April 29, 2011

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 (THE "INDENTURE"), AMONG CODERE FINANCE (LUXEMBOURG) S.A. (THE "ISSUER"), THE GUARANTORS (AS DEFINED THEREIN) AND DEUTSCHE TRUSTEE COMPANY LIMITED, AS TRUSTEE (THE "TRUSTEE"), GOVERNING THE ISSUER'S 8 $^{1}/_{4}$% 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 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:

- "Codere Group", "Group", "Codere", "we", "us" or "our" are to Codere, S.A. and its subsidiaries;
- "AAMS" are to the *Amministrazione Autonoma dei Monopoli di Stato*, the Italian betting and gaming authority;
- "Agua Caliente" are to Hipódromo de Agua Caliente, S.A. de C.V.;
- "Argentine peso" or "AR$" are to the lawful currency of the Republic of Argentina;
- "AWP machines or "AWPs" are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as "Type-B machines") and in Italy (as "Comma 6" or "Comma 6A" machines) to be placed in bars, cafés, arcades and bingo halls;
- "Brazilian reais" are to the lawful currency of Brazil;
- "Caliente Companies" are to the Joint Opcos, the Joint Holdcos and the Excluded Caliente Companies;
- "Codere Network" are to Rete Franco, S.p.A. which we acquired from Franco Distribución, S.A. on April 28, 2006 and renamed "Codere Network S.p.A." on September 7, 2006;
- "Colombian peso" or "COP$" are to the lawful currency of Colombia;
- "Consolidated Financial Statements" mean the audited consolidated financial statements of Codere, S.A. as of and for the years ended December 31, 2009 and 2010 prepared in accordance with IFRS and included in this Report;
- "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 period depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less the gains or losses on asset disposals or acquisitions;
- "EBT" are to Electronic Bingo Terminals which are similar to U.S. Class II machines;
- "EU" are to the European Union;
- "euro" or "€" are to the lawful currency of the Member States of the European Monetary Union;
- "Excluded Caliente Companies" are to Turística Akalli, S.A. de C.V., Agua Caliente, Espectáculos Latinoamericanos Deportivos, S.A. de C.V., Grupo Océano Haman, S.A. de C.V., Operadora de Apuestas Caliente, S.A. de C.V. and Impulsora Géminis, S.A. de C.V.;
- "free cash flow" are to EBITDA less net financial revenues (loss) excluding exchange gains (losses) less corporate income tax and less total capital expenditures;
- "gaming machines" are to traditional reel spinning slots, machines with video screens and progressive jackpot machines, which include the AWP 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, which are electronic gaming machines that are specifically defined under U.S. federal law as a Class III gambling device and are typically permitted in U.S. casinos;
- "Guarantors" are to the Parent Guarantor and the Subsidiary Guarantors, collectively;

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

- "Indenture" are to the indenture governing the Notes, as amended and supplemented from time to time, dated June 24, 2005 among the Issuer, the Guarantors and Deutsche Trustee Company Limited, as trustee;

- "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 17, 2007;

- "Joint Holdcos" are to Grupo Caliente, S.A. de C.V. and Jomaharho, S.A. 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, S.A. de C.V.;

- "Mexican peso" or "Mex. Ps." are to the lawful currency of Mexico;

- "Panamanian balboas" 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;

- "Notes" are to the €760 million aggregate principal amount of 8 1/4% senior notes due 2015 issued by the Issuer on June 24, 2005, April 19, 2006, November 7, 2006 and July 22, 2010;

- "Senior Credit Facilities" are to (i) a €60 million senior revolving credit facility, (ii) a €40 million letter of credit facility and (iii) a €40 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 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;

- "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 arcades, 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.

PRESENTATION OF FINANCIAL AND OTHER DATA

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

We define "EBITDA" as operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment losses, less the gains or losses on asset disposals or acquisitions. EBITDA as presented in this Report is a supplemental measure of our performance and liquidity that is not required by, or presented in accordance with, IFRS. Furthermore, 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 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. This non-GAAP financial measure 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, such measure as we define it 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 as the nominal amount of such debt, less the fees and expenses incurred in connection with the issuance of such debt, plus the accrual of such fees and expenses over the life of such debt.

