and other external expenses	10.1	12.2	*20.8%*
Personnel expenses	68.4	85.6	*25.1%*
Depreciation	14.0	14.5	*3.6%*
Amortization of intangible assets	2.8	2.8	*0.0%*
Other operating expenses	246.7	290.2	*17.6%*
Gaming and other taxes	194.2	229.9	*18.4%*
Machine rental costs	0.1	2.6	*n.a*
Others	52.4	57.7	*10.1%*
Total operating expenses	342.0	405.3	*18.5%*
Operating profit	119.0	147.9	*24.3%*
EBITDA	135.8	165.2	*21.6%*

Operating Revenue. Operating revenue in Argentina principally comprises revenue collected from slot machines located in our halls after prize payouts and from sales of bingo cards after prize payouts and revenues from food and beverages. It also reflects gains or losses from Argentine peso and U.S. dollar forward foreign exchange contracts that mature during the period. Operating revenue increased by €92.2 million, or 20.0%, to €553.2 million in 2011 from €461.0 million in 2010, which increase was principally attributable to the increase in the net win per machine per day as a result of the strong economic growth and inflation, an increase in the number of machines installed and lower losses on the foreign exchange currency contracts compared to 2010, partially offset by the depreciation of the Argentine peso against the euro. Losses on the foreign exchange contracts which matured in 2011 were €2.2 million, compared to losses of €6.3 million in 2010. At a constant exchange rate and adjusted to eliminate gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €618.3 million in 2011, representing an increase of 32.3% compared to 2010.

Operating Expenses. Operating expenses increased by €63.3 million, or 18.5%, to €405.3 million in 2011 from €342.0 million in 2010. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses, which principally include food and beverage cost of sales, increased by €2.1 million, or 20.8%, to €12.2 million in 2011 from €10.1 million in 2010, primarily due to an increase in the sale of food and beverages in 2011 compared with 2010, as well as to the price of goods sold, which were affected by inflation, partially offset by the depreciation of the Argentine peso against the euro.

- *Personnel Expenses*. Personnel expenses increased by €17.2 million, or 25.1%, to €85.6 million in 2011 from €68.4 million in 2010, principally due to increases in payroll resulting from inflation, as well as personnel increases associated with an increase in the number of machines installed, partially offset by the depreciation of the Argentine peso against the euro.

- *Depreciation*. Depreciation increased by €0.5 million, or 3.6%, to €14.5 million in 2011 from €14.0 million in 2010 as a result of an increase in the portfolio, partially offset by the depreciation of the Argentine peso against the euro.

- *Amortization*. Amortization was €2.8 million in 2011, the same as in 2010.

- *Other Operating Expenses*. Other operating expenses, which include gaming and other taxes, payments to the non-profit organizations that nominally hold the licenses to operate the gaming halls, marketing expenses, lease payments and other expenses, increased by €43.5 million, or 17.6%, to €290.2 million in 2011 from €246.7 million in 2010. The increase was primarily due to an increase in costs resulting from an increase in commercial activity as a result of an increase in the number of machines installed and in the net win per day and the canon tax surcharge associated with the renewal of the San Martin and Puerto licenses, which we began recording in August 2010, partially offset by the absence, in 2011, of a non-recurring provision of €1.0 million recorded in 2010 and the depreciation of the Argentine peso against the euro.

- *Operating Profit*. Operating profit increased by €28.9 million, or 24.3% to €147.9 million in 2011 from €119.0 million in 2010. Operating margin increased to 26.7% in 2011 from 25.8% in 2010.

- *EBITDA*. EBITDA increased by €29.4 million, or 21.6%, to €165.2 million in 2011 from €135.8 million in 2010. The increase in EBITDA was principally attributable to an increase in the net win per machine per day and in the number of machines installed, the decrease in the losses associated with the foreign currency contracts which matured in 2011 compared to 2010, partially offset by the depreciation of the Argentine peso against the euro. At a constant exchange rate (and adjusted to eliminate gains and losses on the foreign currency contracts which matured during the corresponding periods) EBITDA would have been €186.4 million in 2011, representing an increase of 31.2% compared to 2010. EBITDA margin increased to 29.9% in 2011 from 29.5% in 2010.

Mexico

	Year ended December 31,		
	2010	**2011**	**% change**
	(€ in millions, except percentages) (unaudited)		
Operating revenue	219.3	291.5	*32.9%*
of which sales to Grupo Caliente	2.5	-	*n.a.*
Operating expenses:			
Consumption and other external expenses	46.0	32.3	*(29.8%)*
of which sales to Grupo Caliente	3.0	-	*n.a*
Personnel expenses	24.3	44.7	*84.0%*
Depreciation	15.7	25.1	*59.9%*
Amortization of intangible assets	3.5	9.9	*n.a.*
Other operating expenses:	85.4	152.7	*78.8%*
Gaming and other taxes	13.3	20.2	*51.9%*
Machine rental costs	11.1	41.4	*n.a.*
Others	61.0	91.1	*49.3%*
Total operating expenses	174.9	264.7	*51.3%*
Gains or losses on asset disposals or acquisitions	0.3	(0.1)	*(133.3%)*
Operating profit	44.7	26.7	*(40.3%)*
EBITDA	63.6	61.8	*(2.8%)*

Operating Revenue. Operating revenue includes our 49% stake in the operating companies of ICELA (until recently, our joint venture with CIE, which we consolidated proportionally until January 31, 2012 and in which we now hold an 84.8% stake, see "Business—Recent Developments—ICELA Acquisition Agreement"), the directly-owned licensees (Promojuegos and Mio Games, which we consolidate globally) as well as revenue from our management services agreements with Grupo Caliente. Through June 30, 2010, our operating revenue under the management services agreement with Grupo Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Grupo Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Grupo Caliente's behalf, such as hall managers' salaries and fees paid in connection with the use of machines. Beginning July 1, 2010, the new management services agreement with the Joint Opcos in connection with the Caliente Restructuring provided for an annual fee of up to U.S.$36.0 million, as well as an aggregate monthly fee of U.S.$1.0 million (through December 31, 2010) and certain costs incurred on Grupo Caliente's behalf, and we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Grupo Caliente at cost. Beginning April 1, 2011, we began consolidating globally the operations acquired from Grupo Caliente, the Caliente Holdcos and the Joint Opcos. Our operating revenue also includes gains and losses from the Mexican peso forward exchange contracts which mature during the period.

Operating revenue increased by €72.2 million, or 32.9%, to €291.5 million in 2011 from €219.3 million in 2010. The increase was principally attributable to: the global consolidation of the operations purchased from Grupo Caliente beginning April 1, 2011 compared to the management services agreement in place in 2010, which was a fixed fee since July 1, 2010, an increase in the net win per machine per day in ICELA, and an increase in the number of machines installed, and lower losses on the foreign exchange contracts which matured in 2011 compared to 2010. This increase was partially offset by a decrease in the net win per machine per day in Legacy Caliente and the absence of sales to Grupo Caliente following the termination of the management services agreement effective June 30, 2010. The fire set at a competitor's hall in Monterrey in August 2011 also negatively affected the operations by reducing attendance at our halls in the weeks immediately following the event as well as through the closure of certain halls following widespread government inspections. However, in the three months ended December 31, 2011, the increased control of the sector by the Mexican authorities, coupled with the reopening of refurbished Legacy Caliente halls, resulted in an improvement in operating revenues. Losses on the foreign exchange contracts which matured in 2011 were €1.0 million, compared to losses of €4.1 million in 2010. At a constant exchange rate, and excluding gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €306.2 million in 2011, representing an increase of 37.1% compared to 2010.

Operating Expenses. Operating expenses increased by €89.8 million, or 51.3%, to €264.7 million in 2011 from €174.9 million in 2010. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses include primarily food and beverage cost of sales for ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning in the three months ended June 30, 2011). Through March 31, 2011, it also included fees paid in connection with the use of gaming machines, expenses primarily in connection with the installation of gaming machines, and personnel costs related to the salaries of hall managers whom we provided for Grupo Caliente's halls, and through June 30, 2010 it also included the cost of building out and equipping halls sold to Grupo Caliente. Consumption and other external expenses decreased by €13.7 million, or 29.8%, to €32.3 million in 2011 from €46.0 million in 2010, primarily due to the absence of the aforementioned expenses following the termination of the management services agreements pursuant to the Caliente Restructuring.

- *Personnel Expenses*. Personnel expenses increased by €20.4 million, or 84.0% to €44.7 million in 2011 from €24.3 million in 2010 primarily due to the consolidation of the Joint Opcos (consolidated beginning in the three months ended June 30, 2011) and an increase in the number of machines installed.

- *Depreciation*. Depreciation, which includes the investment in halls operated by ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning April 1, 2011), as well as the racetrack and the convention center, and the capitalized leases associated with the IGT machines (in ICELA), increased by €9.4 million, or 59.9% to €25.1 million in 2011 from €15.7 million in 2010 primarily due to the consolidation of the Joint Opcos (beginning in the three months ended June 30, 2011) and an increase in the number of machines.

- *Amortization*. Amortization, which primarily includes the amortization of the licenses, increased by €6.4 million to €9.9 million in 2011 from €3.5 million in 2010, due to the consolidation of the Joint Opcos (in the three months ended December 31, 2011 when we regularized the amortization of the licenses for the quarters since the acquisition of such companies).

- *Other Operating Expenses*. Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments and others, increased by €67.3 million, or 78.8%, to €152.7 million in 2011 from €85.4 million in 2010 principally due to the consolidation of the Joint Opcos (beginning in the three months ended June 30, 2011) and to the increase in the number of machines installed. In addition, it includes €0.4 million of non-recurring expenses associated with the ICELA Acquisition Agreement during 2011, compared to €1.2 million in 2010 related to Caliente Restructuring and the absence, in 2011, of a €2.1 million non-recurring expense reversal recorded in 2010.

Operating Profit. Operating profit decreased by €18.0 million, or 40.3%, to €26.7 million in 2011 from €44.7 million in 2010. Operating margin decreased to 9.2% in 2011 from 20.4% in 2010.

EBITDA decreased €1.8 million, or 2.8%, to €61.8 million in 2011 from €63.6 million in 2010. The decrease in EBITDA was primarily due to the decrease in the profitability of the Joint Opcos resulting from the consolidation of expenses associated with these operations, and the decrease in the net win per machine per day, compared to revenues from the management services agreement with Grupo Caliente in place in 2010, which was a fixed fee since July 1, 2010. This decrease was also attributable to higher non-recurring expenses recorded in 2011 compared to 2010 and partially offset by lower losses on the foreign exchange contracts in 2011 compared to 2010. At a constant exchange rate (and adjusted to eliminate gains and losses on the foreign currency contracts which matured during the corresponding periods) EBITDA would have been €65.5 million in 2011, a decrease of 3.2% compared to 2010. EBITDA margin decreased to 21.2% in 2011 from 29.0% in 2010.

Italy

	Year ended December 31,		
	2010	2011	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue	137.4	224.2	*63.2%*
Operating expenses:			
Consumption and other external expenses	2.3	2.8	*21.7%*
Personnel expenses	28.0	36.5	*30.4%*
Depreciation	7.9	10.3	*30.4%*
Amortization of intangible assets	1.2	4.8	*n.a.*
Variation in provisions for trade transactions	(1.1)	(5.2)	*n.a.*
Other operating expenses	93.2	140.6	*50.9%*
Gaming and other taxes	65.0	95.6	*47.1%*
Others	28.2	45.0	*59.6%*
Total operating expenses	131.5	189.8	*44.3%*
Gains or losses on asset disposals or acquisitions	(0.2)	-	*n.a.*
Operating profit	5.7	34.4	*n.a.*
EBITDA(1)	13.9	44.3	*n.a.*

(1) Italy Internet, which recorded an EBITDA loss of €0.2 million in 2010, was in 2010 reported as a separate category under Other Operations, but is now included under Italy.

Operating Revenue. Operating revenue in Italy comprises revenue from our network operation, resulting from the interconnection fees for the AWP machines connected to the network, as well as from the participation in revenues after prizes and taxes from the totality of the VLTs connected to the network; from our gaming hall operations, which includes revenues from sales of bingo cards, amounts collected from AWP machines placed in the halls and the participation corresponding to the retail location for VLTs placed in the halls (after prize payouts in all three cases), as well as revenues from food and beverage sales; and revenues from machines operated at third-party locations, which includes amounts collected from AWP machines placed in non-specialized locations (*i.e.* bars) and from VLTs placed in gaming halls, in both cases after prize payouts, and excluding the site owner’s share. It also includes revenues from our start-up Internet gaming operations.

Operating revenue increased by €86.8 million, or 63.2%, to €224.2 million in 2011 from €137.4 million in 2010, due to: the increase in the number of VLTs, the consolidation of the Caserta hall (acquired in the three months ended December 30, 2010) and machine operators acquired in 2011: (FG Slot Services (acquired in the three months ended March 31, 2011), Gap Games (acquired in the three months ended June 30, 2011), and Gaming Re (acquired in the three months ended September 30, 2011)), partially offset by a decrease in the net win per AWP per day.

Operating Expenses. Operating expenses increased by €58.3 million, or 44.3%, to €189.8 million in 2011 from €131.5 million in 2010. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses.* Consumption and other external expenses, which principally includes food and beverage cost of sales in the gaming halls. Consumption and other external expenses increased by €0.5 million, or 21.7%, to €2.8 million in 2011 from €2.3 million in 2010. The increase was principally attributable to increased food and beverage sales, which partly resulted from the consolidation of the Caserta hall.

- *Personnel Expenses*. Personnel expenses increased by €8.5 million, or 30.4%, to €36.5 million in 2011 from €28.0 million in 2010. The increase was principally attributable to an increase in personnel associated with the acquisition of the Caserta hall and of the AWP machine operators as well as the increase in the number of VLTs.

- *Depreciation*. Depreciation increased by €2.4 million, or 30.4%, to €10.3 million in 2011 from €7.9 million in 2010. The increase was principally attributable to the consolidation of the Caserta hall and the acquired AWP machines operators as well as refurbishments of the gaming halls associated with the increase in the number of VLTs.

- *Amortization*. Amortization increased by €3.6 million to €4.8 million in 2011 from €1.2 million in 2010. The increase was principally associated with the amortization of the VLT rights and the recording, in the three months ended June 30, 2011 of a non-recurring amortization regularization totalling €0.6 million.

- *Variation in Provisions for Trade Transactions*. Variation in provisions for trade transactions decreased by €4.1 million, to a loss of €5.2 million in 2011 from a loss of €1.1 million in 2010. The increase was principally attributable to the recording of a provision related associated with the purchase of Gaming Re.

- *Other Operating Expenses*. Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments, and others increased by €47.4 million, or 50.9%, to €140.6 million in 2011 from €93.2 million in 2010. The increase was principally attributable to an increase in operating expenses, including gaming taxes, primarily associated with an increase in the number of VLTs and the consolidation of the Caserta hall and the acquired AWP machine operators, and to a lesser extent, to the Internet gaming start-up. This increase was partially offset by a €3.5 million non-recurring tax reversal recorded in the three months ended June 30, 2011 resulting from the recalculation of the 2010 PREU (gaming tax) by the Italian regulator and the reclassification of €1.3 million in VLT costs from operating expenses to financial expenses and lower liability.

Gains or Losses on Asset Disposals or Acquisitions. Gains or losses on asset disposals or acquisitions was nil in 2011 compared to a loss of €0.2 million in 2010.

Operating Profit. Operating profit increased by €28.7 million to €34.4 million in 2011 from €5.7 million in 2010. Operating margin increased to 15.3% in 2011 from 4.1% in 2010.

EBITDA. EBITDA increased by €30.4 million to €44.3 million in 2011 from €13.9 million in 2010. The increase in EBITDA was principally attributable to the installation of VLTs, and the consolidation of the Caserta hall and the acquired AWP machine operators. EBITDA margin increased to 19.8% in 2011 from 10.1% in 2010.

Spain

	Year ended December 31,		
	2010	2011	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue	199.0	165.7	*(16.7%)*
Operating expenses:			
Consumption and other external expenses	8.3	7.8	*(6.0%)*
Personnel expenses	41.4	42.7	*3.1%*
Depreciation	19.8	20.2	*2.0%*
Amortization of intangible assets	16.2	13.3	*(17.9%)*
Variation in provisions for trade transactions	2.0	3.5	*75.0%*
Impairment test	-	4.1	*n.a.*
Other operating expenses:	107.2	95.6	*(10.8%)*
Gaming and other taxes	73.5	69.3	*(5.7%)*
Machine rental costs	0.3	0.3	*0.0%*
Others	33.4	26.0	*(22.2%)*
Total operating expenses	194.9	187.2	*(4.0%)*
Gains or losses on asset disposals or acquisitions	3.2	(1.4)	*n.a.*
Operating profit	7.3	(22.9)	*n.a.*
EBITDA[1]	42.1	19.6	*(53.4%)*

(1) Spain Internet, which recorded an EBITDA loss of €2.5 million in 2010, was in 2010 reported as a separate category under Other Operations, but is now included under Spain.

Operating Revenue. Operating revenue in Spain comprises revenues obtained from AWP machines and from sports betting services, including self-service terminals, which we operate at third-party locations (for example, bars and gaming halls) after prize payouts, and excluding the site owner's share as well as ancillary services provided to site owners. Operating revenue also includes revenue obtained in our gaming halls from bingo cards sales, sports bets, AWP machines, in each case, after prize payouts, as well as revenue from food and beverage sales at these halls.

Operating revenue decreased by €33.3 million, or 16.7%, to €165.7 million in 2011 from €199.0 million in 2010, as a result of a decrease in the net win per machine per day due to the total smoking ban implemented on January 2, 2011, adverse macroeconomic conditions, and dilution of the positive effect of regulatory changes which came into effect in Madrid and Extremadura in the second half of 2009 and in the Basque region in the three months ended March 31, 2010. Operating revenue in the bingo hall also decreased as a result of the total smoking ban, the adverse macroeconomic conditions and an increase in the bingo prize payout (from 65% to 71%) introduced on January 1, 2011. The decrease was partially offset by an increase of revenue from sports betting resulting from product improvements and an increase in the number of locations, mainly in the Basque region and Navarra.

Operating Expenses. Operating expenses decreased by €7.7 million, or 4.0%, to €187.2 million in 2011 from €194.9 million in 2010. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses include payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and other costs, including food and beverage, incurred at our gaming halls and sports betting locations. Consumption and other external expenses decreased by €0.5 million, or 6.0%, to €7.8 million in 2011 from €8.3 million in 2010, principally attributable to the decrease in payments to machine operators.