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 2011 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. 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, 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, 2009 and 2010 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2009 and 2010. The audited consolidated financial statements as of and for the years ended December 31, 2009 and 2010 have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers Auditores, S.L., our independent auditors.

	Year ended December 31,	
	2009	**2010**
	(audited)	
	(€ in millions)	
Income statement data:		
Operating revenue[1]	967.9	1,126.5
Operating expenses:		
Consumption and other external expenses[1]	71.4	74.8
Personnel expenses	174.9	204.4
Depreciation	69.7	72.7
Amortization of intangible assets	23.1	27.1
Variation in provisions for trade transactions	3.4	1.0
Impairment loss	14.0	-
Other operating expenses:	490.5	606.2
Gaming and other taxes	305.3	357.5
Machine rentals[2]	8.4	11.5
Other [2]	176.8	237.2
Total operating expenses[1]	847.0	986.2
Gains or losses on asset disposals	(4.7)	3.5
Operating profit	116.2	143.8
Financial items:		
Financial expenses	76.2	78.0
Financial revenues	7.7	8.7
Exchange gains (losses), net	10.0	1.0
Profit before tax	57.7	75.5
Corporate income tax	36.6	45.4
Profit after tax of continuing activities	21.1	30.1
Net income (loss) of discontinued operations[3]	-	1.3
Consolidated net income	21.1	31.4
Minority interests	2.0	2.1
Net income (loss)	19.1	29.3

	Year ended December 31,	
	2009	2010
	(audited) (€ in millions)	
Balance sheet data:		
Cash and cash equivalents[4]	90.2	90.6
Working capital[5]	(51.8)	(152.2)
Total assets	1,199.0	1,424.2
Total debt[6]	750.2	850.0
Shareholders' equity	41.9	106.4
Minority interests	19.6	26.6

	Year ended December 31,	
	2009	2010
	(audited) (€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities	172.8	199.4
Net cash flow used in investing activities	(86.4)	(141.3)
Net cash flow provided by financing activities	(77.6)	(62.9)
Net change in cash position	6.9	0.4

	Year ended December 31,	
	2009	2010
	(audited) (€ in millions)	
Other financial data:		
EBITDA[7]	231.1	241.1

(1) In the three months ended December 31, 2010 we changed the way we recognize revenue for the Spain Sports Betting business to conform to the same accounting principles used in our other businesses. This change affects both revenue and operating expenses (consumption and other external expenses). Beginning in the three months ended December 31, 2010, revenues for the Spain Sports Betting business are recorded net of the site owner's share, and therefore the site owner's share is no longer included in operating expenses. On a comparative basis, and assuming the business was consolidated at 100% in 2009 when it was consolidated at 50%, 2009 consolidated revenue would have been €967.5 million and operating expenses would have been €850.5 million.

(2) These line items for the twelve months ended December 31, 2009 differ from those previously reported because we include €0.6 million and €2.1 million, respectively, in Machine Rentals which were previously classified under Other.

(3) Reflects a partial reversal of the provision recorded at the time of the sale of the Italian direct AWP operations in the three months ended March 31, 2008, because expenses incurred in relation to such sale were lower than those originally estimated.

(4) Cash 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.

(5) 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).

(6) We define total debt as short and long term bonds plus short and long term payables to credit entities.

(7) We define EBITDA as operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less the 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,	
	2009	2010
	(unaudited)	
	(€ in millions)	
EBITDA	231.1	241.1
- Depreciation and amortization	92.8	99.8
- Impairment loss	14.0	-
- Variation in provisions for trade transactions	3.4	1.0
+ Gains or losses on asset disposals or acquisitions	(4.7)	3.5
Operating profit	116.2	143.8

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, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Spain and Italy. As of December 31, 2010, we managed 53,572 gaming machines, 129 bingo halls with an aggregate of 29,916 seats, 597 sport betting locations, three horse racing tracks and seven casinos. In 2010, we generated operating revenue of €1,126.5 million and EBITDA of €241.1 million.

In the Province of Buenos Aires, Argentina, as of December 31, 2010, we believe we are the largest operator of bingo halls with 14 bingo venues in which we operated 5,043 slot machine seats. In 2010, our Argentina business generated operating revenue of €461.0 million and EBITDA of €135.8 million.