- *Personnel Expenses*. Personnel expenses increased by €1.3 million, or 3.1%, to €42.7 million in 2011 from €41.4 million in 2010. The increase was principally attributable to an increase in payroll due to inflation and to an increase in personnel caused by the growth of the sports betting business. Personnel expenses in 2011 included a €1.0 million non-recurring restructuring charge compared to €0.5 million recorded in 2010 for a similar concept.

- *Depreciation*. Depreciation increased by €0.4 million, or 2.0%, to €20.2 million in 2011 from €19.8 million in 2010, principally attributable to the increase in the number of self-service sports betting terminals.

- *Amortization*. Amortization decreased by €2.9 million, or 17.9%, to €13.3 million in 2011 from €16.2 million in 2010 as a result of the reduction in exclusivity payments to bar owners, which are conditional on the performance of the machines.

- *Variation in Provisions for Trade Transactions*. Variation in provisions for trade transactions increased by €1.5 million, or 75.0%, to €3.5 million in 2011 from €2.0 million in 2010.

- *Other Operating Expenses*. Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments, expenses related to the Internet start-up and others, decreased by €11.6 million, or 10.8%, to €95.6 million in 2011 from €107.2 million in 2010, principally attributable to: a decrease in gaming taxes as a result of the reduction in the bingo gaming tax beginning January 1, 2011, a decrease in the number of bingo cards sold as a result of the total smoking ban and the adverse macroeconomic conditions, cost reduction initiatives. The decrease was partly offset by the absence in 2011 of a non-recurring provision reversal of €0.5 million recorded in the three months ended March 31, 2010.

Gains or Losses on Asset Disposals or Acquisitions. Gains or losses on asset disposals or acquisitions was a loss of €1.4 million in 2011, compared to a gain of €3.2 million in 2010, principally attributable to the absence, in 2011, of a non-recurring gain of €7.5 million recorded in 2010 associated with the consolidation of the sports betting operations following the purchase of William Hill’s stake.

Operating Profit. Operating profit decreased by €30.2 million to a loss of €22.9 million in 2011 from a gain of €7.3 million in 2010.

EBITDA. EBITDA decreased by €22.5 million, or 53.4%, to €19.6 million in 2011 from €42.1 million in 2010. The increase in EBITDA was principally attributable to the reduction in the net win per machine per day as a result of the total smoking ban implemented on January 2, 2012 and the adverse macroeconomic conditions. EBITDA margin decreased to 11.8% in 2011, compared to 21.2% in 2010.

Other Operations

Other Operations includes the results of our operations in Panama, Uruguay, Colombia and Brazil, but excludes Corporate Overhead.

Operating Revenue. Operating revenue increased by €30.2 million, or 27.6%, to €139.8 million in 2011 from €109.6 million in 2011. The increase in operating revenue was principally attributable to the increase in: Panama (€24.7 million) principally due to the consolidation of the six acquired casinos and the re-opening of the Casino Colón (both beginning in the three months ended September 30, 2010), partially offset by the devaluation of the U.S. dollar against the euro; Uruguay (€3.4 million) due to an increase in the number of machines installed (including the opening of a fifth gaming hall in the three months ended September 30, 2011) and in the net win per machine per day, partially offset by the depreciation of the Uruguayan peso against the euro; and Colombia (€1.4 million) due to an increase in the net win per machine per day, partially offset by the depreciation of the Colombian peso against the euro.

Operating Expenses. Operating expenses increased by €20.1 million, or 17.4%, to €135.5 million in 2011 from €115.4 million in 2010. This increase was mainly attributable to Panama (€16.8 million) due to the consolidation of the six acquired casinos and the re-opening of Casino Colón, partially offset by lower non-recurring expenses, €1.4 million associated with corporate social responsibility projects in 2011 compared to €4.0 million associated with the acquisitions, corporate social responsibility projects and other non-recurring provisions in 2010, as well the depreciation of the U.S. dollar against the euro; and to Uruguay (€3.1 million) due to costs associated with the Carrasco Hotel and Casino project, partially offset by the depreciation of the Uruguayan peso against the euro. In Colombia, operating expenses increased by €0.7 million mainly due to the recording in the three months ended December 31, 2011 of a €0.8 million non-recurring fiscal provision.

Operating Profit. Operating profit increased by €10.1 million, to a gain of €4.3 million in 2011 from a loss of €5.8 million in 2010.

EBITDA. EBITDA increased by €15.9 million, to €26.5 million in 2011 from €10.6 million in 2010. The increase in EBITDA was principally attributable to: Panama (€13.5 million) primarily associated with the consolidation of the six acquired casinos and the re-opening of Casino Colón and the lower non-recurring charges registered in 2011 compared to 2010; Brazil (€1.2 million) due to the absence, in 2011, of a €1.0 million non-recurring fiscal provision recorded in 2010; Uruguay (€0.7 million) due to an increase in the number of machines installed, partially offset by the Carrasco Hotel and Casino projects as well as the depreciation of the Uruguayan peso against the euro; and Colombia (€0.5 million) primarily as a result of an increase in the net win per machine per day, partially offset by the non-recurring fiscal provision, the depreciation of the Colombian peso against the euro, and a decrease in the number of machines installed. EBITDA margin increased to 19.0% in 2011 from 9.7% in 2010.

Liquidity and Capital Resources

Liquidity

To date, our and our subsidiaries' liquidity needs have been met principally from proceeds from the offerings of senior notes, including the Notes, cash flow from operating activities and borrowings under credit facilities and other bank borrowings.

The following table provides a profile of our liabilities under IFRS at December 31, 2010 and 2011.

	As at December 31,	
	2010	2011
	(audited) (€ in millions)	
Short term debt payable to credit institutions	37.2	45.5
Other current liabilities[1]	289.3	347.6
Total current liabilities	326.5	393.1
Long term debt payable to credit institutions	61.0	59.7
Other long term liabilities[2] [3]	949.4	997.2
Total long term liabilities[3]	1,010.4	1,056.9
Total liabilities[3]	1,336.9	1,450.0

(1) Other current liabilities consist of interest accrued on bonds, commercial creditors, other non-commercial obligations and accrual accounts and others.

(2) Other long-term liabilities consist of the Notes, deferred tax liabilities, other payables, deferred income, provisions and financial liabilities and minority interests.

(3) The balance as at December 31, 2010 was restated as a result of the application of the definite accounting treatment for businesses acquired in 2010.

On February 8, 2012, Codere Finance (Luxembourg) S.A. issued the Dollar Notes (U.S.$300,000,000). See "Business—Recent Developments—Issuance of Dollar Notes".

Historical Cash Flows

The following is our consolidated cash flow statement under IFRS for the years ended December 31, 2010 and 2011.

	Year ended December 31, 2010	Year ended December 31, 2011
	(audited) (€ in millions)	
Cash flow from continuing operations:		
Operating profit	143.8	160.6
Non cash expenses:		
Depreciation and amortization	99.8	125.6
Impairment test	-	4.1
Other operating expenses	21.7	13.3
Non cash income(loss)	(9.6)	(0.9)
Changes in working capital	(16.9)	(16.6)
Corporate income tax	(39.4)	(53.8)
Net Cash from Operating Activities	**199.4**	**232.3**
Capital expenditures(1) (2)	(109.0)	(114.3)
Long term loans and receivables(1) (3)	11.2	2.8
Investments(1) (4)	(43.5)	(7.2)
Net Cash Used in Investing Activities	**(141.3)**	**(118.7)**
Issuance of Notes in July 2010	100.0	-
Net change in financial debt(5)	9.9	16.4
Net change in other bank loans	(26.5)	(0.3)
Dividends (net)	(2.3)	(2.3)
Net change in other debt and contingent payments(6)	(80.8)	(2.5)
Net investment in treasury shares	(0.1)	(0.7)
Interest income	3.1	4.4
Interest expense	(70.9)	(78.3)
Net cash effect of exchange rate changes	4.7	(2.7)
Net Cash used in Financing Activities	**(62.9)**	**(66.0)**
Effects of exchange rate fluctuations(7)	**5.2**	**(2.5)**
Net Change in Cash Position	**0.4**	**45.1**
Reconciliation		
Cash at beginning of period	90.2	90.6
Cash at end of period	90.6	135.7
Change in cash position	0.4	45.1

(1) Reflects accrued amounts, including any related contingent payments. Financing of deferments of these investments are recorded under "Net change in other debt and contingent payments".

(2) Capital expenditures primarily consist of investments to maintain or improve the quality of our facilities, to build out and equip our premises, to purchase new gaming machines and to make exclusivity payments to site owners in connection with contracts to install our machines in their establishments.

(3) Includes, until June 30, 2010, amounts related to building out and equipping halls sold to Grupo Caliente. Before we agreed with Grupo Caliente to restructure our previous contractual relationship on July 16, 2010, Grupo Caliente paid for such halls over a five-year period. Loans to site owners and other loans are also included.

(4) Includes expenditures relating to acquisitions. Excludes in 2011 cash at Gap Games at the time of the purchase (€1.0 million) which, in the three months ended June 30, 2011, was reported as a reduction in the amount of the investment, but is now reported under "Net change in other debt and contingent payments".

(5) Includes our Senior Credit Facility, 50% of notes issued by Hipica Rioplatense Uruguay (HRU), our joint venture in Uruguay and, in 2010, interests accrued and discount and expenses related to the Notes issued in July, 2010.

(6) Reflects movements in temporary financial investments such as vendor financing, contingent payments related to investments, the payment of deferred gaming taxes, expenses related to the Notes issued in July 2010 and the Senior Credit Facility renewed in June 2010 and, beginning in 2011, the cash at the entities acquired, at the time of the purchase.

(7) Includes the effect of exchange rate fluctuations in the conversion of balances to euro.

Cash Flow for the Year Ended December 31, 2011

Net cash from operating activities for the year ended December 31, 2011 was €232.3 million, an increase of 16.5% from €199.4 million for 2010.

Net cash used in financing activities was €66.0 million in 2011, the principal drivers of which were as follows:

- A net increase in changes in financial debt of €16.4 million resulting from amounts drawn under the Senior Credit Facility (€10.0 million), the issuance of the new HRU bond amounting to €11.1 million, partially offset by the amortization of the old HRU bond (€4.7 million).

- Negative variation in other debt and contingent payments of €2.5 million, which consists of a net decrease in vendor financing of €2.6 million, a decrease in liabilities associated with the deferral of gaming taxes in Spain (€7.6 million), a decrease in financial assets of €3.5 million, costs associated with the issuance of the new HRU bond amounting €0.2 million and the positive impact of cash balances held by the Italian companies acquired in the period (€4.4 million). The €2.6 million net decrease in vendor financing consists of a positive variation of €16.0 million principally reflecting investments in machines in Argentina, Mexico, Uruguay, Panama, and the acquisition of an AWP operator in Italy (Gap Games) and a negative variation of €18.6 million principally reflecting the payment of the deferred portion of the minority acquisition in Argentina (€5.4 million) and the payment of capital expenditures in Mexico, Italy and Spain.

- A net decrease in other bank loans of €0.3 million, primarily due to an increase in debt in Panama, Italy and Spain, partially offset by amortizations, primarily in Mexico.

- €0.7 million invested in treasury shares, as part of the liquidity contract.

- Dividends paid to non-controlling interests of €2.3 million, financial expenses paid of €78.3 million, financial income of €4.4 million and a net negative variation of €2.7 million related to changes in exchange rates (€14.7 million in negative variations and €12.0 million in positive variations).

We used cash for capital expenditures for intangible and fixed assets (€114.3 million) and received a net of €2.8 million in long term loans and receivables consisting of: a net decrease of €2.6 associated with long-term loans provided to Spain site owners (repayments of €3.4 million, net of €6.0 million in loans) and a net decrease of €0.2 million associated with long-term loans provided to Italy site owners (repayments of €13.0 million, net of loans of €13.2 million). We used €5.2 million for the acquisition of AWP operators in Italy (Gap games and Gaming Re) and €2.0 million for the ICELA option.

Variations in foreign exchange rates (in the conversion of the cash balances) resulted in a negative impact of €2.5 million.

In 2011, we had a net increase in cash and cash equivalents of €45.1 million.

Working Capital Requirements

The following table, which is derived from our consolidated cash flow statement under IFRS, sets forth movements in our working capital for the periods indicated:

	Year ended December 31,	
	2010	**2011**
	(unaudited)	
	(€ in millions)	
Variations in:		
Receivables	(25.1)	(11.0)
Inventories	0.4	(1.8)
Payables	12.3	(2.3)
Prepaid expenses	2.8	(2.4)
Deferred income	(0.2)	-
Deferred expenses	(0.1)	(0.9)
Other	(7.0)	-
Total	**(16.9)**	**(16.6)**

The operation of our various businesses, in the aggregate, is not working capital intensive. We manage our working capital requirements on a decentralized basis and have historically funded our working capital requirements through funds generated from our operating activities and from borrowings under our Senior Credit Facility.

During the periods under review, our working capital needs have been principally driven by receivables and inventories in our Mexico business as well as receivables from clients of Codere Network. During 2011, we recorded €9.7 million in payables related to our request for deferral of gaming taxes in Spain.

We anticipate that our working capital requirements in the foreseeable future will generally be stable. However, these requirements can fluctuate for a variety of reasons, including movements in receivables from clients of Codere Network, payables related to our request for deferral of gaming taxes in Spain, corporate income tax receivables relating to tax payments to the Mexican government and exchange rate fluctuations.

Capital Expenditures and Investments

The following table sets forth our total capital expenditures, excluding capitalized expenses, by geographical area and, based on management's estimates, divided between maintenance and growth capital expenditures for the period indicated. We generally classify capital expenditures as growth capital expenditures to the extent that they relate to increasing the number of slot machines in our portfolio, increasing the number of bingo seats in our gaming halls or otherwise expanding our business. Maintenance capital expenditures are capital expenditures that are not related to expanding our business.

	Year ended December 31	
	2010	**2011**
	(unaudited)	
	(€ in millions)	
Holding Company	0.3	1.4
Maintenance	0.3	1.4
Growth	—	—
Argentina	29.4	26.2
Maintenance	16.0	13.2
Growth	13.4	13.0
Mexico	13.8	22.9
Maintenance	0.1	16.7
Growth	13.7	6.2
Italy	29.8	13.5
Maintenance	3.5	8.0
Growth	26.3	5.5
Spain	24.2	20.7
Maintenance	19.5	18.3
Growth	4.7	2.4
Panama	34.7	7.4
Maintenance	2.8	5.6
Growth	31.9	1.8
Colombia	2.9	6.8
Maintenance	2.9	4.0
Growth	—	2.8
Uruguay	6.0	19.5
Maintenance	1.2	1.4
Growth	4.8	18.1
Brazil	0.2	0.3
Maintenance	0.2	0.1
Growth	—	0.2
Total Maintenance	46.5	68.7
Total Growth	94.8	50.0
Total Capex	141.3	118.7

We invested an aggregate amount of €260.0 million, excluding capitalized expenses, during 2010 and 2011. Our investing activities during 2010 and 2011 included the following capital expenditures, long-term loans and receivables and investments:

	Year ended December 31,	
	2010	2011
	(unaudited)	
	(€ in millions)	
Holding Company	0.3	1.4
Capital expenditures	0.3	1.4
Long term loans and receivables	—	—
Investments	—	—
Argentina	29.4	26.2
Capital expenditures	29.4	26.2
Long term loans and receivables	—	—
Investments	—	—
Mexico	13.8	22.9
Capital expenditures	21.5	20.9
Long term loans and receivables	(7.7)	—
Investments	—	2.0
Italy	29.8	13.5
Capital expenditures	17.7	8.5
Long term loans and receivables	0.2	(0.2)
Investments	11.9	5.2
Spain	18.9	18.0
Capital expenditures	22.1	20.6
Long-term loans and receivables	(3.7)	(2.6)
Investments	0.5	—
Other	49.1	36.7
Capital expenditures	18.0	36.7
Long-term loans and receivables	—	—
Investments	31.1	—
Total capital expenditures	109.0	114.3
Total long-term loans and receivables	(11.2)	(2.8)
Total investments	43.5	7.2
Total cash invested excluding capitalized expenses	141.3	118.7

We expect to invest approximately €150.0 million in our existing businesses during the course of 2012 (excluding capex invested in the ICELA Acquisition, see "Business—Recent Developments—ICELA Acquisition Agreement"), including approximately €42.0 million in Argentina, €21.0 million in Spain, €19.0 million in Italy, €26.0 million in Mexico and €42.0 million in our other operations including Uruguay, Colombia, Brazil, Panama and corporate headquarters. We expect that these investments will help us grow the slot machine portfolio by 10-12% in Argentina and 1-3% in Mexico. The investments will be associated with: hall expansions and refurbishments in Argentina; hall refurbishments, mainly in Legacy Caliente in Mexico; AWP machine renewals and exclusivity contracts and launch of sports betting in new regions in Spain; selected acquisitions of AWP operators, renewals of AWP exclusivity contracts, gaming hall refurbishments and machine renewals in Italy; and the Carrasco Hotel and Casino project in Uruguay. The investments are expected to be evenly divided between growth and maintenance.

Our actual capital expenditures for 2012 may be less than or exceed these amounts. In particular, our actual capital expenditures may be affected by changes in foreign exchange rates, decisions we make to undertake potential investments, or acquisitions that we are currently considering or will consider in the future. We expect that these capital expenditures will be funded primarily through cash from operations and bank borrowings under our existing credit facilities.

Contractual Obligations

We have numerous contractual commitments providing for payments relating to warehouses and office facilities, equipment leases, automobile leases and payments to site owners and certain AWP machine operators with whom we enter into collaboration agreements in our AWP machine businesses. We also have, and will continue to have, payment obligations pursuant to our outstanding borrowings.

Our consolidated contractual obligations as of December 31, 2011 were as follows:

	Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**After 4 years**
		(unaudited) (€ in millions)		
Long-term debt[1]	843.4		51.7	791.7
Other long-term debt[2]	54.8	—	28.8	26.0
Short-term debt[3]	23.7	23.7	—	—
Capital lease agreements (short-term)[4]	14.7	14.7	—	—
Other obligations (short-term)[5]	92.8	92.8	—	—
Purchase obligations (trade account payable) [6]	119.5	119.5	—	—
Total contractual obligations	1,148.8	250.6	80.5	817.7

(1) Includes the Notes and the HRU bonds (€747.8 million and €10.3 million), long-term payable to credit entities (€59.7 million) and the Senior Credit Facility (€25.6 million).

(2) Consists mainly of the deferred portion of the purchase price of AWP operators in Spain (€6.9 million), long-term payments of exclusivity rights in Spain (€4.2 million), long-term financial leasing (€15.8 million) and long-term payables related to our request for deferral.

(3) Includes the accrued and unpaid interest on the Notes of €2.6 million, the principal and accrued and unpaid interest on the HRU bonds of €1.1 million, plus bank loans in Italy (€7.8 million), Mexico (€10.1 million), Panama (€1.1 million) and Spain (€0.8 million), excluding the Senior Credit Facility.

(4) Includes short-term capital lease agreements.

(5) Other short-term obligations include deferred gaming taxes in Spain relating to the AWP business (€44.3 million) and exclude short-term capital lease agreements.

(6) Includes trade account payable.

On February 8, 2012, Codere Finance (Luxembourg) S.A. issued the Dollar Notes (U.S.$300,000,000). See "Business—Recent Developments—Issuance of Dollar Notes".

Off-Balance Sheet Arrangements

We do not have any off-balance sheet entities and do not utilize significant off-balance sheet arrangements.

Effects of Inflation

Our performance is affected by inflation to a limited extent. In recent years, the impact of inflation on our operations in Italy and Spain has not been material. However, our international operations, particularly those in Latin America, are subject to relatively high inflation rates.

Market and Credit Risks

We are primarily exposed to market risk from changes in interest rates and foreign currency exchange rates. We manage our exposure to these market risks through our regular operating and financing activities. Financial instruments that potentially subject us to credit risk consist of cash investments, remaining debt owed to us by Grupo Caliente and trade receivables. We maintain cash and cash equivalents with financial institutions in Spain with high credit standards.

Interest Rate Risks

We are subject to interest rate risks related to our borrowings. Borrowings under the Senior Credit Facility are principally in euro with floating interest rates based on EURIBOR or LIBOR. We do not currently hedge our interest rate exposure and do not expect to do so in the future. See Note 3 to our audited consolidated annual accounts for the year ended December 31, 2011 for additional information on interest rate risks and a sensitivity analysis on such risks.

Foreign Currency Risks

Our principal exchange rate exposures relate to the euro-Mexican peso and euro-Argentine peso exchange rates for translation related exposure. We also have translation related exposures arising from our operating revenue generated in the local currencies of Colombia, Brazil and Uruguay (the Colombian peso, Brazilian reais and Uruguayan peso, respectively) and to the U.S. dollar in Panama where the U.S. dollar is the functional currency. We also have currency translation related exposure relating to the U.S. dollar-euro exchange rates, particularly in Mexico, where certain costs, in particular gaming machine rental costs, are U.S. dollar-denominated or referenced to the U.S. dollar and where receivables from Legacy Caliente are U.S. dollar-denominated. The issuance of the Dollar Notes on February 8, 2012 increased our exposure to the U.S. dollar-euro exchange rates, given that the Dollar Notes are U.S. dollar-denominated. For a more detailed discussion of foreign currency risks, see Note 3 and Note 20 to our audited consolidated annual accounts as of and for the year ended December 31, 2011.

In order to mitigate part of the foreign exchange risk to which we are subject, we enter into hedging agreements to cover sales for an amount approximately equivalent to 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. As of the date of this Report, we have in place foreign exchange forward contracts to purchase a total of U.S.$118.0 million in exchange for Argentine peso (U.S.$28.0 million, U.S.$30.0 million, U.S.$30.0 million and U.S.$30.0 million for the three months ended March 31, 2012, June 30, 2012, September 30, 2012 and December 31, 2012, respectively). Our Argentine peso foreign exchange forward contract which matured during 2011 amounted to a net loss of €2.2 million in the year ended December 31, 2011. Realized losses on the Mexican peso foreign exchange forward contract which matured during 2011 amounted to €1.0 million in the year ended December 31, 2011.

BUSINESS

Overview

We are a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of December 31, 2011, we managed 57,000 gaming machines, 190 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 798 sport betting locations and three horse racing tracks. In 2011, we generated operating revenue of €1,374.4 million and EBITDA of €289.7 million.

In Argentina, we believe we are the largest operator of gaming halls with 14 gaming halls in which we operated 5,279 slot machine seats in the Province of Buenos Aires as of December 31, 2011. In 2011, our business in Argentina generated operating revenue of €553.2 million and EBITDA of €165.2 million.

In Mexico, through ICELA (until recently our joint venture with CIE in which we now hold an 84.8% stake, see "—Recent Developments—ICELA Acquisition Agreement"), and Legacy Caliente, as of December 31, 2011, we were the largest operator of gaming sites with 94 gaming halls in which we operated 19,571 slot machines. As of December 31, 2011, we also operated 83 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City that included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2011, ICELA and Legacy Caliente held licenses to build and operate an additional 29 gaming halls. In 2011, our business in Mexico generated operating revenue of €291.5 million and EBITDA of €61.8 million.

In Italy, we believe we are the leading gaming hall operator with 14 gaming halls as of December 31, 2011 in which we operate VLT and AWP machines and offer bingo. We also operate AWP machines in non-specialized locations, such as bars. As of December 31, 2011, we operated 5,138 AWPs, 962 VLTs and 5,950 bingo seats, and 11,155 gaming machines (which include the ones operated by us and by other operators) were connected to our network in Italy. In 2011, our business in Italy generated operating revenue of €224.2 million and EBITDA of €44.3 million.

In Spain, we believe we are the second largest operator of AWP machines with 14,677 machines located in over 8,907 bars, restaurants, machine halls and one gaming hall as of December 31, 2011. The gaming hall we operate is the Canoe gaming hall in Madrid, which features a bingo venue, AWPs and sports betting locations. In total, we operated 600 sports betting locations in Spain as of December 31, 2011. In 2011, our business in Spain generated operating revenue of €165.7 million and EBITDA of €19.6 million.

Our Other Operations, which generated operating revenue of €139.8 million and EBITDA of €26.5 million in 2011, included (i) 12 gaming halls (including 11 casinos and a machine hall at the racetrack), one racetrack and 81 sports betting locations in Panama, (ii) 50 gaming halls, including three casinos, in Colombia, (iii) a joint venture in horse racing, five gaming halls and 27 sports betting locations in Uruguay and (iv) seven sports betting locations in Brazil.

The following table sets forth the number of gaming machines (AWP, slot machines and VLTs), gaming halls and other gaming facilities we operated as of December 31, 2011 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (in each case, before corporate headquarters revenues and expenses) for 2011.

	Gaming machine seats	Gaming Halls	Betting Locations	Horse Race Tracks	Revenue	EBITDA	Percent of EBITDA
						(unaudited)	
					(€ in millions)		
Argentina	5,279	14	—	—	553.2	165.2	*52.0%*
Mexico	19,571	94	83	1	291.5	61.8	*19.5%*
Italy	6,100	14	—	—	224.2	44.3	*14.0%*
Spain	14,677	1	600	—	165.7	19.6	*6.2%*
Other Operations:							
Panama	3,311	12	81	1	87.0	17.6	*5.5%*
Colombia	6,224	50	—	—	28.9	5.9	*1.9%*
Uruguay	1,838	5	27	1	20.3	3.9	*1.2%*
Brazil	—	—	7	—	3.6	(0.9)	*(0.3)%*
Total	**57,000**	**190**	**798**	3	1,374.4(1)	317.4(1)	*100.0%*

(1) Revenue and EBITDA do not reflect revenues and expenses relating to corporate services provided to each of our four principal businesses and Other Operations by our Group headquarters (€0.0 million and (€ 27.7) million), respectively, for 2011.

History

Codere, S.A. was founded in December 1980 by the Martínez Sampedro family, Jesús Franco and Joaquín Franco. Jesús Franco and Joaquín Franco own Recreativos Franco, S.A. ("Recreativos Franco"), one of the largest gaming machine manufacturers in Spain. At that time, Jesús Franco, Joaquín Franco and the Martínez Sampedro family had established businesses in the operation and distribution of non-prize entertainment games, such as flipper and pinball. These businesses formed the basis of what is now the Codere Group. Codere, S.A. began AWP operations in 1981, mainly in Madrid, and grew rapidly. In 1983, we began our expansion outside Madrid by adding operations in the Spanish provinces of Catalonia and Valencia and in the following year, we commenced AWP machine operations in Colombia. As the Spanish AWP market began to mature, we continued our strategy of expansion in Latin America, diversifying into bingo, sports betting and casinos. We added bingo halls to our operations in 1991 by opening several bingo halls in Argentina, in the province of Buenos Aires. We continued to diversify our gaming operations with the opening of a casino in Latin America in Cali, Colombia in 1997. In 1998, we began bingo operations in Mexico with Grupo Caliente. In 1999, we entered the Spanish bingo market with our acquisition of the Cartaya bingo hall in Valencia and expanded operations in Mexico with CIE. In 2000, our AWP machine operations continued to grow in Spain with our acquisition of Operibérica S.A.U., which had 3,500 AWP machines, and we have acquired many additional smaller AWP machine operators since then. We also acquired Canoe bingo hall in Madrid in 2000, which we developed into one of the largest gaming halls in Spain and started operating casinos in Chile. In 2002, our Uruguayan joint venture obtained a license to reopen the historic Hipódromo de Maroñas horse racing track in Uruguay and operate off-track betting agencies and slot machines. In 2002, we also entered the Italian bingo market through a management contract.

In 2003, we reorganized our business along geographic lines by establishing new intermediate holding companies for our Spanish operations and our international operations. In 2004, we launched an AWP machine business in Italy and continued the expansion of our operations in Mexico and began to install electronic bingo terminals in several of our bingo halls. In 2005, we issued €335 million aggregate principal amount of Notes, acquired the Grupo Royal bingo halls in Argentina and Operbingo in Italy and we entered the Panamanian market by acquiring a horse racing track. In January 2006, we sold our non-controlling interests in four casinos in Chile and instead acquired full ownership of four casinos in Panama. In April 2006, we acquired Rete Franco, one of the ten government licensees for the provision of AWP network services in Italy and in August 2006 opened the first off-track betting location in Brazil.

In 2006, we separately issued €160.0 million and €165.0 million aggregate principal amount of Notes and the Martinez Sampedro family entered into an agreement to purchase Jesús and Joaquín Franco's stake in Codere, S.A. In 2006 and 2007, we acquired two licensees in Mexico, Promojuegos and Mio Games respectively, and in 2007 acquired majority stakes in three AWP machine operators in Italy. Codere, S.A. priced its IPO on October 19, 2007. Proceeds from the IPO were used for the acquisition of a 49% interest in ICELA and the purchase of a 10% interest from a non-controlling interest in our Mexican business.

In 2008, we launched sports betting businesses in Madrid and the Basque region and sold the direct AWP machine operations and the sports betting joint venture in Italy.

In 2010, we issued €100 million aggregate principal amount of Notes and we purchased six casinos in Panama, one gaming hall and an AWP operator in Italy and we entered into the Caliente Restructuring, pursuant to which we acquired a majority stake in the Joint Opcos, which held an aggregate of 46 gaming licenses in Mexico in March 2011. We also launched online gaming operations and began the installation of VLTs in Italy and launched sport betting operations in Navarra, Spain.

In 2011, we completed the Caliente Restructuring, acquired two AWP operators (Gap Games and Gaming Re) in Italy and launched sports betting operations in Aragón, Spain.

To date, in 2012, we issued the Dollar Notes and we completed the purchase of a 35.8% stake in ICELA. See "—Recent Developments—Issuance of Dollar Notes".

Recent Developments

ICELA Acquisition Agreement

On January 25, 2012, we signed a sale and purchase agreement with CIE (the "ICELA Acquisition Agreement"), pursuant to which we acquired 35.8% of the outstanding ordinary shares of ICELA from CIE on February 8, 2012 (the "ICELA Acquisition") for a purchase price of Mex. Ps. 2,653 million (equivalent to approximately US$209.0 million and €158.0 million as of the date of closing of the acquisition). The acquisition of the 35.8% stake was in addition to Codere México's already existing 49% stake in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements.

Smoking Ban in Argentina

The Province of Buenos Aires passed a total smoking ban in 2009 but exempted venues larger than 400 square meters and, therefore, our halls were exempt. However, regional authorities have the right to implement stricter legislation than the provincial legislation. As such, the municipality of Mar del Plata, one of the municipalities in the Province of Buenos Aires where four of our halls are located, strengthened its partial smoking ban instituted in 2007 to a total smoking ban in April 2011. In July 2011, the National Congress of Argentina passed smoking legislation which bans smoking in all public areas. Because provinces have 180 days to pass provincial legislation implementing national laws, we expect that the Province of Buenos Aires or one of the municipalities will implement a smoking ban beginning in the second quarter of 2012, which will affect certain or all of the halls which had been previously exempted from the total smoking ban implemented in the Province of Buenos Aires since April 2009. The introduction of such smoking ban may reduce the number of clients in those halls in the short and medium term.

Changes in Taxes

In November 2011, the AAMS issued a decree which contained changes to the machine gaming taxes in Italy. Pursuant to this decree, effective January 1, 2012, the gaming tax (PREU) on VLTs in Italy increased from 2% of amounts wagered in 2011 to 4% in 2012 and will increase to 4.5% thereafter. In the case of the AWPs, the PREU tax decreased from 12.6% of amounts wagered in 2011 to 11.8% in 2012, but will increase to 12.7% in 2013 and to 13% in 2015. See "—Litigation—Other Litigations and Disputes- Italy- "AAMS Litigation".

As part of a fiscal decree passed in the Province of Buenos Aires in December 2011, the Province approved an increase in the gross revenue tax, applicable to all sectors, from 6% to 8% effective January 1, 2012. In our operations, the gross revenue tax is applied to the net win less gaming tax and payment to the non-profit organizations.

In Mexico, Legacy Caliente has been involved in disputes with state tax authorities over the applicability of state lottery taxes to their gaming halls and obtained injunctions absolving them from the obligation to pay such taxes in several states, but certain of the injunctions have expired and the relevant states have claimed the taxes in 2011. As a result of these developments, and related matters at ICELA, we began paying (or paying additional) taxes in certain states and will start paying taxes in other states in 2012.

Issuance of Dollar Notes

On February 8, 2012, Codere Finance (Luxembourg) S.A. issued U.S.$300,000,000 aggregate principal amount of 9.250% senior notes due 2019 (the "Dollar Notes"). The Dollar Notes are general obligations of Codere Finance (Luxembourg) S.A. and are guaranteed on a senior basis by Codere, S.A. and by Codere Internacional Dos, S.A.U. and on a senior subordinated basis by certain direct and indirect subsidiaries of Codere, S.A. The proceeds from the issuance of the Dollar Notes were used (a) to finance the ICELA Acquisition; (b) to repay amounts outstanding under the Senior Credit Facility and (c) for general corporate purposes.

Our Competitive Strengths

We believe that the following factors contribute to our strong competitive position:

- ***Leading Positions in Major Markets.*** Most markets in which we operate have a limited number of gaming permits or licenses, limited desirable real estate locations and high levels of protective regulation, which could make it difficult for new players to enter these markets. We have been a first mover in targeting local resident populations in all of our major markets and now enjoy leading positions in most of these markets. We have been present in Argentina since licenses were originally awarded to operate bingo halls in the early 1990s in the Province of Buenos Aires, and we are currently the largest operator of gaming halls in that market. With 14 out of 46 gaming halls, we represent approximately 46% of the market in the Province of Buenos Aires in terms of net win. In Mexico, a market which we entered in 1998, we are the largest operator of gaming halls. In Italy, we operate 14 gaming halls and, with a market share of approximately 11% of bingo cards sold, we believe we are the market leader. We believe we are the second largest operator of AWP machines in Spain, with 14,677 AWP machines in 8,907 points of sale, including bars, machine halls and gaming halls, as of December 31, 2011. In Panama, we operate 11 casinos, making us the leader in the casino market.

- ***Large and Diversified Multinational Gaming Operator.*** Given that most of the markets in which we operate are characterized by a small number of large operators and a large number of small operators with limited numbers of new entrants, our size affords us a competitive advantage with respect to resources and economies of scale, including in the procurement of gaming machines, which are sourced from many of the same suppliers across our operations. In addition, our geographic diversification allows us to share best practices among our operations and enables us to anticipate industry, regulatory and technology trends in one market enhanced by our experience in other markets. Geographic diversification also provides us with a balanced portfolio, reducing our dependence on any given market. For example, in the current economic downturn our Latin American and Italian operations have helped mitigate the weaker performance of our operations in Spain.

- Significant Experience Operating Diverse Gaming Products. We believe our long history of operating different gaming activities in a variety of markets provides us with a competitive advantage in the management of gaming venues with diversified product offerings, which is the increasing industry trend in the markets in which we operate. Since becoming one of the first companies to operate AWP machines in bars in Spain in the early 1980s through our present operation of gaming halls, racetracks and betting locations in eight countries in Latin America and Europe, we have evolved into one of the most diversified and experienced international gaming operators. During this time, we have developed significant expertise in managing a wide variety of products and have participated in the development of gaming markets in many countries. Industry trends indicate a move toward the concentration of different gaming activities, including gaming machines, paper based bingo, horse races, sports betting and table games on the same premises. We believe that our experience operating different gaming activities provides us with a significant advantage over our competitors because we are better placed to anticipate related regulatory changes and operate new products and technology. The following are examples of the industry trend toward concentration from which we have benefited or expect to benefit:

- *Argentina.* The Province of Buenos Aires first allowed slot machines in bingo halls in 2003 and has since allowed for increases in the number of machines proportional to the number of bingo seats.
- *Mexico.* The market in Mexico began with betting locations to which traditional bingo was soon added and allowed the installation of gaming machines in 2004.
- *Italy.* Italy permitted the installation of gaming machines in its bingo halls in 2007 and of VLTs in 2010.
- *Spain*. The Community of Madrid authorized the installation of sports betting and Class B3 machines in bingo halls in 2008 and 2009, respectively. The Basque region and Navarra allowed sports betting machines, alongside AWP machines in bars in 2007 and 2010, respectively, while Aragón allowed sports betting machines in gaming halls in 2011.
- *Other*. At the racetracks which we operate in Latin America, in addition to taking bets on the races at the track, we are able to offer bets on other sporting events and operate gaming machines.