In Mexico, through ICELA (our joint venture with Corporación Interamericana de Entretenimiento, S.A.B. de C.V. (“CIE”)), and our agreement with Hipódromo de Agua Caliente, S.A. de C.V. (“Agua Caliente”) (for a discussion of recent changes relating to our relationship with Agua Caliente, see “Business—Recent Developments—Approval of the Caliente Restructuring”) and our participation in Promojuegos de México S.A. de C.V. (“Promojuegos”) and Mio Games, S.A. de C.V. (“Mio” or “Mio Games”), as of December 31, 2010, we were the largest operator of gaming sites with 96 bingo halls in which we operated, 19,299 slot machines. As of December 31, 2010, we also operated 97 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City which included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2010, CIE, the Joint Opcos, Promojuegos and Mio Games held licenses to build and operate an additional 27 bingo halls. In 2010, our Mexico business generated operating revenue of €219.3 million and EBITDA of €63.6 million.

In Spain, we were the second largest operator of AWP machines with 15,347 machines in over 10,733 bars, restaurants and machine halls as of December 31, 2010. We have over 30 years of experience in operating machines in Spain and have established a large portfolio of exclusive gaming sites for our machines. In 2010, our Spain AWP business generated operating revenue of €171.8 million and EBITDA of €50.3 million.

In Italy, we are the leading bingo operator with 13 bingo halls as of December 31, 2010 and also operated AWP and VLT machines. As of December 31, 2010, we operated 2,178 AWPs, 402 VLTs and 6,071 bingo seats and 8,483 gaming machines were connected to our network in Italy. In 2010, our Italy business generated operating revenue of €137.4 million and EBITDA of €14.2 million.

Our other operations, which generated operating revenue of €136.8 million and EBITDA of €2.1 million for 2010, include:

- a bingo hall in Spain;
- 11 casinos, one racetrack and sports betting locations in Panama;
- bingo halls, slot machines and two casinos in Colombia;
- a joint venture in horse racing, four machine halls, sports betting locations and slot machines in Uruguay;

- sports betting locations in Spain;
- sports betting locations in Brazil; and
- internet gaming.

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, 2009 and 2010, prepared in accordance with IFRS.

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, Spain AWP and Italy. We also have operations in Colombia, Uruguay, Panama and Brazil that are of a smaller scale or in initial stages of development, as well as bingo operations and sports betting in Spain and internet gaming operations. A limited discussion of these operations has been included below under the heading Other Operations. We began reporting Italy, which was previously included in Other Operations, as a principal business in 2010. We expect that in the future internet gaming operations will be included in the corresponding countries and not as a separate operation under Other Operations. In addition, from January 1, 2011, we began reporting Spain AWP, Spain Bingo and Sports Betting as a combined unit under Spain. See "Business—Recent Developments—Consolidation of the Spanish business".

In 2010, our four principal businesses comprised 40.9%, 19.5%, 15.3% and 12.2% respectively, of our consolidated operating revenue and 51.1%, 23.9%, 18.9% and 5.3%, respectively, of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses). Our operations discussed under Other Operations comprised 12.1% of our consolidated operating revenue and 0.8% of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses) in 2010. 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 provides 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 are overstated to the extent of the 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 pesos and Mexican pesos and also Panamanian balboas (equivalent to the U.S. dollar), Colombian pesos, Uruguayan pesos, 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. For 2010, 40.9% and 19.5% 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 pesos and Mexican pesos, respectively, and a total of 70.1% of our operating revenue was in non-euro currencies.

During the periods under review, Latin American currencies have generally appreciated against the euro and this has had a significant impact on our financial condition and results of operations when expressed in euro. As Latin American currencies appreciate against the euro, when the results of operations of our Latin American subsidiaries are included in our Consolidated Financial Statements, the euro value of their results increases, even if, in local currency terms, their results of operations and financial condition have remained the same relative to the prior year. Accordingly, increasing 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 exchange rates of the euro relative to the Mexican peso, the Argentine peso and the U.S. dollar as at the dates indicated.

	Year ended December 31,		2009/2010 % change
	2009	2010	
Mexican peso/Euro (€1.00 = Mex. Ps.)			
Period end..	18.79	16.54	(12.0%)
Argentine peso/Euro (€1.00 = Arg. Ps)			
Period end..	5.45	5.27	(3.3%)
U.S. dollar/ Euro (1€ = U.S.$)			
Period end..	1.44	1.34	(6.9%)

The table below sets forth the average exchange rate for the years ended December 31, 2009 and 2010.

	Year ended December 31,		2009/2010 % change
	2009	2010	
Mexican peso/Euro (€1.00 = Mex. Ps.)			
Period end	18.83	16.74	(11.1%)
Argentine peso/Euro (€1.00 = Arg. Ps)			
Period end	5.22	5.19	(0.6%)
U.S. dollar/ Euro (1€ = U.S.$)			
Period end	1.39	1.32	(5.0%)

Source: Mexican Central Bank, Argentine Central Bank and Spanish Central Bank.

As at April 15, 2011, the exchange rate of the euro to the Mexican peso was €1.00 = Mex. Ps.17.00, the exchange rate of the euro to the Argentine peso was €1.00 = AR$ 5.87 and the exchange rate to the U.S.$ was €1.00 = U.S.$ 1.45

In order to mitigate part of the foreign exchange risk to which we are subject, we hedge 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. At February 25, 2011, we had in place foreign exchange forward contracts to purchase a total of U.S.$104.0 million in exchange for Argentine pesos (U.S.$25.0 million, U.S.$ 25.0 million, U.S.$ 26.0 million and U.S.$28.0 million for the quarters ended March 31, June 30, September 30, and December 31 2011, respectively), U.S.$50.0 million in exchange for Mexican pesos (U.S.$20.0 million, U.S.$15.0 million and U.S.$15.0 million for the quarters ended March 31, June 30 and September 30 2011, respectively) and €78.7 million in exchange for U.S. dollars (€18.9 million, €18.9 million, €19.7 million and €21.2 million for the quarters ended March 31, June 30, September 30, and December 31 2011). Our Argentine peso foreign exchange forward contract which matured during 2010 amounted to a net loss of €6.3

million in 2010. Realized losses on the Mexican pesos foreign exchange forward contract which matured during 2010 amounted to €4.1 million. The realized losses have been recorded as other operating revenue in our Argentine and Mexico business. Unrealized gains and losses on outstanding forward contracts are recognized as a hedging reserve in consolidated shareholder's equity.

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 €9.4 million as of April 15, 2011) and a canon tax surcharge of AR$72.3 million (equivalent to €12.3 million as of April 15, 2011). 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 April 15, 2011), and a canon tax surcharge of AR$7.2 million (equivalent to €1.2 million as of April 15, 2011). 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 instalments starting in the three months ended September 30, 2010.

Caliente management services

Through June 30, 2010 our operating revenue under the previous management services agreement with Agua Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Agua Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Agua 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 provides for an annual fee of up to U.S.$36.4 million, as well as an aggregate monthly fee of U.S.$1 million until December 31, 2010. In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Agua Caliente at cost. For further details, see "Business—Recent Developments—Approval of Caliente Restructuring".

Closure of Casino Colon in Panama

We opened Casino Colon 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 the Republic. On September 25, 2010 we reopened Casino Colon following the receipt from the JCJ of a copy of the license agreement duly executed by the Controller General of the Republic.

Purchase of 100% of Sports Betting venture

Following a strategic review by William Hill PLC 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. As a result of the purchase and as required under IFRS, we valued 100% of the assets of the 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. The amount recorded as goodwill is provisional because accounting standards allow a timeframe of one year following an acquisition to assign goodwill to assets.

Non-recurring items

In addition to the items mentioned above, we recorded non-recurring gains associated with the reversal of provisions in Mexico relating to fiscal contingencies and others (€2.1 million) and others relating to gaming taxes for previous periods in Spain AWP business (€0.5 million) and non-recurring losses associated with fiscal contingencies in Argentina and Brazil (€2.0 million), the transaction costs relating to the Caliente Restructuring and the acquisition of six casinos in Panama (€3.1 million) and other non recurring charges in other businesses (€5.9 million).

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 bingo halls with slot machines. Certain features of the Argentine regulatory scheme give rise to different economic considerations for the Argentina business's bingo business. Argentine law requires that gaming licenses be nominally awarded to Argentine non-profit organizations which, in turn, enter into agreements with gaming operators such as us. Accordingly, we are required under law to pay a percentage of amounts wagered to the non-profit license holders and have negotiated with such entities a payment of approximately 2.0% of amounts wagered. With respect to prize payouts, Argentine law requires payment as prizes of at least 58% of amounts wagered, and gaming taxes on bingo of 21% of amounts wagered.