- ***Robust Controls and Significant Experience Operating in Regulated Gaming Markets.*** We have robust corporate governance policies and procedures, management capabilities, and effective internal controls that have been crucial to our growth, success and enhanced reputation in the gaming industry. As one of a limited number of companies in our industry that is publicly traded, we are subject to high standards of transparency and integrity in the markets in which we operate, including with respect to compliance, money laundering, the handling of cash, large prize payouts and transaction authorization. We voluntarily follow the compliance standards of the Nevada Gaming Commission and have undertaken various other "best practices" initiatives for Spanish publicly traded companies. We have also implemented compliance policies required by EU Directive 2005/60/EC on money laundering. Having strong internal controls is particularly important in the gaming industry because it is heavily regulated and key players in the industry, such as regulators and machine suppliers, demand high standards and seek to limit the opportunities available to companies that do not comply with such standards. In addition, we have acquired valuable experience complying with regulatory requirements and tax regimes in a diverse range of countries and regional jurisdictions. In several cases, we have collaborated with gaming regulators in the development of new gaming regulations or markets. We believe that our strong market positions and close and cooperative relationships with gaming regulators and tax authorities provide us with a competitive advantage over most of our competitors and make us an attractive partner (for both regulators and competitors) with whom to develop new gaming businesses.

- ***Recession Resistant Gaming Model Catered to Local Populations***. We believe that gaming products serving the local resident population have been more resilient, particularly in less mature markets, during global economic downturns, compared to the tourist oriented Las Vegas-style casinos and gaming facilities. We believe that our low wager, low prize gaming products, which are in locations near our customers' workplaces or homes, offer customers more cost-effective entertainment than the Las Vegas-style casinos, which have more expensive games and require additional expenses for travel, hotel, dining and entertainment.

- ***Favorable Demographics and Economic Conditions in Latin America***. Latin America presents very compelling growth prospects given their improving macroeconomic conditions, expanding buying power of the consumer sector in general. There is significant potential for disposable income expansion as regional economies grow and consumer financing alternatives expand, which generally results in increased demand for entertainment products, such as gaming. The confluences of favorable factors throughout the region, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of clients.

- ***Strong Financial Performance***. Even in the face of challenging macroeconomic environments, we have managed strong financial performance in recent years as set forth below.

  - *Resilient EBITDA During Macroeconomic Downturn.* Our EBITDA during the global macroeconomic crisis has been resilient, reflecting a combination of growth in our consolidated operations as well as discipline in controlling expenses and liquidity. Our EBITDA was €231.1 million in 2009, €241.1 million in 2010 and €289.7 million in 2011.

  - *Cash Flow Generation and Flexibility of Investment Program.* Despite the global economic downturn, we generated €126.3 million of Operating Cash Flow in 2009, €126.3 million in 2010 and €162.0 million in 2011. We also benefit from the flexibility afforded by our investment program, which consists of a series of small discretionary investments with very short lead times, including the expansion of gaming halls in Argentina, the purchase of gaming machines in Mexico and the acquisition of small AWP machine operators in Italy.

  - *Reduction in Leverage Since December 31, 2005.* The EBITDA growth we have achieved since our original issue of Notes in 2005 has enabled us to reduce our leverage in euro to 2.5x in 2011, despite investments in the aggregate of €1,113.8 million and the strong appreciation of the euro during that time. On a pro forma basis for the ICELA Acquisition and certain other acquisitions, as adjusted our EBITDA/total net financial debt in euro would have been 2.7x in 2011.

- ***Experienced Management Team and Board of Directors.*** Our senior management team has extensive industry experience and our Board of Directors includes prominent individuals with extensive government and gaming expertise. Our Chief Executive Officer, José Antonio Martínez Sampedro, was a co-founder of Codere and has overseen the growth of our company from several dozen AWP machines in Spain to a geographically diversified operator with a broad gaming product offering. Luis Javier Martínez Sampedro, the brother of José Antonio Martínez Sampedro and a member of our Board of Directors, is head of our Latin American operations and has been with us for more than 24 years. In addition, our key operations in Argentina, Mexico, Italy and Spain are managed by executives with extensive gaming industry experience and proven track records of success in related or complementary industries. Our Board of Directors includes José Ignacio Cases Mendez, who served as the head of the Spanish National Gaming Commission from 1994 to 1998, Joseph Zappala, who served as U.S. Ambassador to Spain from 1989 to 1992 and has interests in the gaming sector in the United States, and José Ramón Romero Rodríguez, who has been our outside legal counsel since July 2002 and has specialized in gaming legislation since 1978. Their government and gaming experience is important to our ability to establish and maintain good relationships with regulators in the markets in which we operate, which we believe serves to distinguish us from our competitors.

Our Strategy

Our goal is to continue to maximize the cash flow generation and profitability of our businesses by growing our existing businesses and making selective acquisitions, entering into new markets where there are opportunities to achieve a leading market position, participating in additional gaming activities in our existing markets, and pursuing regulatory improvements in all of the markets in which we operate. The key elements of this strategy are:

- ***Leverage Strong Positions in our Principal Gaming Markets.*** We intend to continue to consolidate and build on our leading positions in attractive gaming markets.

  - *Argentina.* We expect to invest in the further expansion of our slot machine portfolio in the Province of Buenos Aires as well as in the continued introduction of the latest technology in our gaming halls to satisfy unmet demand and maintain our leading market share.

  - *Mexico.* We continue to expand existing halls and deploy gaming machines to capitalize on and maintain our first mover advantage in this rapidly growing market. We will also continue to focus on improving the competitive position of the Legacy Caliente and ICELA operations, including through additional hall refurbishments. We believe that through our majority participation in both operations following the consummation of the ICELA Acquisition, we will be able to not only improve our Mexican business, but also to cooperate more closely with the authorities, alongside our Mexican partners and other large institutional operators in the country, to ensure this very attractive and underpenetrated market develops in an orderly manner, which will enable the provision of an attractive offer to the clients, transparency and controls to regulators and an attractive business for operators.

- *Italy.* We plan to continue growing in the country primarily through developing the VLT rights to install machines that we have not yet installed (for which we expect to finalize installations in 2012), and through increasing the number of AWPs by acquiring other operators or signing new contracts with bar owners. We are also considering the acquisition of VLT rights as well as existing gaming halls in order to install additional VLTs.

- *Spain.* Our strategy is focused on enhancing the profitability of the AWP business and continuing to generate net wins and provide customer service superior to those of our competitors by leveraging our portfolio of attractive points of sale and AWP machines. Additionally, we expect to continue to expand the sports betting business in other regions, which will also enable us to leverage our AWP points of sale, upon the passage of enabling regulation.

- *Other.* Following our success with the "racino" business model, which combines horse racing and slot machines in Uruguay, we have implemented a similar business model in Panama, where we acquired the Presidente Remón Racetrack, a horse racing track in Panama City, and in Mexico at the Las Americas racetrack. We are considering opportunities to develop similar operations in other Latin American markets, including Brazil, to the extent permitted by local regulations. Following our acquisition of Crown Casinos in Panama in 2005, we have opened two casinos in Colombia and more recently acquired six casinos operated by International Thunderbird Gaming (Panama) Corporation ("Thunderbird") under the Fiesta Casino brand. In addition, following the concession of the Carrasco Hotel and Casino in Uruguay, we and our partners have been refurbishing the site and expect to commence operations in 2012.

- ***Pursue Selected Growth Opportunities.*** We believe that acquisitions and new projects in markets in which we currently enjoy significant local market share are particularly attractive, since we can leverage our existing cost structure and relationships with local regulators. We may consider the acquisition of gaming halls or permits in Argentina, Mexico and Italy, AWP operators in Italy and Spain, and casinos in Colombia and Panama to increase our presence in these attractive markets. In Brazil, we may expand our activities to include the operation of gaming machines in racetracks or bingo halls, provided that enabling regulation is adopted. Given the size of the country, it could become our largest market. We may also pursue growth opportunities in geographically complementary markets or other markets in which we can leverage our expertise.

- ***Focus on Regulated Local Gaming Markets.*** We will continue to focus on offering gaming activities oriented toward the local resident population rather than tourist-oriented gaming markets, which requires investment in capital intensive Las Vegas-style casinos and gaming facilities. We believe that this focus limits required capital investment, and that these local market-oriented gaming activities generate significant tax revenue for the jurisdictions in which we operate, ensuring transparent regulation and political support for these gaming activities.

- ***Internet Activities.*** Following the launch of the Internet gaming business in Italy in October 2010, we are exploring opportunities to expand this business to certain countries in which we already operate, such as Spain, Mexico and Uruguay as they adopt specific regulations governing the online gaming industry. We believe that technological advances and regulatory changes will result in increasing convergence between online and offline products which will offer us the opportunity to leverage the 30 years of experience we have garnered operating a variety of gaming products and our relationship with local regulators in eight countries into the online gaming business.

- ***Maintain Prudent Leverage and Continue to Improve Fiscal Position.*** We have a proven track record of investing in projects that result in EBITDA growth and we expect to continue to invest in the business while maintaining leverage at levels of approximately 3.0x net debt to EBITDA. In addition, we intend to continue introducing measures to improve our fiscal position and reduce our consolidated effective tax rate. Among the measures we are evaluating, or have taken, are improving pre-tax profits of business units in which we have net operating losses, decreasing corporate overhead expenses and increasing intercompany charges as permitted by local regulation. We also expect that a sale of a portion of our direct and indirect interest in our Latin American businesses to strategic or other investors (whether in private or public transactions) would enable us to reduce our leverage and improve our fiscal position.

- ***Sale of Stake in Latin American Operations.*** We believe that a sale of a stake in our Latin American operations would enable us to crystallize the value of Codere. Accordingly, we will continue to evaluate the opportunities for a sale of a stake in our Latin American operations to strategic or other investors in private or public transactions.

- ***Redenomination of Indebtedness to U.S. Dollars or Local Currency.*** We will continue to pursue opportunities to redenominate the currency of our indebtedness from euro to local currency (which generally have a higher correlation to the U.S. dollar than to the euro) and to U.S. dollars, in order to better match the cash flows in which we generate the majority of our earnings. In 2011, we generated 79.9% of our consolidated EBITDA (before corporate headquarters revenues and expenses) in Latin American currencies, while at December 31, 2011 91.3% of our debt was denominated in euro. The issuance of the Dollar Notes on February 8, 2012, resulted in a reduction of the percentage of euro denominated debt. Assuming favorable market conditions, we expect to continue to pursue opportunities to redenominate the currency of our indebtedness into local currency and U.S. dollars in the public debt markets as well as in the bank market.

Argentina

In Argentina, we are focused on the development and management of gaming halls, in which the majority of the profitability is generated by the machines, but we also have a bingo business. As of December 31, 2011, our Argentina business owned and operated 14 gaming halls with a total of 5,279 slot and other gaming machine seats and 9,517 bingo seats. In 2011, our Argentine business generated operating revenue of €553.2 million and EBITDA of €165.2 million, representing 40.3% of our total consolidated revenues and 52.0% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Operations

Through the combination of the operations we started in Argentina in 1991, and the acquisition of Grupo Royal in 2005, we believe we have become the industry leader in the bingo and the slot machine markets in the Province of Buenos Aires, each in terms of operating revenue in 2011.

The following table sets forth certain historical data concerning our Argentine business's operations:

	Year ended December 31,			
	2008	2009	2010	2011
Number of gaming halls (at period end)	14	14	14	14
Number of slot machine seats (at period end)	4,485	4,679	5,043	5,279
Net win per slot seat per day (in Argentine peso)	868.2	989.5	1,223.4	1,559.4
Net win per slot seat per day (in euro)	187.5	189.8	236.2	270.2
Number of bingo hall seats (at period end)	7,981	8,308	8,991	9,517
Net win per bingo hall seat per day (in Argentine peso)	52.4	53.3	58.4	61.2
Net win per bingo hall seat per day (in euro)	11.3	10.3	11.3	10.6

The following table sets forth certain information regarding our Argentina business's gaming halls as of December 31, 2011.

Name	Opening Date	Concession Expiration Date	Number of Bingo Seats	Slot Machine Seats	Revenues for 2011 (€ in millions)(1)
Bingo San Martín	Oct. 1994	June 2021	1,336	719	75,9
Bingo Lomas del Mirador	July 2006	Sep. 2014	1,192	659	70,2
Bingo Lanús	Apr. 1992	June 2021	882	512	64,2
Bingo Platense	June 1992	June 2021	970	559	67,6
Bingo Morón	June 1998	June 2013	814	471	57,6
Bingo San Justo	Oct. 1999	Dec. 2014	808	412	49,9
Bingo San Miguel	May 1999	May 2014	740	412	46,2
Bingo Lomas de Zamora	July 1991	June 2021	580	323	36,0
Bingo Sol	Feb. 1991	June 2021	516	318	25,5
Bingo Ramos Mejía	Apr. 1999	Apr. 2014	572	322	35,8
Bingo del Mar	Sep. 1991	June 2021	450	204	10,2
Bingo Peatonal	Jan. 1991	June 2021	244	121	6,6
Bingo Temperley	Aug. 2001	Aug. 2016	214	129	5,1
Bingo Puerto	Jan. 1994	June 2021	199	118	4,8
Total			**9,517**	**5,279**	**555.5**

(1) Revenues consist of net win for the machine and bingo products, food and beverage sales and other revenues, but exclude gains on the foreign exchange forward contracts.

All of the halls are located in the Province of Buenos Aires. Nine of our gaming halls are located in the surrounding areas of the City of Buenos Aires, the area referred to as Gran Buenos Aires. One is located in the capital city of the Province, La Plata, and four (Bingo Sol, Bingo Puerto, Bingo Peatonal and Bingo Mar) are located in the tourist city of Mar del Plata. The gaming halls have an average area of approximately 6.9 thousand square meters and are open 24 hours a day.

On June 18, 2010 and July 26, 2010, respectively the IPLyC (the gaming regulator of the Province of Buenos Aires) renewed our San Martin and Puerto licenses, in each case, through June 30, 2021. The resolution pursuant to which the San Martin license was renewed provides that the license is subject to an up-front renewal fee of AR$55.5 million (equivalent to approximately €9.5 million as of March 31, 2012) and a canon tax surcharge of AR$72.3 million (equivalent to approximately €12.4 million as of March 31, 2012). The resolution pursuant to which the Puerto license was renewed provides that the license is subject to an up-front renewal fee of AR$5.5 million (equivalent to approximately €0.9 million as of March 31, 2012), and a canon tax surcharge of AR$7.2 million (equivalent to approximately €1.2 million as of March 31, 2012). The up-front renewal fees for both halls were recorded in capital expenditures as intangible asset in the three months ended December 31, 2009. The canon tax surcharges for both halls are accrued and payable in 60 monthly installments starting in the three months ended December 31, 2010.

The following table sets forth certain information regarding our gaming licenses in Argentina.

Hall	Original expiration	Renovation date	Renewal through	Up-front fee (in millions)[(1)]		Canon tax surcharge (in millions)[(1)]	
				Ar$	EURO	Ar$	EURO
Mar	Sep. 2006	Mar. 2007	June 2021	14.3	2.5	33.4	5.9
Lomas de Zamora	July 2006	June 2007	June 2021	16.6	2.9	38.6	6.8
Sol	June 2006	Mar. 2007	June 2021	15.6	2.8	36.5	6.5
Peatonal	June 2006	May 2007	June 2021	5.7	1.0	13.4	2.4
Lanus.	Apr. 2007	Apr. 2007	June 2021	38.2	6.8	89.0	15.8
Platense	June 2007	Oct. 2009	June 2021	28.4	5.0	137.8	24.4
San Martín	Oct. 2009	June 2010	June 2021	55.5	9.8	72.3	12.8
Puerto	Jan. 2009	July 2010	June 2021	5.5	1.0	7.2	1.3
Morón	June 2013						
Ramos Mejía	Apr. 2014						
San Miguel	May 2014						
Lomas del Mirador	Sep. 2014						
San Justo	Oct. 2014						
Temperley	Aug. 2016						

(1) Data is calculated based on the exchange rate as of December 31, 2011.

Slot machines that are installed in gaming halls are similar to the Class III machines present in the United States. In addition, the Argentine gaming halls contain a limited number of non-slot gaming machines, such as a simulated roulette-type machine. These machines are regulated in the same manner as slot machines. In 2011, operating revenue generated from slot machines accounted for approximately 88.0% of our consolidated operating revenue in Argentina.

For our Argentine operations, we buy machines from a variety of U.S. and European manufacturers. We typically finance the purchase of slot machines in Argentina over 18- to 36-month periods. Each machine costs on average U.S.$24,500 (including duties, taxes and transportation costs).

The following chart sets forth the business model economics for our Argentine slot machine operations:

Amounts Wagered (100%)	Amounts wagered represent the total amount of money wagered on AWP machines by gaming customers.
Less Prizes Payout (94%)	Prize payout represents the percentage of amounts wagered that is required to be paid out to players. Regulations require a minimum payout of 85%. We currently pay an average of 94%.
Equals Net Box (Net Win) (6%)	Net box represents amounts wagered less prize payouts.
Less Gaming Taxes (2.0%)	Gaming taxes represent the amount paid to the Province of Buenos Aires. Canon tax surcharge (an extra gaming tax) of renewed halls, on average, are an extra 0.45% to 0.75% of amounts wagered in such halls.
Less Nonprofit Organizations (0.1%)	Nonprofit organizations represent the amount paid to such organizations that are required to hold the licenses by law.
Equals Operator Revenues After Gaming Taxes and Nonprofit Organizations (3.9%)	Operator revenues after gaming taxes and nonprofit organizations represent the percentage of amounts wagered that we retain as the operator.

Bingo in Argentina is a pari-mutuel gaming activity whereby players wager against one another and not against the gaming operator. The gaming operator collects wagers on a specific event, and 58% of such wagers are distributed to the players in the form of winnings. The remaining percentage of wagers is distributed among the provincial authorities, the non-profit organizations and the gaming operator, within the percentages set forth in the regulations.

Operational Systems

An operational system can be cash or cashless depending on whether the individual machines on a slot floor will or will not accept notes and/or coins. Slot machines in our businesses in Argentina, Panama, Colombia and Uruguay operate cash systems whereby the machines have bill acceptors. All of these machines, except those located in venues other than our casinos in the case of Colombia, also operate ticket-in-ticket-out ("TITO") transactional systems. These systems are designed to accept a card from the player that contains credit purchased at the cashier or received by inserting bills in the machine. The introduction of coinless systems increases the average net win per machine as it increases the productivity of the machine.

Player tracking systems and loyalty programs are the two basic tools for targeted promotion. Player tracking systems require identification (either by personal identification or by player identification) at the entrance of the hall in order to monitor slot-playing patterns, including frequency and duration of visits, machine trajectories within the hall and customer expenditure. Loyalty program members provide basic identification information, the exact content depends upon privacy regulations, and receive a loyalty card (bar-coded or chip) to collect points which can be exchanged for gifts, restaurant coupons, cash prizes, trips, and participation in members-only benefits. All of our businesses in Latin America have developed or implemented different versions of these systems from a variety of vendors including Bally, Electrochance, and Boldt. In addition, hall managers generally have a good knowledge of their frequent and high rolling clients.

Main Operating Projects

Our Argentine operations' principal operating project in the near term is the continued general refurbishment and updating of our gaming halls, including increasing the number of machines per hall, and renewal of our slot machine portfolio to ensure that we have an attractive offer for our clients and to meet unmet demand in the geographical areas where we operate. We also expect to relocate one of our halls in Mar del Plata to a more attractive location. We have introduced TITO or other coinless systems in the machines in our gaming halls. As of December 31, 2011, we had completed the installation of TITO or other coinless systems in the majority of the machines in eleven halls (Lomas del Mirador, San Martín, Lanús, Morón, San Justo, San Miguel, Lomas de Zamora, Ramos Mejía, La Plata, Sol and Puerto) representing 90.1% of the total machine seats operated by us in the Province of Buenos Aires, an increase from 85.0% as of December 31, 2010.

Competition

We entered the Argentinean gaming market in the early 1990s, when we opened the first bingo hall in the Province of Buenos Aires. At that time, the Province of Buenos Aires granted 46 bingo licenses for bingo halls that are still operating. The regulation that permits bingo operations also restricts the number of bingo halls to the original 46, limiting direct competition. As of December 31, 2011, we operated 14 gaming halls in the Province of Buenos Aires and estimate that 46% of the net wins from the slot machines and bingo businesses operated in the Province of Buenos Aires were attributable to us. Our main competitors in the Province of Buenos Aires are AGG, Golden Jack and Grupo Midas, which have three, three and four halls, respectively.

The rest of the private gaming market in the Province of Buenos Aires is limited to government-owned casinos and racetracks. Casinos in the Province of Buenos Aires are generally restricted to tourist areas (with the exception of Casino del Tigre, which is located 50 kilometers from the City of Buenos Aires), and they have approximately 3,800 machines in aggregate. There are two racetracks in the Province of Buenos Aires, where slot machines are not allowed. In the City of Buenos Aires there are two casinos operated by Cirsa and local partner, Casino Club and a racetrack with slot machines in the City of Buenos Aires, which is also operated by Casino Club.

Sales and Marketing

Argentine regulations limit the extent and manner by which we can advertise our gaming activities.

Mexico

Until June 30, 2010, we conducted our operations in Mexico through a management services agreement with Grupo Caliente, a joint venture with CIE (currently ICELA) as well as through the licensees Promojuegos and Mio Games. On July 1, 2010, the terms of the original management services agreement with Grupo Caliente were changed and we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Grupo Caliente at cost. After COFECO approved the Caliente Restructuring, we began consolidating the operations acquired from Grupo Caliente and the Joint Opcos under the global method and since April 1, 2011, we have conducted our operations in Mexico through ICELA (until recently, our joint venture with CIE in which we now hold a stake of 84.8%) and Legacy Caliente. In 2011, our Mexican operations generated operating revenue of €291.5 million and EBITDA of €61.8 million, representing 21.2% of our total consolidated revenues and 19.5% of our consolidated EBITDA (both before corporate headquarters revenues and expenses). The development and management of gaming halls, in which we manage or operate slot machines, and in certain cases, bingo and sports betting, is our most significant activity. As of December 31, 2011, our Mexico business operated 94 gaming halls in which we operated 19,571 slot machine seats and 83 betting locations. Jointly with ICELA, we operate a 52-hectare gaming complex in Mexico City, which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2011, ICELA and Legacy Caliente held licenses to build and operate an additional 29 gaming halls.

Mexico CIE—Background and Operations

CIE is a leading live entertainment company that serves the Spanish- and Portuguese-speaking markets in Latin America, the United States and Spain. CIE has interests in companies that offer the following recreational and entertainment products and services: the operation of entertainment venues and amusement parks; the promotion and staging of a wide variety of live events; the promotion of trade fairs and exhibitions; the sale of sponsorships and advertising, as well as food, beverage and merchandise at events and venues; and automated ticketing for public events.

Since 1995, CIE's shares have been traded on the Mexican Stock Exchange under the symbol "CIE B". In 1998, a subsidiary of CIE, AMH, was awarded a 25-year concession to operate the Hipódromo de las Américas racetrack in Mexico City. In connection with this concession, AMH obtained permission to operate 45 off-track betting sites countrywide for a 25-year period and offer numbers-based games, at these locations. In May 2007, AMH's license was expanded to develop and operate an additional 20 halls in addition to the original 45 halls that it was licensed to operate.

We entered into a joint venture with CIE in March 1999 to develop and operate bingo halls and sports books in Mexico (the "original CIE Joint Venture"). The original CIE Joint Venture was operated through Entretenimientos Recreativos S.A. de C.V., in which our subsidiary Compañia de Inversionas Mexicanas S.A. de C.V. held a 50% interest less one share and CIE held the remaining 50% interest plus one share. Under the joint venture agreement, Entretenimientos Recreativos S.A. de C.V. received 98% of the net income generated by all of the joint venture's bingo halls and off-track betting activities and the remainder was divided between Compañia de Inversionas Mexicanas S.A. de C.V. and CIE.

In November 2007, we changed the nature of our relationship with CIE through the purchase of 49% of ICELA as described in more detail below, which resulted in a new joint venture (the "Mexico CIE business"). Pursuant to the agreement, we exchanged our 50% interest in the original CIE joint venture and a cash payment of U.S.$173.0 million (financed in part by a dividend of Mex. Ps. 302.0 million, equal to approximately U.S.$28.0 million) for the 49% stake in ICELA. The purchase price included a deferred payment of U.S.$27.0 million, of which approximately U.S.$15.4 million was paid in 2008 (financed through a capital reduction of Mex. Ps. 400.0 million, of which Mex. Ps. 196.0 million corresponded to Codere). Finally, the purchase price also included two contingent payments of up to U.S.$12.5 million each. Concurrent with the closing of the transaction, one of the contingent payment obligations was satisfied by a payment of U.S.$5.4 million. The other contingent payment of up to U.S.$12.5 million expired and was not due. ICELA includes CIE's Las Américas division and holds certain gaming related assets previously held directly by CIE, including an exclusivity contract with International Game Technology ("IGT"), which were contributed to ICELA in connection with the transaction. ICELA and its subsidiaries are the concessionaire of a 52-hectare gaming complex in Mexico City including the

Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Mexico.

On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE for Mex. Ps. 2,653 million (equivalent to approximately U.S.$209.0 million and €158.0 million as of the date of closing of the acquisition). The acquisition of the 35.8% stake was in addition to Codere México's already existing 49% stake in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements.

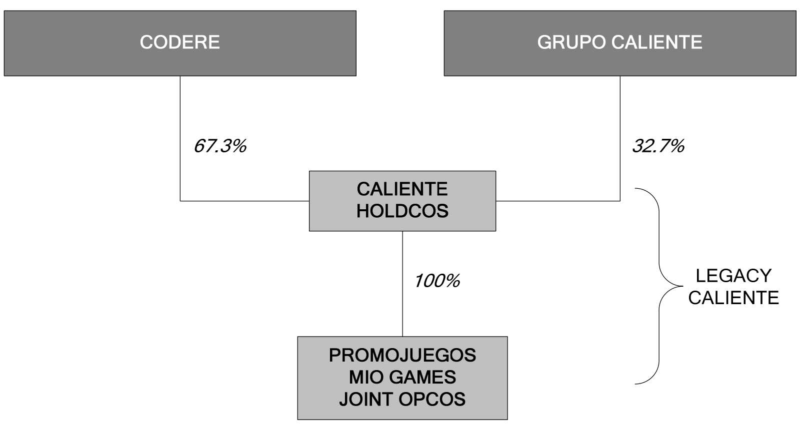
Pursuant to the ICELA Acquisition Agreement, we have agreed to explore together with CIE potential synergies between our ICELA and Caliente businesses to reduce corporate overheads and expenses.

As of December 31, 2011, our Mexico CIE business through ICELA operated 53 bingo halls.

In addition, our Mexico CIE business includes betting operations where customers can bet on horse and dog races and on sporting events that occur principally in Mexico and the United States. Broadcasts of live horse and dog races or sporting events are available through a simulcast provided by Grupo Caliente and are displayed on televisions located in the off-track betting areas of the bingo halls. The Mexico CIE business does not assume any financial risk for the bets placed at its off-track betting sites. The financial risk is assumed by Grupo Caliente as the Mexico CIE business acts only as agent and collects a commission of approximately 75% of the amounts wagered less the prizes.

Mexico Caliente—Background and Operations

The following chart shows a simplified summary of the corporate organization of our Mexico Caliente business:



Our previous management services agreement with Grupo Caliente focused on the development and management of bingo halls at its off-track betting sites. Grupo Caliente is owned by the Hank family, a prominent Mexican family whose members have held various political offices in Mexico over the past 30 years, including Jorge Hank, who was elected mayor of Tijuana in August 2004. Grupo Caliente is a Mexican company that started operations on January 1, 1916 with a horse racetrack in Tijuana, Mexico. Since 1950, Grupo Caliente has operated a greyhound track, with daily racing all year round. Grupo Caliente has developed a network of over 250 off-track betting sites located in Mexico as well as in Latin America and Europe. In connection with its license to operate the track, Grupo Caliente was awarded licenses to operate an approximately 90 off-track betting sites (46 of which are now owned by Codere), which are also authorized to include numbers based games, or bingo halls, throughout Mexico. Pursuant to the previous management services agreement with Grupo Caliente, as of June 30, 2010, our Mexico Caliente business operated 49 halls and no sports books. Grupo Caliente's licenses to operate the off-track betting sites and bingo halls expire between 2015 and 2018. In May 1998, we entered into the management services agreement with Grupo Caliente to develop and manage bingo halls at Grupo Caliente's off-track betting sites.

Under the previous management services agreement, Codere México identified locations for the halls, negotiated leases, constructed or refurbished the halls, provided equipment, trained all hall employees, and provided managers for the halls. Grupo Caliente owned the licenses and the halls and paid the salaries of the hall managers. Upon completion of the construction of a hall, Codere México sold the hall to Grupo Caliente at cost, fixed in U.S. dollars at the time of transfer. Grupo Caliente repaid Codere México the construction or refurbishment costs of bingo halls over a five-year period in 60 equal monthly payments in U.S. dollars.

On March 9, 2011, COFECO, the Mexican competition authority, approved the Caliente Restructuring, which was consummated on March 31, 2011. Consequently, the Caliente Holdcos, the Joint Opcos, Promojuegos and Mio Games are consolidated in our financial statements from April 1, 2011 for income statement purposes and March 31, 2011 for balance sheet purposes reflecting Grupo Caliente's stake in each of these entities as non-controlling interests.

Following the consummation of the Caliente Restructuring, Codere México holds indirectly through the Caliente Holdcos a 67.3% stake in each of the Joint Opcos, Promojuegos and Mio Games with Grupo Caliente holding the remaining 32.7%. As of December 31, 2011, the Joint Opcos held an aggregate of 46 gaming permits and operated 32 halls in Mexico. As of December 31, 2011, Promojuegos and Mio Games each had a license and they held an aggregate of 12 gaming permits, out of which nine were in operation.

The previous management services agreements with Grupo Caliente have been terminated. On July 16, 2010 (with retroactive effect as of July 1, 2010), Codere México and the Joint Opcos entered into new management services agreements pursuant to which the Joint Opcos pay Codere México an aggregate maximum annual fee of U.S.$36.4 million through the end of 2014. In connection with the new management services agreements, Codere México provided transitional assistance services to the Joint Opcos for an aggregate monthly fee of U.S.$1.0 million until December 31, 2010. In addition, Codere México entered into management services agreements with Promojuegos and Mio Games pursuant to which these companies pay Codere México an aggregate maximum annual fee of U.S.$7.6 million through the end of 2014. Payment of the management services fees are made on a monthly basis.

Operations

The following tables set forth certain historical and operating data for our gaming halls in Mexico:

	Year ended December 31,				
	2007	**2008**	**2009(1)**	**2010(1)**	**2011(1)**
Number of gaming halls (at period end)	94	104	94	96	94
Number of slot machines seats (at period end)	16,788	20,351	17,421	19,299	19,571
Net win per machine per day (in Mexican peso)	958	889	883	881	842
Net win per machine per day (in euro)	63.8	54.5	47.0	52.9	49.0
Number of bingo hall seats (at period end)	15,396	15,460	13,266	12,574	13,430
Net win per bingo hall seat per day (in Mexican peso)	177	164	141	114	99.8
Net win per bingo hall seat per day (in euro)	11.8	10.1	7.5	6.8	5.8

(1) Data for 2009 and the first six months of 2010 have been adjusted to reflect only the operations included in the agreement we entered into with Grupo Caliente on July 16, 2010, pursuant to which we restructured our previous contractual relationship.

The following table contains a description of Codere's Mexican gaming permits:

Business Unit	Permission	Date of Extension of Permits	Number of Permits	Geographic Restrictions	Term (date of expiry)
ICELA	AMH	September 1997	65	x	September 2022
Legacy Caliente	Promojuegos	May 2005	10	✓(1)	May 2030
Legacy Caliente	Mío Games	May 2005	2	✓(1)	May 2030
Legacy Caliente	Libros Foráneos	May 1990	18	✓(1)	May 2015
Legacy Caliente	Operadora Catabria	Several dates between October 1993 and December 1993	25	✓(1)	October to November 2018
Legacy Caliente	Operadora de Espectáculos Deportivos	June 1992	3	✓(1)	June 2017
Total	n.a	n.a	123	n.a	n.a

Source: Mexican Ministry of Interior (*Secretaría de Governación*)

(1) Although certain restriction apply to the relocation of the halls, these can be relocated with the approval of the *Secretaría de Governación*, the Mexican Ministry of Interior, a federal agency which has the exclusive power to regulate gaming, and the authorization of the local government.

The gaming halls in Mexico are located in large urban areas of Mexico, such as Mexico City, Monterrey, Guadalajara, Puebla and Cancun as well as in smaller cities. The majority of the gaming halls of CIE are in Mexico City, the Federal District and in the metropolitan area in the State of Mexico, while Legacy Caliente has less gaming halls in this area. Most of the halls operate on a 16-hour schedule.

We and our partners have entered into agreements with leading suppliers of slot machines, including Bally Technology, Inc. and IGT. As of December 31, 2011, we had 19,571 gaming machines installed. In 2011, we estimate that operating revenue generated from gaming machines accounted for approximately 70.9% of the total operating revenue of all the Mexican businesses.

In Mexico we operate an entirely cashless system as the regulation forbids the use of machines that accept cash. Codere's customers at halls in Mexico purchase credit at the hall entrance and are issued a voucher and a PIN number. By keying in the PIN number at any terminal, the customer can play and by subsequently keying out, the customer can terminate the game on one machine and move on to another one. The system will keep track of its credit balance and, on exit, the customer cashes out by simply handing back the voucher. We have installed player tracking and loyalty programs in our Mexican halls.

Competition

We began our operations in Mexico in 1988 through our management services agreement with Grupo Caliente and expanded our operations in 1999 through ICELA, our former joint venture with CIE, in which we now hold an 84.8% stake. In both cases, we participated in the development of the halls where we offered traditional bingo products pursuant to licenses that these parties owned. Until 2004, when the Mexican government enacted regulation granting additional licenses to operate gaming facilities throughout the country, we estimate that halls operated under Grupo Caliente and CIE's licenses constituted the majority of private gaming offered in Mexico. Beginning in 2005, the Mexican government granted additional licenses to operate gaming facilities throughout the country. We estimate that approximately 26 licenses to operate a total of 513 gaming facilities have been granted by the Mexican government as of December 31, 2011. Of these, 6 licenses for approximately 123 gaming permits were associated with Codere and an additional 20 for approximately 390 permits have been granted to third parties. One of these third-party licenses was granted to Grupo Televisa, a large Mexican media company, making it our competitor in

Mexico. At December 31, 2011, Codere, through CIE and Legacy Caliente managed or operated 94 halls, and we estimate that there were approximately 137 halls in Mexico opened and operated by third parties at that date.

In addition, there is a proliferation of gaming halls illegally operating without the permits required by local regulation. These illegal halls are principally located in Northern Mexico and particularly in the city of Monterrey. These illegal halls are attractive to certain portions of the gaming community in Mexico and affect our competitiveness in such regions, because most of their operators do not comply with the applicable regulations, including the payment of gaming taxes. In addition, high crime rates and violence resulting from drug-trafficking and organized crime are particularly acute in these areas with illegal halls where corruption prevails. For example, the gaming hall of one of our competitors in Monterrey was the subject of organized crime-related arson in August 2011, an event which negatively affected our operations through reduced attendance at our gaming halls in the week following the event as well as through the closure of certain halls as a result of widespread government inspections.

Under our agreements with Grupo Caliente, we are subject to limitations on operating sports books. Grupo Caliente must consent to the opening, relocation or transfer of any sports book in Mexico, which consent may not be unreasonably withheld.

We believe that the Mexican gaming market is not highly penetrated, since additional gaming licenses were provided only recently in 2005 and it has significant growth potential in light of the fact that total amounts wagered represent a relatively low percentage of GDP compared to other European or Latin American countries. As such, we have been focused on securing our first mover advantage in this market and have been increasing our market position primarily through the deployment of slot machines in existing halls, as well as improving the operations in the Legacy Caliente business, following several years of underinvestment in that business as we negotiated the restructuring of our relationship with Grupo Caliente.

Sales and Marketing

We have begun to advertise our Mexico gaming halls and betting locations in mass media, such as newspapers and magazines with wide circulation, consistent with Mexican regulations.

Italy

We have been present in the Italian gaming industry since 2001, when we entered the bingo market. Initially, our activities were focused on providing management services to bingo halls owned by Operbingo. Currently, we are focused on the development and management of our 14 gaming halls, the AWP machines placed in bars and gaming halls, the development of our AWP network and the 1,359 VLT rights to install an equivalent number of machines granted therein. In 2011, our Italian business generated operating revenues of €224.2 million and EBITDA of €44.3 million, representing 16.3% of our consolidated revenues and 14.0% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

We began reporting Italy, which was previously included in Other Operations, as a principal business in 2010.

Operations

AWP

Since 2004, the year in which regulation intended to reform the Italian gaming machine industry was implemented, we have been present in the Italian AWP machine market. We entered the market as an operator of AWP machines and subsequently acquired a network concessionaire.