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 bingo halls that we are able to open in Argentina or our ability to expand or relocate existing halls and Argentine regulation that limits the number of slot machines to one for every two bingo seats in any given bingo hall. 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 our sufficient size that enables us to test numerous machines at one time. The Argentina business principally purchases its slot machines. The Argentina business's slot machine operations are also affected by the payment of an average of approximately 0.1% of amounts wagered to the non-profit organizations. In addition, Argentine regulations require a higher minimum percentage of prize payouts of our slot machines of 85% of amounts wagered (we currently pay on average 94%), compared to 70-75% in Spain. Gaming taxes are 34% of net win. The operating results of the Argentina business's 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, 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 halls in which we operate gaming machines, and, in certain cases, traditional bingo. We also operate sports books, and following our acquisition of 49% of ICELA in November 2007, 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. Our Mexico business's operating revenue is also significantly affected by the locations of the halls. In general, the most desirable locations for bingo halls are in city shopping malls because of their accessibility by car or public transportation and their perception of security.

As in the case of the Argentine gaming machines business, beyond regulatory changes, the key factors that affect the results of operations of our Mexican gaming 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 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 our experience in the gaming machine business and our sufficient size that enables us to test numerous machines at one 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.

The Mexican operations are also affected by the payment of gaming taxes. The taxes applicable to the gaming businesses were originally set by the regulator under the terms of gaming licenses requiring the operation of capital intensive and unprofitable horse racetracks, and had until two years ago been low, at 0.25% and 2.0% of amounts wagered, in the case of CIE and Agua Caliente, respectively. The latter also applied to other gaming operators. Nevertheless, the Mexican government approved a federal tax on net win from gaming activities, denominated IEPS, of 20% as of January 1, 2008. This tax increased to 30% as of January 1, 2010. Under the legislation, the totality of fees currently paid to the Secretaría de Gobernación ("SEGOB"), which represent 0.25-2.00% of amounts wagered, are credited against this amount. In addition, up to 4% of state and local taxes, which currently vary between 0-6% of net win, is also credited against the new tax.

The sports 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 Agua Caliente as we only act as agent for Agua Caliente and receive a commission on all betting regardless of the outcome. Therefore the key factor affecting the sports books operating revenue is the volume of betting by visitors to Agua Caliente's sports betting locations. Betting volume is principally affected by traffic at the bingo 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.

Spain AWP

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 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 exclusivity payments or loans and advances to the site owners, which payments, loans and advances are customary in the market. The likelihood of such payments being required, and the magnitude 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 operating costs. We capitalize exclusivity payments and amortize them over the length of the contract with the site owner, which averages five years.

Italy

Our Italy business principally operates AWP machines located in third party locations, as well as gaming halls in which we offer bingo, AWP and VLT machines. The key factors that affect the results of operations of our Italy 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 machines are our ability to enter into new agreements, or renew existing agreements, with site owners and our ability to identify and undertake acquisitions, as well as the number of halls that we are able to open and our ability to expand or relocate existing halls. The average daily net win per AWP machine is most significantly affected by regulation and our ability to select high producing AWP machines and to rotate efficiently our AWP machine portfolio. In many cases, our success in entering into agreements with site owners depends on our making exclusivity payments or loans and advances to the site owners, which payments, loans and advances are customary in the market. The operating results of our Italy 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.

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 conformity with IFRS requires our management to make estimates and assumptions that affect the reported amount 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 audited consolidated annual accounts as of and for the year ended December 31, 2010

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%
Installation rights	10% - 33%
Gaming licenses	2.5%-7.1%
Leasehold assignment rights	10% - 20%
Client portfolio	4.5%
Exclusivity rights	15%-25%

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 income.

Leases under terms of 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 furnitures	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 (except the division for activities in Spain and Italy), 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 audited consolidated annual accounts as of and for the year ended December 31, 2010).

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) of our audited consolidated annual accounts as of and for the year ended December 31, 2010.

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) of our audited consolidated annual accounts as of and for the year ended December 31, 2010.

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.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange gains or losses arising on the settlement of balances arising from foreign currency transactions are recorded in the profit and loss account as they arise.

The monetary items denominated in foreign currency are converted into the corresponding operative currency at the rate of exchange at the end of the year. All the positive and negative differences of exchange, whether realized or not, are recorded in the profit and loss account under the caption "Translation differences", except the differences of exchange generated by intra-group monetary items which are considered to be part of the investment in a foreign subsidiary.

Foreign currency non-monetary items which have been measured at their historical cost value will be converted as of the transaction date. Foreign currency non-monetary items which have been measured at fair value will be converted using the exchange rate as of the date fair value is established.

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 audited consolidated annual accounts as of and for the year ended December 31, 2010 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 audited consolidated annual accounts as of and for the year ended December 31, 2010.

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 foreign exchange forward contracts which mature during the period. See "—Market Risks—Foreign Currency Risks".

Mexico. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA (our joint venture with CIE), and the directly-owned licensees (Promojuegos and Mio Games and, going forward, the Joint Opcos), as well as revenue from our management services agreement with the Joint Opcos and previously with Agua Caliente. We proportionally consolidate our 49% stake in ICELA, and we consolidate 100% of Promojuegos and Mio Games. Through June 30, 2010, our operating revenue under the previous management services agreement with Agua Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Agua Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Agua 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 provides for an annual fee of up to U.S.$36.4 million, as well as an aggregate monthly fee of U.S.$1 million through December 31, 2010. We terminated the contract pursuant to which we constructed or refurbished halls and sold them to Agua Caliente at cost. Our operating revenue also includes gains and losses from the Mexican peso forward exchange contracts which mature during the period. See "—Market Risks—Foreign Currency Risks".

Spain AWP. The Spain AWP business's operating revenue is principally derived from our AWP machine operations in Spain. This operating revenue is recorded as the total amount wagered, net of prizes (the "net box") and net of the site owner's share of the net box (usually 50% of the net box after deducting gaming taxes). Spain AWP operating revenue also includes operating revenue from sales of a small number of AWP machines to third parties and other ancillary services provided to site owners, such as agency services to site owners.

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 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. Operating revenue also includes revenues from our gaming machine operations, which includes amounts collected from AWP machines placed in non-specialized locations (for example, 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.

The following table summarizes the manner in which revenue is recognized in 2010 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, Promojuegos, Mio Games Uruguay racetrack
Less	
Site Owner[(1)]	
Equals	
Operator Revenues	Spain AWP, Colombia, Italy AWP (Indirect operation), Spain Sports Betting
Less	
Gaming Taxes	
Equals	
Operator Revenues After Gaming Taxes	Uruguay slots
Less	
Operator Expenses	
Less	
Financial Expenses	
Equals	
Profit Before Tax	Mexico Agua Caliente[(2)]
Less	
Income Tax	
Equals	
Net Profit	

(1) Share of net box to site owners.
(2) Through June 30, 2010.

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 comprises the cost of building and equipping halls sold to Agua Caliente through June 30, 2010, fees paid in connection with the use of gaming machines, expenses primarily in connection with the roll-out of gaming machines, and personnel costs related to the salaries of hall managers that we provided for Agua Caliente's halls, and food and beverages cost of sales for ICELA, Promojuegos and Mio Games. 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 machines purchased for resale in Spain AWP.

Personnel expenses. Our personnel costs 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 test. Impairment test 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. Asset disposals 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

Financial revenues. Financial revenue principally comprises other interests, income from marketable securities and noncurrent loans. It also includes the accrual (based on a five year repayment period) of the difference between the present value at the date of sale and the nominal value of the sales of gaming halls to Agua Caliente that we built or refurbished under our previous management services agreement with Agua Caliente through July 1, 2010.

Financial expenses. Financial expenses principally comprise interest paid on our outstanding indebtedness and variation in provisions for decline in value of financial investments.

Exchange gains (losses). Exchange gains (losses) principally comprise gains and losses recorded upon translation of non-euro assets and liabilities into euros.

Corporate income tax

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

For Spanish tax purposes, in 2010, 26 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).

The statutory corporate income tax rate in Spain is 30% as of the date of this Report. 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. There are 23 Italian companies that 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.

Minority interest

Minority interest comprises 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, minority interest was principally attributable to our subsidiaries in Spain and Argentina.