The following table sets forth certain historical data concerning our Italian machine operations, including the machines installed in our gaming halls:

	Year ended December 31,			
	2008	2009	2010	2011
Number of AWP machines operated (at period end)	2,383	2,181	2,178	5,138
Net win per AWP per day (in euro)	70.3	74.8	86.0	74.1
Number of VLT machines operated (at period end)	—	—	402	962
Net win per VLT per day (in euro)	—	—	176.2	264.1

In the Italian AWP machine business, AWP operators enter into agreements with site owners under which the operator places its AWP machines at the sites and provides maintenance services for such AWP machines in exchange for a variable fee that is generally equal to 52% of net box after deducting gaming taxes and the cost of the network provision.

The following chart sets forth the business model economics for our Italian AWP machine operations:

Amounts Wagered (100%)	Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers.
Less Prizes Payout (75.3%)	Prize payout represents the percentage of amounts wagered that must be paid to players of AWP machines over a cycle of a certain number of games, as specified in applicable regulations.
Equals Net Box (Net Win) (24.7%)	Net box represents amounts wagered less prize payouts.
Less Site Owner (5.7%)	Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located.
Equals Operator Revenues (19.0%)	Operator revenues represent the percentage of amounts wagered that we retain as AWP machine operator, prior to payment of applicable gaming taxes and the interconnection fee. We recognize this amount as operating revenue.
Less Gaming Taxes (13.4%)	Gaming taxes represents the amount paid to the state and is the sum of 12.6% of PREU payments and 0.8% of the canon.
Less Interconnection Fee (0.3%)	Interconnection fee represents the amount paid to the network by each of the machines connected to it.
Equals Operator Revenues after Gaming Taxes and Interconnection Fee (5.3%)	Operator revenues after gaming taxes and interconnection fee represents the percentage of amounts wagered that we retain as AWP operator.

The Italian regulator has approved certain changes in the regulation which affect gaming taxes. In the case of the AWPs, gaming taxes will decrease from 12.7% in 2011 to 11.8% in 2012 of amounts wagered and will increase again in 2013 to 12.7%. The minimum prize pay-out will decrease from 75% to 74% starting in 2013. The negative effects of an increase in gaming taxes in 2013 are expected to be mitigated by regulation expected to benefit the operators. The recent modifications have also affected the VLTs, as the gaming tax will increase from 2% in 2011, to 4% in 2012 and 4.5% of amounts wagered thereafter.

Given the network’s role in the industry structure, we have believed from the outset that participation in ownership and operation of a network is critical to profitable growth in the Italian AWP sector, and have sought to achieve this strategic position via acquisition or joint venture. This objective was achieved through our acquisition of Codere Network (previously Rete Franco) on April 28, 2006. Codere Network is one of ten government concessionaires for the provision of AWP network services and had 11,155 machines connected to its network as of December 31, 2011. With this acquisition, and following the restructuring of our direct machine business in 2008 and our current focus on indirect operations through the AWP operators in which we acquired majority stakes since 2007, we believe we now have the strategic platform for profitable growth in Italy.

In August 2009, in order to finance the reconstruction works after the damages caused in Abruzzo by an earthquake in April 2009, the Italian Parliament authorized the granting of rights for the introduction of VLTs to the AWP network concessionaires, in proportion to the number of machines connected to their respective networks. Following such decision, we began installing 1,359 VLT machines during the second half of 2010. Compared to AWPs which are stand-alone machines that give prizes depending on a pre-determined cycle of games, VLTs are more attractive as the machines are connected to a central system that provides the machine with a winning number based on a lottery system that makes the machine more random. VLTs have higher prize payout (85% vs 75%) and higher prizes, which could be as high as €500,000 per gaming system compared to a maximum prize of €100 of the AWPs. In addition, they have significantly lower taxes (2% vs. 13.4% of amounts wagered in 2011) and can be placed only in gaming halls, bingo halls and betting shops. In December 2010, we acquired a majority stake in FG Slot Services S.r.l., which is a leading AWP machine operator in the area of Verona with approximately 620 AWP machines. In 2011, we purchased two other Italian operators; Gap Games in May and Gaming Re in July, which together operate approximately 2,560 AWP machines. These acquisitions are a reflection of the increased attractiveness of the gaming market in Italy due to recent regulatory changes benefitting gaming operators, particularly the introduction of VLTs.

Gaming Halls

We have owned bingo halls since December 15, 2005, when we acquired Operbingo, and have since acquired Bingo Palace, Mortara, Maxibingo and Royal (Caserta), each with one hall, and opened a greenfield bingo hall in Bologna. Following the enactment of enabling legislation, in 2007 and 2010 we began installing AWPs and VLTS, respectively at our halls so that today the bingo halls have been transformed into gaming halls in which we offer a variety of gaming products. Today we own and operate 14 gaming halls in Italy, of which 13 halls with bingo and one hall with only machines.

In November 2009, in an effort to boost the bingo sector, the AAMS approved certain changes to relevant regulation, including an increase in the prize payout from 58% to 70% and a reduction in gaming taxes of the same amount (from 23.8% to 12%). By increasing the prize payout, bingo is more attractive to the player and tends to result in increased wagers as players often choose to play the amounts won. The regulation also permits the interconnection of bingo halls, and thus the possibility of increased jackpots, under certain conditions.

The following tables set forth the historical development of our Italy gaming hall operations:

	Year ended December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
Number of gaming halls (at period end)	12	12	12	13	14
Number of bingo hall seats (at period end)	6,447	5,930	5,817	6,071	5,950
Net win per bingo hall seat per day (in euro)	36.6	33.0	30.0	27.1	24.3
Number of AWPs	480	601	493	480	322
Number of VLTs				402	769

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2011:

Name of Bingo Hall	City/Region	Concession Date	Concession Expiration Date	Number of Seats	Revenues for 2011 (in millions of €)(1)
Palace	Turin, Piemonte	Jan. 2002	Jan. 2014	834	17.8
Re	Rome, Lazio	Feb. 2002	Feb. 2014	710	26.2
Modernissimo	Salerno, Campania	Mar. 2002	Mar. 2014	401	9.3
Living	Bologna, Emilia Romagna	Apr. 2002	Apr. 2014	336	3.7
Marconi	Vigevano, Lombardia	Apr. 2002	Apr. 2014	303	3.7
Garbini	Viterbo, Lazio	Aug. 2002	Aug. 2014	374	7.6
Ariston	Lecce, Puglia	Sep. 2002	Sep. 2014	422	10.8
Vittoria	Parma, Emilia Romagna	Jan. 2002	Jan. 2014	418	12.5
Cola di Rienzo	Rome, Lazio	Dec. 2004	Dec. 2016	395	12.8
Regina	Bologna, Emilia Romagna	Sep. 2002	Sep. 2014	336	5.0
Mortara	Mortara, Lombardia	Mar. 2002	Mar. 2014	306	3.9
Maxibingo	Salerno, Campania	Mar. 2002	Mar. 2014	485	6.3
Royal	Caserta, Campania	Feb. 2002	Jan. 2014	630	14.4
Total				5,950	134.0

(1) Revenues consist of net win for the machine and bingo products, food and beverage sales and other revenues.

Our gaming halls in Italy are located in various regions through all the country such as Roma, Parma, Verona, Bologna or Lecce. Most of these gaming halls operate on a 18.5-hour schedule.

We are subject to ongoing litigation and disputes regarding the Italian business (see "—Litigation—Other Litigation and Disputes—Italy"). We believe that the various charges against the networks reflect in large measure both a rapidly developing regulatory framework and considerable political uncertainty and are entirely inconsistent both with the economic realities of the business and with the ultimate objective of the Italian government to have a well regulated gaming machine industry.

Competition

Competition in the Italian AWP machine operation market is highly fragmented. The VLT market is more concentrated as there are only ten networks that have the rights to install VLTs. There are three further networks that have recently received a provisional license but they have not yet been granted VLT rights. The largest networks are Bplus and Lottomatica with approximately 40% of the VLT rights issued. The competition in the bingo gaming market, as in the case of Spain, is also highly fragmented and comprises a number of small operations. Its market share is 11%, which makes Codere one of the market leaders in the sector.

Sales and Marketing

We started advertizing our gaming halls and website at the end of 2010. We mostly plan local campaigns with a marketing mix, which include radio, cinema and Internet. In October of this year, we started a loyalty plan in our gaming halls and we plan to extend it to our Internet gaming business.

Spain

Our Spanish business comprises AWP machines, sports betting Business, including self-service terminals as well as our Canoe gaming hall in Madrid in which we operate machines and bingo. As of December 31, 2011, we install, maintain, service and collect cash from over 14,677 AWP machines compared to 15,399 as of December 31, 2010, throughout Spain in over 8,907 bars, restaurants machine and gaming halls. The average daily net box per AWP machine was €42.3 in 2011 and €49.0 in 2010. We believe that the decrease in the net win per machine per day resulted from a total smoking ban implemented on January 2, 2011, the adverse macroeconomic conditions and dilution of the positive effect of regulatory changes. As of December 31, 2011, we had 600 sports betting locations in Madrid, Navarra, the Basque region and Aragón compared to 461 in December 31, 2010. Codere also owns and operates the Canoe gaming hall. In 2011, our Spanish business generated operating revenue of €165.7 million and EBITDA of €19.6 million, representing 12.1% of our consolidated operating revenues and 6.2% of our consolidated EBITDA (both before corporate headquarters revenues and expenses), respectively.

In December 2010, the Spanish Government passed a total smoking ban which became effective in January 2011 and applies to every closed public venue. The smoking ban applies to all bars, restaurants and halls in which we operate throughout Spain as well as to our Canoe gaming hall.

Following a series of regulatory changes in Spain that progressively allow for more gaming products to be offered in the same premise (for example, self service terminals for sports betting allowed in bars in the Basque region, Aragón and Navarra, sports betting, electronic poker and roulettes and B3/EBTs allowed in gaming halls), we combined all of our Spanish operations to extract commercial and cost synergies among the businesses. As such, results previously reported under the Spain AWP, the Spain bingo business and sports betting business units are reported as a combined unit under Spain since January 1, 2011.

An example of the combination of operations in Spain is the recent change we introduced in our Canoe gaming hall in Madrid. As a bingo hall, Canoe gaming hall is only allowed to be open for 12 hours a day (from 3 p.m. to 3 a.m.), restricting the play time on the machines located at the hall. In order to maximize profit, we have divided the Canoe gaming hall into two independent halls. One hall keeps operating as a traditional bingo hall, while the other hall operates under a gaming hall license and is, therefore, permitted to maintain longer hours of operation. The gaming hall licensed portion of the Canoe gaming hall offers sports betting, AWP and B3 machines as well as other games such as electronic poker, blackjack and roulette.

Operations

We are a market leader in the highly fragmented AWP machine market in Spain and have a significant presence in most of the regions of Spain, including Madrid, Catalonia and Valencia.

The following table sets forth certain historical data concerning our AWP machine operations in Spain and the average daily net box per AWP machine:

	Year ended December 31,			
	2008	**2009**	**2010**	**2011**
Number of AWP machines (at period end)	15,963	15,587	15,399	14,677
Average daily net win per AWP machine (in euro)(1)	55.7	49.2	49.2	42.3
Spanish market average daily net win(2)	39.3	36.4	37.6	n.a.

(1) Average daily net box per AWP machine is calculated as average daily amount wagered less prize payout per AWP machine.

(2) Source: *Spanish National Gaming Commission Annual Reports* (2006–2010).

The most important asset in the AWP business is the relationship with the bar and restaurant owners. We have established relationships with over 8,907 bars and restaurants through installation agreements. These agreements generally give us the exclusive right to place one or more of our AWP machines in the owner's establishment for a period of up to ten years. In return, we share the revenues obtained as represented in the chart below:

Amounts Wagered (100%)	Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers.
Less Prizes Payout (70%)	Prize payouts represents the percentage of amounts wagered that is required to be paid out to players on AWP machines over a cycle of a certain number of games, as specified in applicable regulation.
Equals Net Box (Net Win) (30%)	Net box represents amounts wagered less prize payouts.
Less Site Owner (12%)	Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located.
Equals Operator Revenues (18%)	Operator revenues represent the percentage of amounts wagered we retain as AWP machine operator, prior to payment of applicable gaming taxes. We recognize this amount as operating revenue under IFRS.
Less Gaming Taxes (6%)	Gaming taxes represents our estimate, based on historical experience, of the percentage of amounts wagered represented by legally mandated tax payments per AWP machine. AWP machine taxes are established by regulation in each Spanish region in which we operate as a fixed yearly amount per machine.
Equals Operator Revenues after Gaming Taxes (12%)	Operator revenues after gaming taxes represents the percentage of amounts wagered that we retain as AWP operator.

In addition to revenue sharing, until early 2009, we often made interest-free loans or up-front cash payments to owners to induce them to enter into or extend contracts and grant us exclusive rights to install AWP machines in their establishments. Site owners typically repaid these loans over a 12- to 24-month period through an offset against their share of revenues. Beginning in 2009, as a result of the decrease in the net wins, and in order to align the incentives of the bar owners, we began changing the up-front payments to reduce the amounts and to make deferred payments, conditional on the performance of the bar. Under the current methodology for an average contract, which is approximately for €5,000, we pay 20% up-front, 30% in the first year and 50% after 18 months, the latter two payments only being made if the net wins exceed the minimums stipulated in our agreements with the individual bar owners.

Upon reaching an agreement with a site owner, we install and maintain the AWP machines. Working with the site owner, we also ensure that each AWP machine complies with regional and national regulations. We pay any required gaming taxes and, where required, post monetary guarantees with the relevant regulator.

Unlike in Argentina and Mexico where we operate gaming machines in our halls, in Spain, we have a collections department that is responsible for carrying out coin collection from our AWP machines in various sites. Each of our collectors carries an electronic portable device that provides our collectors with a significant amount of information, including the share of the cash balance in the AWP machines payable to us and to the site owner, prize payout, the time during which the AWP machine was in use and the payment conditions established in the applicable installation agreement.

We primarily grew the number of AWP machines in our portfolio through acquisitions of smaller AWP operators and organic growth. Many of the smaller operators represented attractive acquisition opportunities because their acquisition generally required a low capital investment, and results in a high EBITDA and cash flow contribution to our Spain AWP operations. Once we identified a potential business to acquire or location to develop, we preferred to take a controlling stake in the business. This typically included taking over the acquired operator's rights under its installation agreements and its obligations under its service and maintenance agreements. During the last year we have not made any acquisitions as we believe the market conditions and prices were not adequate.

We continuously monitor the economic performance of our machines to make wire contract renewal determinations. The higher average daily net box produced by our AWP machines is a key element in our negotiations with site owners, as are the exclusivity payments that we make in order to guarantee our exclusive right to install AWP machines in particular sites. The likelihood of such exclusivity payments being required, and the amount of such payments, is generally a function of the competition for any given site, with centrally located, high traffic sites attracting the most interest from our competitors. In cases where there are a number of gaming operators bidding on a site, we will generally be required to make higher exclusivity payments or loans or advances to the site owner, increasing our operator costs. We capitalize exclusivity payments and amortize them over the length of the contract with the site owner, which averages five years.

AWP business is regulated solely on a regional level in Spain and the regulations are periodically renewed. These changes in regulation affect parameters such as the prize pay-out, maximum prize and the maximum amount that can be waged.

Regarding the sports betting business, in July 2006, we signed a memorandum of understanding with William Hill to participate in the sports betting market in Spain following the adoption of enabling legislation. In light of the publication in Madrid and the Basque region of such legislation, the parties to the memorandum of understanding created Codere Apuestas España, S.A.U., and Garaipen Victoria Apustuak, S.A.L., joint ventures to develop sports betting in Madrid and the Basque region, respectively, each of which applied for the necessary licenses to operate in these regions. Madrid has since issued five-year administrative authorizations to conduct sports betting businesses to companies that meet certain financial, technical and other requirements. The Basque region awarded three licenses for the operation of 25 locations and 500 machines for each license holder. Sports betting is allowed in dedicated betting locations, existing gaming establishments, sports premises and remotely. The joint venture obtained the necessary authorizations in both regions and began sports betting businesses in Madrid in April 2008 and in the Basque region in November 2008. In addition to offering sports betting in our locations, we are able to offer sports betting at casino gaming halls, bingo halls and sports venues. Nevertheless, following a strategic review by William Hill and Codere of our joint venture in Spain, the parties agreed to William Hill's withdrawal from the joint venture due to William Hill's decision to focus its international sports betting strategy on the Internet via William Hill Online. Pursuant to the terms of the agreement, on January 20, 2010, Codere completed the purchase of William Hill's 50% stake in the company for a symbolic amount of €1.0.

On October 18, 2010, we launched sports betting businesses in the region of Navarra. As of December 31, 2010, we were the only company authorized to operate in the three regions in Spain, or Comunidades Autónomas, in which sports betting is permitted. As in the Basque region, sports betting in Navarra is allowed at dedicated sports betting shops, existing gaming establishments and bars. We expect to expand the business upon the passage of enabling regulation, including regulation related to online gaming.

As in the case of the AWP machines, we enter into different agreements with bar and gaming halls owners, sharing the revenues with them.

We made progress in the establishment of the sports betting business in Spain over the course of 2010 and 2011, with 600 sports betting locations in use as of December 31, 2011, the majority of these being self service terminals installed in bars.

We also operate the Canoe gaming hall, which has a number of different gaming devices offering various types of games, including traditional bingo, (similar to the game played in other countries as Mexico, Italy or Argentina) and sports betting. The estimated number of visits to the gaming hall was 421,000 as of December 31, 2011.

In December 2010, in an effort to boost the bingo sector, the Community of Madrid increased the prize pay-out ratio by 6 percentage points from 65% of card sales to 71% and decreased the gaming taxes applicable to Bingo operators by 7 percentage points from 22% to 15% in each case, effective January 2011. The difference of one percentage point increases the margin to the operator.

Competition

Competition in the AWP machine operation market in Spain is highly fragmented. Regionally, our competitors are local operators, while, our primary competitors nationally are Cirsa, which we estimate had approximately 22,310 AWP machines throughout Spain as of December 31, 2011. We believe that the AWP machine market in Spain remains highly fragmented and offers considerable possibilities for further consolidation. In the case of the sports betting business, the competition depends on the number of licensees issued in each region. In the case of the Basque region there are only three players as the licenses are limited, while in the case of Madrid the numbers of competitors is higher due to the fact that there is no limit upon the number of licensees. In the bingo business, there are 54 halls in the Madrid region.