Results of Operations

The following table sets forth, by principal business and for our Other Operations, operating revenue, operating expenses, operating profit and EBITDA for the years ended December 31, 2009 and 2010 prepared in accordance with IFRS:

	Year ended December 31,		
	2009	2010	% change
	(€ in millions, except percentages)		
Operating Revenue:			
Argentina	351.9	461.0	*31.0%*
Mexico	193.1	219.3	*13.6%*
Spain AWP	176.6	171.8	*(2.7%)*
Italy[1]	130.7	137.4	*5.1%*
Other Operations:			
Spain Bingo	22.8	21.9	*(3.9%)*
Spain Sports Betting[2]	3.4	5.3	*55.9%*
Internet gaming[3]	-	-	*n.a.*
Brazil	2.3	2.9	*26.1%*
Colombia	23.1	27.5	*19.0%*
Panama	48.0	62.3	*29.8%*
Uruguay	14.9	16.9	*13.4%*
Corporate Overhead	1.1	0.2	*(81.8%)*
Total[2]	**967.9**	**1,126.5**	***16.4%***

	Year ended December 31,		
	2009	2010	% change
	(€ in millions, except percentages)		
Operating Expenses:			
Argentina	255.9	342.0	*33.6%*
Mexico	152.0	174.9	*15.1%*
Spain AWP	165.0	152.4	*(7.6%)*
Italy[1]	124.5	131.2	*5.4%*
Other Operations:			
Spain Bingo	23.7	22.1	*(6.8%)*
Spain Sports Betting[2]	7.3	18.0	*146.6%*
Internet gaming[3]	-	2.7	*n.a.*
Brazil	3.1	5.7	*83.9%*
Colombia	37.3	25.6	*(31.4%)*
Panama	46.9	68.4	*45.8%*
Uruguay	12.7	15.7	*23.6%*
Corporate Overhead	18.6	27.5	*47.8%*
Total[2]	**847.0**	**986.2**	***16.4%***

	Year ended December 31,		
	2009	2010	% change
	(€ in millions, except percentages)		
Operating Profit (Loss):			
Argentina	96.0	119.0	*24.0%*
Mexico	41.0	44.7	*9.0%*
Spain AWP	9.1	17.2	*89.0%*
Italy(1)	5.6	6.0	*7.1%*
Other Operations:			
Spain Bingo	(0.9)	(0.2)	*n.a.*
Spain Sports Betting(2)	(4.0)	(7.3)	*(82.5%)*
Internet gaming(3)	-	(2.7)	*n.a.*
Brazil	(0.8)	(2.8)	*n.a.*
Colombia	(15.6)	1.9	*112.2%*
Panama	1.1	(6.2)	*n.a.*
Uruguay	2.2	1.3	*(40.9%)*
Corporate Overhead	(17.5)	(27.1)	*(54.9%)*
Total(2)	**116.2**	**143.8**	***23.8%***

	Year ended December 31,		
	2009	2010	% change
	(unaudited)		
	(€ in millions, except percentages)		
EBITDA:			
Argentina	110.1	135.8	*23.3%*
Mexico	60.5	63.6	*5.1%*
Spain AWP	44.5	50.3	*13.0%*
Italy(1)	15.3	14.2	*(7.2%)*
Other Operations:			
Spain Bingo	0.3	1.1	*n.a.*
Spain Sports Betting(2)	(3.0)	(6.9)	*n.a.*
Internet gaming(3)	-	(2.7)	*n.a.*
Brazil	(0.1)	(2.1)	*n.a.*
Colombia	4.6	5.4	*17.4%*
Panama	10.1	4.1	*(59.4%)*
Uruguay	3.8	3.2	*(15.8%)*
Corporate Overhead	(15.0)	(24.9)	*n.a.*
Total(2)	**231.1**	**241.1**	***4.3%***

(1) Includes Italy AWP and Italy Bingo, which in 2009 were included in Other Operations.

(2) In the three months ended December 31, 2010 we changed the way we recognize revenue for the Spain Sports Betting business to conform to the same accounting principles used in our other businesses. This change affects both revenue and operating expenses (consumption and other external expenses). Beginning in the three months ended December 31, 2010, revenues for the Spain Sports Betting business are recorded net of the site owner's share, and therefore the site owner's share is no longer included in operating expenses. On a comparative basis, and assuming the business was consolidated at 100% in 2009 when it was consolidated at 50%, 2009 consolidated revenue would have been €967.5 million and operating expenses would have been €850.5 million.