Sales and Marketing

Although government regulations on advertising have become more relaxed in recent months, the current regulations limit the extent and manner by which we and our competitors can advertise. In particular, government regulation prohibits certain kinds of direct and indirect advertisements to potential AWP machine players. In the case of the Canoe gaming hall and sports betting legislation, the government eased some of the restrictions that existed for gaming related advertisements.

Other Operations

Panama

In October 2005, we purchased a 90% interest in the Presidente Remón Racetrack in Panama City, which is the only racetrack in Central America. We acquired the remaining 10% held by the Motta family in 2010. We currently hold licenses to open betting locations and are permitted to install up to 500 slot machines and a bingo hall at the racetrack. As of December 31, 2011, the racetrack had 386 machines and we were operating 81 sports betting locations in Panama.

On January 24, 2006, we completed the purchase of Crown Casinos in Panama. The acquisition was part of the sale exchange agreement signed on July 28, 2005 between the Antonio Martínez Group and us, pursuant to which we agreed to exchange our non-controlling interests in four Chilean casinos for 100% of Crown Casinos. On December 6, 2008, we opened our fifth casino in Panama, located at the Radisson Hotel, in the second largest Panamanian city of Colón. On August 19, 2010, following receipt of regulatory approvals, we completed the purchase of Thunderbird Resorts Inc.’s (NYSE Euronext Amsterdam: TBIRD) 63.6% stake in six casinos in Panama for approximately U.S.$38.0 million (equivalent to €29.5 million as of December 31, 2011). As of the date of the acquisition, International Thunderbird Gaming (Panama) Corp., a leading player in the local casino market, operated six casinos with a total of 85 tables and 1,831 slot machines under the Fiesta Casino brand. Thunderbird Panama has been consolidated in our financial statements from September 1, 2010.

At December 31, 2010, Codere operated 12 casinos in Panama, including the machine hall at the racetrack, through its two brands, Crown and Fiesta, with a total of 3,311 gaming machines seats and 134 tables. Six out of these 12 casinos in Panama, including the hall at the racetrack, are located in Panama City. Two of the remaining casinos are located in Colón, Panama’s second largest city, a further two in David, one in Chitré and one in a touristic area in the Province of Coclé. With 11 out of the 15 casinos operating in the country, we are the leader in the Panamanian casino market. In 2011, our Panama business generated operating revenue of €87.0 million and EBITDA of € 17.6 million, representing 6.3% of our consolidated revenues and 5.5% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

The following table sets out certain data corresponding to our Panama casino operations.

Casino Name	Location	Opening Date	Size (m^2)	Slots Machine Seats	Tables	License expiration date
Crown Casinos						
Sheraton	Panama City	Sep. 1998	1,280	316	24	Mar. 2018
Continental	Panama City	Oct. 1998	900	383	18	Mar. 2018
David	Chiquiri	Feb. 2004	565	271	10	Mar. 2018
Granada	Panama City	May 1998	205	86	8	Mar. 2018
Colón	Colón	Sep. 2010	507	188	13	Oct. 2030
HPR	Panama City	Apr. 2007	991	386	—	Dec. 2017
Fiesta Casinos						
El Panamá	Panama City	Jul. 1998	1,778	449	22	Mar. 2018
Soloy	Panama City	Aug. 1998	1,105	435	10	Mar. 2018
Nacional	Chiriqui	Dec. 1998	911	289	10	Mar. 2018
Washington	Colón	Oct. 1998	860	244	6	Mar. 2018
Guayacanes	Chitré	Oct. 2002	549	167	6	Oct. 2022
Decameron	Coclé	Mar. 2003	229	97	7	Mar. 2023
Total		**—**	**9,880**	**3,311**	**134**	

Our casinos in Panama are open 24 hours a day. Slot machines installed at our casinos in Panama have TITO operational systems. In addition, we have installed player tracking and loyalty programs in our casinos.

Our competitors in the casino segment include Veneto Hotel & Casino S.A., Majestic Casino, which is operated by Cirsa, the Royal Casino at the Marriott Hotel and Princess Entertainment Panama, Inc. (Casino Princess) located at the Sheraton, each of which operate one casino. In addition, as of November 8, 2011, there were 26 gaming halls, 25 of them operated by Grupo Cirsa, with an estimated total of 7,544 slot machines in operation in Panama as of December 31, 2011.

Colombia

Our Colombia business focuses on the ownership and operation of gaming machines. As of December 31, 2011, we operated 6,224 gaming machines located in 50 gaming halls, including three casinos operated under the Crown Casino brand as well as in bars and restaurants in major cities throughout Colombia. In addition, as of December 31, 2011, we operated four bingo venues with an aggregate of 711 seats. Through our four gaming hall brands (Crown Casinos, Mundo Fortuna, Fantasía Royal and Stars Casino), Codere is present in over 80 municipalities, including large cities such as Bogota, Cartagena, Barranquilla, Medellin, Pasto, Cali, Ibague, and Bucaramanga. In 2011, our operations in Colombia generated operating revenue of €28.9 million and EBITDA of €5.9 million, representing 2.1% of our consolidated revenues and 1.9% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Codere entered the Colombian market in 1984 and rapidly became a relevant slot machine player. The Colombian business was originally a replica of the Spanish slot route model of slot machines in bars and other small third-party outlets. In 1998, we inaugurated the Cali Gran Casino, effectively entering the business of managing gaming halls in addition to its original slot routes. In 2005, Codere moved further into gaming halls by means of acquiring Intergames, the largest bingo operator in the country with four bingo halls and approximately 1,200 slot machines. As the legacy slot route business came under increasing pressure from illegal operators and new formats, Codere started to rationalize the slot estate located in unbranded third-party facilities. In 2007, it began to focus increasingly on strengthening its top brand, Mundo Fortuna, and its basic brand, Fantasia Royal. In 2009, a new premium brand, ‘Crown Casinos’ was launched, targeted at high-income customers. The first two Crown Casinos were the result of the remodeling and reopening of the old Cali Gran Casino in Cali, which was turned into Crown Casinos Cali, and the old Mundo Fortuna Palatino, which was turned into Crown Casinos Palatino in Bogota in 2009. A new format and design for the Fantasia Royal venues was also launched in 2007. In completing the renovation Fantasia Royal and Crown Casinos and converting them to the new format, Codere implemented a complete turnaround strategy focused on developing new value offers for each brand. As of 2009, the Colombian

Government increasingly focused on cracking down on illegal operators and changed the regulation to eliminate gaming in non-dedicated venues. This has resulted in much needed support for legal operators.

Significant investment went into the upgrading, expansion and remodeling of the top Mundo Fortuna and Crown Casinos formats. In addition, in December 2011 we inaugurated our third Crown Casino, in an affluent district in Bogota. We are also upgrading an old Mundo Fortuna hall located in the San Rafael shopping mall in Bogotá, which we expect to open as our fourth Crown Casinos format in 2012.

The average Mundo Fortuna halls have approximately 82 slot machines in an area of approximately 585 sq.m. The Crown Casinos in operation at December 31, 2011, Palatino and Crown Cali, have approximately 299 slot machines, 27 tables in an area of approximately 2,083 sq.m. The halls we operate in Colombia normally open 16 hours per day.

Slot machines installed at our casinos in Colombia have TITO operational systems. In addition, we have installed player tracking and loyalty programs in our casinos.

We estimate that the total number of licensed gaming machines in Colombia, as of December 31, 2011, was approximately 60,453. In addition, we estimate that, as of December 31, 2011, there were an additional 42,000 unlicensed gaming machines in operation in Colombia. The gaming machines in the Colombian market are generally type-C machines, similar to U.S. Class III machines which do not have maximum wager and prize limits. The Colombian machine market (excluding machines located in casinos), with around 279 legal operators, is highly fragmented. Currently, our main competitors in the licensed market are Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 6,052 gaming machines and Mundo Slot with approximately 1,773 machines.

The following table sets forth certain historical data concerning of our Colombia business's operations:

	Year ended December 31,			
	2008	**2009**	**2010**	**2011**
Number of AWP machines (at period end)	8,502	6,556	6,179	6,238
Net win per gaming machine per day (in Colombian peso)	32,747	33,257	39,938	44,890

Uruguay

In June 2002, the Uruguayan government granted RU S.A. (formerly Hípica Rioplatense Uruguay S.A. "HRU"), a 50/50 partnership between us and the Sociedad Latinoamericana de Inversiones Group (the "SLI Group" through Verfin Overseas S.A., a company established under the laws of República Oriental del Uruguay), an exclusive 30-year concession, to operate the historic Maroñas horse racetrack in Montevideo and five off-track betting sites, which include slot machines as well as wagering based on simulcast sporting events. Our partner, the SLI Group, also owns the Haras de La Pomme horse breeding center, which is one of the most prestigious in Latin America. The SLI Group is also involved in the hotel business, real estate investments, telecommunications and Internet services.

The Uruguay business's operation of the Maroñas horse racetrack and related on-track and off-track betting and slot machine sites is our first development of the "racino" gaming business model. The racino business model consists of combining generally more profitable casino gaming, such as slot machines, with a racing product, which is a generally less profitable area of the gaming business. By increasing overall profitability, purses to horsemen may be increased, attracting the best horsemen to the racetrack, which tends to increase betting. Top-class horse racing may also be leveraged by offering racing simulcasts to off-track betting sites as well as other horse racetracks. Racino gaming has grown rapidly in the United States and Canada in recent years. Subject to the development of necessary systems, controls and procedures to ensure that we would be in compliance with all applicable regulation, our Uruguay business intends to launch a new online horse betting system this year.

As of December 31, 2011, our Uruguay business operated the Maroñas horse racetrack, five machine halls with a total of 1,838 slot machines seats and 27 horse betting locations. Out of the 27 horse betting locations, three were fully owned by HRU and operated under our Turff Bet & Sport Bar brand, while the others are third-party locations which take bets on races at Maroñas horse racetrack and to which we offer international simulcast. In 2011, our Uruguay business generated operating revenue of €20.3 million and EBITDA of €3.9 million, representing 1.5% of our consolidated revenues and 1.2% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

On November 9, 2009, the Intendencia Municipal de Montevideo ("IMM") awarded the Carrasco Nobile consortium (a 51%/49% partnership between Codere and Sikeston S.A., an international investor group) the concession for the Carrasco Hotel and Casino project. The project requires the reconstruction and management of the Carrasco Hotel and Casino in Montevideo, which will consist of a 5-star hotel with approximately 115 rooms and a casino with approximately 400 slot machines and 18 gaming tables. The hotel will be operated by the French hotel group, Accor, under the Sofitel luxury brand. The number of machines and tables is not limited by the concession contract so we expect to increase the number of machines in the future. The formal granting followed the announcement on January 15, 2009 that the partnership received the highest point total as well as a review by the *Tribunal de Cuentas*. We view this as an exciting opportunity to refurbish the Carrasco Hotel and Casino to a world-class standard, and then operate the emblematic Carrasco Hotel and Casino in Montevideo, together with a first class partner, under a 30-year concession. The total investment is approximately U.S.$30.0 million and Carrasco Hotel and Casino is expected to open in the second half of 2012.

Brazil

At December 31, 2011 we operated six horse betting locations in Brazil under our Turff Bet & Sport Bar brand. Codere went into business in Brazil in 2006 when it commenced the development of a network of on-track and off-track high profile betting offices that operate under horse betting licenses held by the Jockey Clubs (JCs) with a presence in the states of Rio de Janeiro (Jockey Club Brasileiro or "JCB"), Rio Grande do Sul (Jockey Club do Rio Grande do Sul or JCRGS), and Paraná (Jockey Club do Paraná or "JCPR"). Under the JCs' licenses, our betting locations are permitted to distribute (i) pooled betting products on local horse races and (ii) fixed-odds betting products on international simulcast horse races.

Prior to these developments, Codere developed a relationship with the three JCs and in 2005 entered with all three into ten-year mutually exclusive agreements under which the JCs and Codere covenanted to jointly develop "any new form of gaming" permitted under the JCs' licenses (the "JC Agreements"). We expect the JCs to be authorized to run racinos at their racetracks, a business that would clearly fall under the JC Agreements. No such development has materialized yet.

The JC licenses permit JCs to operate "other lottery products", a term which was at the time, and remains today, undefined, and has never materialized into any concrete authorization. The Ministry of Agriculture regulates the JCs while lotteries are the exclusive regulatory domain of the *Ministerio da Fazenda*.

Four of our six betting locations were opened before the end of year 2007. A further three, including two franchised units (one closed in 2009), opened in the period between 2008 and 2010.

In 2011, our Brazil business generated operating revenue of €3.6 million and EBITDA of €(0.9) million, representing 0.3% of our consolidated revenues (both before corporate headquarters revenues and expenses).

Employees

The tables below set forth the average number of our permanent employees during 2010 and 2011 and the breakdown of those employees by activity and geographically.

	2010		2011	
Category of Activity	**Men**	**Women**	**Men**	**Women**
Managers and supervisors	702	163	853	231
Specialists	170	113	251	125
Sales personnel	2,380	1,893	2.833	2.142
Collectors	387	124	735	225
Mechanics	472	5	544	39
Clerical staff	1,127	937	1.278	978
Assistants	590	373	584	354
Other personnel	5,381	2,875	6.173	3.457
Total(1)	11,209	6,483	13.251	7.551

	2010		2011	
Geographic Area	**Men**	**Women**	**Men**	**Women**
Argentina	2,694	1,851	2.832	2.028
Mexico	4,489	2,158	6.246	2.929
Italy	452	367	654	483
Spain	994	321	952	325
Panama	1,704	1,081	1.582	1.037
Colombia	369	246	453	268
Uruguay	462	416	493	440
Brazil	45	43	39	41
Total(1)	11,209	6,483	13.251	7.551

(1) 100% of the staff have been considered independently of the method of consolidation used for these companies.

The extent of labor union membership of our employees varies between countries. We believe that we maintain good relationships with both our union represented and non-union represented employees and their union representatives. We are involved in limited numbers of labor disputes in the ordinary course of business, none of which would have a material adverse affect on us if not resolved in our favor.

We are subject to collective bargaining agreements in the countries in which we operate. Under these agreements, salary scales are established for each position in each industry. The salary scales are usually revised annually and typically provide for increases in the salary scales in accordance with the increases in the consumer price index in each country, or a slightly larger increase. We do not have a pension plan.

Licenses and Trademarks

We, or our partners and clients, hold gaming licenses in each jurisdiction in which we operate and we expect that we will acquire additional licenses in the future. In addition, in some countries we hold licenses or authorizations permitting us to import AWP machines into such country. We have no material patents. We register the trademarks under which we operate our different businesses in different countries and presently have more than 60 registered trademarks, but sometimes we make agreements with our partners to operate under their own trademarks. Additionally, there are three trademarks, Codere (gambling and bingo), Victoria (gambling, bingo and betting) and Turff (betting), which are operated worldwide. In addition, we hold a license to use the trademark Fiesta Casino® from International Thunderbird Gaming (Panama) Corp., for use in Panama and Caliente, for use in the Joint Opco operations.

We own a copyright on SPACE Codere, a complex Customer Relationship Management software for performance analysis of gaming machines and gaming shops.

Litigation

In the ordinary course of business, we have been and are involved in disputes and litigation. While the result of these disputes or litigation cannot be predicted with certainty, we do not believe that the resolution of any such disputes or litigation, individually or in the aggregate, could have a material adverse effect on our business, results of operations or financial position.

Tax Contingencies

From time to time in the ordinary course of business we and the tax authorities in the jurisdictions in which we operate dispute the amounts that we owe such authorities.

Argentine Income Tax Dispute

We are involved in a dispute with the Argentine federal tax authorities regarding the application of Section 73 of the Argentine Income Tax law to certain inter-company loans with our Argentine affiliates. Section 73 also generally applies to loans to third parties and we have argued that the Argentine companies involved in the questioned loans are part of a single economic group. If this dispute is determined adversely to us, we estimate that we would be required to pay AR$11.68 million (equivalent to approximately €2.0 million as of March 31, 2012).

Bingos del Oeste S.A. is also involved in a dispute with the Argentine federal tax authorities concerning the application of the credit debit tax to the amounts of money we periodically pay to the Buenos Aires province gaming authorities (34% of the net win in the case of slot machines, and 21% of the total amounts wagered in the case of bingo gaming). We have argued that these amounts are not subject to the credit debit tax, as they belong to the Province of Buenos Aires and, therefore, not subject to the credit debit tax law. If this dispute is determined adversely to us, Bingos del Oeste S.A. would be required to pay AR$9.43 million (equivalent to approximately €1.6 million as of March 31, 2012).

Other Tax Disputes

In Mexico, we are involved in several ongoing disputes with state tax authorities concerning the application of state lottery taxes to our bingo hall operations. These disputes arose following the enactment of regulations under the Mexican Federal Law of Games and Lotteries on September 17, 2004, which specify bingo as a form of lottery, technically empowering the Mexican states to tax bingo activity. Caliente, Promojuegos and Mio Games have each disputed the Mexican state governments' right to impose taxes on bingo activity, claiming that only the federal government has authority to tax such activities. Caliente, Promojuegos and Mio Games obtained injunctions absolving them of the obligation to pay such taxes in several states, but certain of the injunctions have expired and the relevant states have claimed the taxes in 2011. Consequently, we began paying taxes in certain states and will start paying in other states in 2012. If the tax related disputes that are ongoing in other states are determined adversely to us, we could be required to pay Mex. Ps. 1,921.0 million (equivalent to approximately €113.7 million as of March 31, 2012). Prior to completing the consolidation of the Joint Opcos, a provision of Mex. Ps. 95.0 million (equivalent to approximately €5.6 million as of March 31, 2012) was recorded in the financial statements of the Joint Opcos to cover the risk which was considered probable.

In Italy, we are involved in a tax dispute regarding gaming taxes. On January 5, 2009, Codere Network received a notice from the AAMS Lazio claiming that certain amounts were due for 2004 and 2005 in connection with the "liquidazione PREU", which is an estimate of gaming taxes owed by concessionaires based on the amounts spent by customers on slot machines ("AAMS PREU payments"). The amounts claimed were approximately:
(i) €21.7 million as AAMS PREU payments; (ii) €2.0 million as penalties (which would be reduced if paid without dispute); and (iii) €2.8 million as interest. Codere Network subsequently received additional notices from the AAMS Lazio claiming AAMS PREU payments for 2006, 2007 and 2008. After Codere Network made various requests for recalculation of the AAMS PREU payments for the years 2004 through 2009, the AAMS Lazio concluded that Codere Network does not owe any AAMS PREU payments for the years 2004 through 2007. The AAMS PREU payments for the year 2008 were settled in favor of Codere Network and it received a credit of €2.1 million. Codere Network believed that a larger credit should have been recognized and submitted an application for review. On August 1, 2011, the AAMS Lazio responded to that application with a final settlement in respect of the AAMS

PREU payment for 2008, recognizing a credit of €3.6 million. On December 28, 2011, Codere Network received a notice from the AAMS Lazio about the AAMS PREU payments for 2009, which stated that Codere Network does not owe any AAMS PREU payments for that year. Codere Network claimed a credit of approximately €3.9 million from the AAMS Lazio and submitted an application for review. On January 27, 2012, Codere Network sent a notice to the AAMS Lazio restating the amount of credit claimed to €393,322 as a result of having offset part of the credit against periodic PREU payments (in consultation with the AAMS Lazio).

As of the date of this Report, the AAMS Lazio has not issued its settlement with regard to the AAMS PREU payments for 2009.

In Bogota, Colombia, we resolved a dispute with local tax authorities regarding certain gaming taxes on slot machines operated by us at locations owned by third parties in the second half of 2009. Codere Colombia S.A. paid approximately COP$1,675.7 million (equivalent to approximately €0.7 million as of March 31, 2012 in resolution of that dispute. The tax authorities have since ceased the related judicial process and confirmed that Codere has complied with applicable regulations. On May 12, 2010, the Constitutional Court of Colombia declared that the law under which that dispute was resolved and by which the Congress authorized the resolution of tax disputes by way of payment of agreed amounts with local tax authorities was unconstitutional. We do not believe that the local tax authorities with whom we agreed the payment of the amount described above will seek to renegotiate or contest the amount that was paid in settlement as a result of the Constitutional Court's ruling. If, however, tax authorities were to seek renegotiation, we could be required to pay up to a total of COP$10,000.0 million (approximately €4.3 million as of March 31, 2012), including the COP$1,675.7 million that has been paid.

In Panama, on November 9, 2009, our subsidiary International Thunderbird Gaming (Panama) Corporation applied for administrative process against Resolution No. 213-7351, defending a claim for coercive collection issued against it by the Provincial Revenue Administration of the Province of Panama, which also includes an order to seize any movable and immovable property, bank savings accounts, time deposits and safe deposit boxes registered to it. The claim of the Provincial Administration of Revenue amounts to approximately U.S.$4.0 million (approximately €3.0 million as of March 31, 2012). We are awaiting the decision of the Attorney General of Panama to terminate the case.

Other Litigation and Disputes

Argentina

Criminal Investigation

Codere is the subject of a criminal investigation in Argentina relating to the illegal importation and exploitation of slot machines. This investigation was initiated in 2002 and initially directed at all Argentine slot machine operators. Over the course of the ongoing preliminary stage of the investigation, the authorities have decided not to pursue investigations of certain slot machine operators. Codere Group members remain among the companies being investigated and are cooperating fully with the authorities. During 2010 and 2011, the court ordered proceedings to inspect certain records of Codere, including Codere's financial accounts. The results of these inspections were favorable to Codere's case. No director, officer or employee of Codere has been subpoenaed as of the date of this Report. We have argued that the investigation, insofar as it involves Codere, is without merit and we are seeking to resolve the investigation through the application of the statute of limitations.

BCRA Litigation

The Argentine Central Bank ("BCRA") has initiated several proceedings against Codere under foreign exchange control laws and regulations. The applicable laws and regulations impose fines in the range of one to ten times the amount of the alleged infraction, but the fines are normally levied in the minimum amount. BCRA is investigating alleged infractions for inaccurate disclosure in sworn statements made by Codere with respect to transfers abroad for a total amount of U.S.$4.1 million and €0.3 million, on account of "*foreign portfolio investments*" and "*payment of loans received from foreign lenders*". With respect to approximately U.S.$3.1 million of such amounts, we will argue that the statute of limitations has expired. As for the remaining U.S.$1.0 million and €0.3 million of such amounts, we believe that we will successfully defend our position with respect to such infractions. Although we believe the transactions in question were carried out in compliance with the applicable foreign exchange regulation at the time, we have provisioned €1.0 million for potential contingencies.

Mexico

Machine Import Duties

In January 2012, we received an official communication from the Mexico's Tax Administration Service (*Servicio de Administracion Tributaria* or "SAT") informing us of potential import duties owed by Codere México relating to certain gaming terminals imported into Mexico in 2009 and 2010 and claiming that we are liable for Mex. Ps. 147.0 million (equivalent to approximately €8.7 million as of March 31, 2012. We filed an administrative appeal (*Recurso Administrativo de Renovación*) on March 9, 2012 and we are currently waiting for a response from the SAT. As of December 31, 2011 we recorded a provision amounting to Mex. Ps. 22 million (equivalent to approximately €1.3 million as of March 31, 2012) relating to this dispute.

Italy

AAMS Litigation

On October 12, 2011, the AAMS, which is empowered with the authority to tax gaming operations, issued a decree, which contained changes to the machine gaming taxes (PREU) in Italy. Pursuant to this decree, effective January 1, 2012, the PREU tax on VLTs in Italy increased from 2% of amounts wagered in 2011 to 4% in 2012 and will increase to 4.5% thereafter. In the case of the AWPs, the PREU tax decreased from 12.6% of amounts wagered in 2011 to 11.8% in 2012, but will increase to 12.7% in 2013 and to 13% in 2015. The AAMS decree also introduced an additional tax of 6% (in addition to the PREU tax) to be paid on the portion of any winnings distributed by the VLTs in excess of €500. The AAMS indicated that it would issue another decree establishing from which date this additional tax needs to be paid. In addition, the AAMS decree established that the minimum percentage of winnings distributed by AWPs will decrease from the current 75% of amounts played to 74% of amounts played in 2013.

Codere Network and other concessionaires filed a petition before the TAR Lazio challenging the additional tax of 6% introduced by the AAMS decree of October 12, 2011. In January 2012, the TAR Lazio suspended the effects of the AAMS decree with regard to the additional tax of 6%. On March 2, 2012, the government issued a law decree establishing that the additional tax of 6% introduced by the AAMS decree of October 12, 2011 will become effective on September 1, 2012. As a result of this new law decree, the hearing on the merits of the case scheduled for April 4, 2012 was not held. The TAR Lazio informed the concessionaires that a new hearing will be scheduled promptly after the concessionaires file a new petition.

Codere Network is currently a party to various proceedings pursuant to which it is claiming an aggregate of €6.3 million (as of the date of this Report) from various gaming operators relating to unpaid network interconnection fees and gaming taxes which Codere Network collects on behalf of the AAMS. Codere Network interconnects the machines for such operators.

On September 9, 2011, Codere Network entered into an agreement with Intellcredit S.p.A. whereby Codere Network assigned on a non-recourse basis (*pro soluto*) certain receivables (valued at approximately €3.8 million) to Intellcredit S.p.A., for the price of €35,000. We believe the sale significantly reduces the litigation risks associated with collecting unpaid network interconnection fees and gaming taxes in Italy.

CdC Allegation

On May 29, 2007, the Italian *Corte dei Conti* (the "CdC"), the constitutional body charged with auditing the management and accounts of governmental departments, including the AAMS, claimed that the AAMS had failed to seek €3.0 billion in penalties from Codere Network for the alleged noncompliance with certain obligations, such as the terms for the activation and management of the AWP network and minimum levels of service (the "CdC Letter"). The CdC Letter was addressed to official representatives of the AAMS and to Codere Network as an AWP network concessionaire, which the CdC considered to be jointly responsible. The CdC Letter was also sent to nine other concessionaires, which had provided AWP network services in Italy and claimed an aggregate amount of

€98.0 billion in penalties and fines, of which €3.0 billion was allegedly attributable to Codere Network. On June 26, 2007, the AAMS requested that Codere Network pay the penalties and fines per the CdC Letter (the "AAMS Letter").

Codere Network responded to the CdC Letter and the AAMS Letter, both directly and in coordination with the other affected concessionaires.

Codere Network challenged the AAMS Letter before the TAR Lazio. On April 1, 2008, Codere Network received notice that the TAR Lazio had annulled the AAMS Letter's request for payment, because the AAMS had not conducted a proper administrative process. Claims by the other nine affected concessionaires received similar judgments. In 2008, the AAMS sent additional demand letters to Codere Network claiming three separate penalties amounting to approximately €0.7 million related to the late launch, activation and management of the telecommunications network (the "three AAMS penalties"). Codere Network and the other concessionaires challenged the three AAMS penalties, in the first instance before the TAR Lazio (which rejected the appeal) and in the second instance before the Council of State. On May 20, 2011, the Council of State annulled the three AAMS penalties and exonerated the concessionaires from all charges. In July 2011, Sogei S.p.A., the technical partner of the AAMS, which had designed and managed the AWP network since 2004, intervened in the proceedings and challenged the judgment of the Council of State. As of the date of this Report, the Council of State has not responded to Sogei S.p.A's challenge.

On February 18, 2011, the AAMS claimed from Codere Network a further €2.7 million in penalties relating to Codere Network's alleged failure to provide minimum service levels, specifically with respect to interconnection issues (the "fourth AAMS penalty"). On June 9 and October 28, 2011, Codere Network and the other concessionaires challenged the fourth AAMS penalty before the AAMS. On February 29, 2012, Codere Network was notified that the AAMS had rejected the challenge and decided to impose the fourth penalty. Codere Network and the other concessionaires will bring an appeal before the TAR Lazio against the AAMS decision.

With respect to the CdC Letter, Codere Network filed a defense motion before the CdC in 2007 claiming that the penalties were not owed, which motion was rejected by the CdC in March, 2008. An appeal before the Italian *Suprema de Cassazione* ("Court of Cassation") initiated by Codere Network and the other affected concessionaires, seeking to clarify the calculation of penalties claimed in the CdC Letter and challenging the jurisdiction of the CdC, was rejected in December 2009. In October 2010, at the request of Codere Network and the other concessionaires, the CdC commissioned Digit S.p.A., a technical consultancy company, to prepare a technical report on the causes for the late activation of the network and interconnection problems for which Codere Network and the other concessionaires were allegedly responsible. On October 10, 2011, Digit S.p.A. submitted the technical report, which disputed the alleged noncompliance by the concessionaires. On November 24, 2011, the trial on the merits of the penalties claimed in the CdC Letter was held before the CdC. On February 17, 2012, contrary to expectations, the Regional Section of the CdC ruled against all 10 AWP network concessionaires, including Codere Network. The ruling sentenced the concessionaires to pay a total of €2.5 billion, of which Codere Network is liable for €115 million plus interest.

Codere Network together with the other concessionaires will appeal the ruling before the Central Section of the CdC, based on, among others, the following grounds. First, Codere Network maintains that the ruling failed to take into account the findings of the Digit S.p.A. technical report, which disputed the alleged noncompliance by the concessionaires. Codere Network believes that such findings support Codere Network's lack of responsibility for the late activation of the network and the interconnection problems. Second, Codere Network believes that there is no evidence of loss of revenue for the state, which position is supported by the Digit S.p.A. technical report. As such, Codere Network highlights the CdC's finding that the loss sustained is incalculable, and therefore maintains that the calculations of respective penalties have been undertaken without a justifiable or well-founded basis. Third, Codere Network alleges that the amounts claimed relate to operations undertaken since inception of the network in September 2004 to 2007. As Codere Network only succeeded Rete Franco, S.p.A. as concessionaire in April 2006, Codere Network believes that any liability relating to operations before April 2006 should be borne by Rete Franco, S.p.A. In addition, Codere Network fails to understand how Sogei S.p.A. was absolved from any responsibility for the late activation of the network and the interconnection problems. If any such responsibility were to be attributed to the concessionaires, Sogei S.p.A. should be held responsible as well, thereby reducing the relative fault and corresponding penalties of the concessionaires.

The appeal of the CdC ruling of February 17, 2012 by Codere Network and the other concessionaires will suspend *ex lege* the execution of this ruling until the appeal is resolved. We expect that the trial on the appeal will be held in 2014 with judgment to follow in 2015. Codere S.A. has provided a guarantee of Codere Network's performance in favor of the AAMS in the amount of €16 million, of which €12 million is provisioned.

Request for "resa del conto"

In January 2009, the CdC requested that Codere Network file a document called "resa del conto", a form of balance sheet stating for each fiscal year the sums collected from the slot machines through the gaming operators and the sums paid to the government. The "resa del conto" is generally collected from entities that have been entitled by the government to collect taxes due by third parties. While Codere Network is not an entity entitled by the government to collect taxes due by third parties, it is an entity that is obliged to pay AAMS PREU payments. On May 11, 2009, Codere Network and the other concessionaires who received the request to submit the "resa del conto" filed motions with the CdC, contesting the designation of Codere Network as "accounting agent" and thus challenging the requirement to submit the "resa del conto". On April 23, 2010, the CdC sued Codere Network to seek the payment of a penalty of €55.3 million (corresponding to 2004 and 2005) and €34.5 million (corresponding to 2006) relating to the failure to submit the "resa del conto" and the designation of Codere Network as "accounting agent". In addition, the CdC reserved the right to calculate and seek penalties relating to the failure to submit the "resa del conto" and the designation of Codere Network as "accounting agent" corresponding to subsequent years.

Codere Network has taken part in the legal proceeding and challenged the penalties, contesting its designation as "accounting agent" and the corresponding obligation to submit the "resa del conto". On November 5, 2010, the CdC held that the prosecutor's request for the "resa del conto" was invalid and upheld Codere Network's challenges. On March 10, 2011, the prosecutor submitted an appeal against such decision. We are waiting for the trial date to be set by the CdC.

Spain

Garaipen Victoria Apustuak S.L. and two other companies were awarded three sports betting licenses in 2007 by the Basque Government for the Basque Country. Four competitors that did not obtain licenses appealed the decision before the Superior Court of Justice of the Basque Country. Garaipen Victoria Apustuak S.L. and the two other licensees submitted their arguments against the four competitors' claims. The Superior Court of Justice of the Basque Country issued three judgments rejecting three of the four appeals. However, the Superior Court of Justice of the Basque Country also issued a judgment upholding one of the four appeals, and ordered the Basque Government for the Basque Country to reconsider one of the criteria used in determining which companies were awarded the sports betting licenses. Garaipen Victoria Apustuak S.L. and the two other licensees, together with the Basque Government for the Basque Country, have appealed this decision before the Supreme Court and sought confirmation from the Supreme Court that the three sports betting licenses were validly granted.

Uruguay

On July 28, 2010, Dongara Investment Inc. requested the annulment of the concession of the Carrasco Hotel and Casino project awarded to the Carrasco Nobile S.A. consortium. Dongara Investment was the runner-up in the concession process. In addition, the plaintiff requested a preliminary injunction to cease the remodeling of the Carrasco Hotel and Casino's building.

Notwithstanding that the petitions were filed against the Municipal Government of Montevideo, which granted the concession, Carrasco Nobile S.A. voluntarily intervened in these proceedings to contribute evidence and facts supporting the conclusion that the concession process complied with applicable laws and regulations.

We expect a decision on the preliminary injunction is forthcoming and believe that the suits filed by Dongana Investments Inc. will be dismissed.

Real Property

Our principal executive offices are located at Avenida de Bruselas 26, Alcobendas, Spain.

The majority of our offices and gaming facilities are leased and the leases generally run for at least as long as the relevant gaming license in the relevant jurisdiction.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of December 31, 2011, the authorized share capital of Codere, S.A. was €11,007,294, consisting of 55,036,470 fully paid-up ordinary shares, forming part of the same series, each with a par value of €0.20. The following table sets forth information regarding the beneficial ownership of Codere, S.A. shares as of December 31, 2011.

	As of December 31, 2011	
Owner	**Number of shares beneficially owned**	**Percent**
Masampe Holding B.V.[(1)]	28,259,088	*51.3%*
José Antonio Martínez Sampedro[(2)]	6,838,261	*12.4%*
Luis Javier Martínez Sampedro[(3)]	1,396,035	*2.5%*
Encarnación Martínez Sampedro[(4)]	1,202,000	*2.2%*
Other board members	349,456	*0.6%*
Other members of management	396,337	*0.7%*
Public float	16,595,293	*30.2%*
Total	55,036,470	*100.0%*

(1) The controlling shareholder of Masampe Holding B.V., a Dutch special purpose vehicle, is José Antonio Martínez Sampedro, holding, indirectly, 75% of the shares. The remaining shares are held, indirectly, by Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro.

(2) José Antonio Martínez Sampedro is the Chairman of our Board of Directors, our Chief Executive Officer, and the brother of Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro, both of whom are members of our Board of Directors.

(3) Luis Javier Martínez Sampedro is the Executive Director of Codere América and a member of our Board of Directors.

(4) Encarnación Martínez Sampedro is the Executive Director of Codere and a member of our Board of Directors.

SPV Financings

In 2006 and 2007, Masampe Holding B.V., a Dutch special purpose vehicle (the "SPV") that is controlled by Jose Antonio Martínez Sampedro, entered into financing transactions with Credit Suisse, London Branch, under which the SPV financed (i) its acquisition and the acquisition by the Martínez Sampedro family of approximately 22.3 million Codere, S.A. shares from Jesús Franco, Joaquín Franco, ICIL and certain other shareholders, and (ii) the subscription price for 6 million Codere, S.A. shares. Under the 2007 financing transaction, the SPV borrowed €340 million from Credit Suisse, London Branch, on June 15, 2007 ("PIK Term Loan Facility") to repay amounts outstanding under the 2006 financing transaction and to make an installment payment to the Francos and ICIL arising out of the acquisition of Codere, S.A. shares from those parties.

The SPV's activities are limited to the holding of Codere, S.A. shares and certain other limited actions required or permitted under the PIK Term Loan Facility. Although Codere, S.A. is not a party to the PIK Term Loan Facility and has no financial obligations to the SPV, certain events relating to Codere, S.A., including a change of control of Codere, S.A., would require the SPV to repay any amounts outstanding under such financing. In addition, the PIK Term Loan Facility effectively limits our ability to incur debt, as it requires, subject to several important exceptions including, but not limited to, the incurrence of up to €200.0 million of debt under credit facilities, the Martínez Sampedro family to cause the Codere Group to maintain a ratio of net debt to consolidated cash flow of less than 6.5:1 pro forma for the incurrence of such additional debt.

As of December 31, 2011, the outstanding principal amount under the PIK Term Loan Facility was €531.4 million. Amounts outstanding under the PIK Term Loan Facility accrue interest at a rate per annum equal to EURIBOR for debt with a 3-month maturity plus 750 basis points. The maturity date of the PIK Term Loan Facility is December 15, 2015.