(3) Includes primarily research and development costs associated with internet gaming operations launched in Italy in November 2010.

Group Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Operating Revenue

Operating revenue increased by €158.6 million, or 16.4%, to €1,126.5 million in 2010 from €967.9 million in 2009. The increase was principally attributable to: Argentina (€109.1 million) due to an increase in the net win per machine per day and in the number of machines installed, and the absence of the revenue decrease registered in 2009 due to the impact of the H1N1 virus in the three months ended September 30, 2009, partially offset by the losses on the foreign exchange contracts which matured during the period; Mexico (€26.2 million) due to the appreciation of the Mexican peso against the euro compared to 2009, the absence of the revenue decrease registered in 2009 due to the impact of the H1N1 virus in the three months ended June 30, 2009 and the increase in the machine portfolio, partially offset by the losses on the foreign exchange contracts which matured during the period, and the lower sales to Agua Caliente, which were terminated in connection with the Caliente Restructuring; Panama (€14.3 million) due to the consolidation of the six casinos that we acquired (beginning September 1, 2010), the appreciation of the U.S. dollar against the euro compared to 2009, partially offset by the temporary closure of Casino Colon (June 1, 2009 to September 25, 2010); Italy (€6.7 million) due to the increase in net win per machine per day, the consolidation of the Caserta hall (beginning October 2010), and the roll-out of the VLTs (beginning October 2010), partially offset by a decrease in bingo revenues as a result of an increase in the prize payout (revenues are net of prizes). This increase was partially offset by a decrease in Spain AWP (€4.8 million) due to the decrease in the portfolio installed, and to a lesser extent, to the decrease in the number of machines sold to third parties.

Operating Expenses

Operating expenses increased by €139.2 million, or 16.4%, to €986.2 million in 2010 from €847.0 million in 2009. The increase was principally attributable to: Argentina (€86.1 million) principally due to the increase in gaming taxes associated with the increased commercial activity and the canon tax surcharge associated with the renewals of the La Plata, Puerto and San Martin licenses, to higher operating costs related to the increase in the number of machines installed, including personnel, and inflation, as well as the appreciation of the Argentine peso against the euro compared to the comparable period in 2009; Mexico (€22.9 million) due to the appreciation of the Mexican peso and the increase in installed capacity in ICELA and Promojuegos, partially offset by the lower sales to Agua Caliente, which were terminated in connection with the Caliente Restructuring; Panama (€21.5 million) due primarily to the consolidation of the six casinos that we acquired, the appreciation of the U.S. dollar against the euro, the increase in gaming tax beginning in the three months ended March 31, 2010 and the €4.0 million non-recurring charges recorded in the period; and Spain Sports Betting (€10.7 million) due primarily to the consolidation of 100% of the business, compared to 50% in 2009 and to the increase in the number of betting locations, including the start up of the business in Navarra (beginning in October 2010). The increase was partially offset by the decrease in costs in: Spain AWP (€12.6 million) due to cost reduction initiatives (including the absence of non-recurring charges associated with the restructurings recorded in 2009), a decrease in gaming taxes associated with the decrease in the number of machines installed, and the reduction in the number of machines sold to third parties; Colombia (€11.7 million) due to the absence of a €14.0 million impairment charge recorded in the three months ended December 31, 2009, partially offset by the appreciation of the Colombian peso against the euro.

Gains or losses on asset disposals or acquisitions

Results on asset disposals or acquisitions increased from a loss of €4.7 million in 2009 to a gain of €3.5 million in 2010 primarily as a result of the consolidation of 100% of the Sports Betting business (€7.5 million) following the purchase of William Hill's 50% stake in January 2010. See "—Factors Affecting the Comparability of Our Results of Operations—Purchase of 100% of Sports Betting venture".

Operating Profit

Operating profit increased by €27.6 million, or 23.8%, to €143.8 million in 2010 from €116.2 million in 2009. Operating margin increased to 12.8% in 2010 from 12.0% in 2009.

EBITDA

EBITDA increased by €10.0 million, or 4.3%, to €241.1 million in 2010 from €231.1 million in 2009. The increase in EBITDA was principally attributable to: Argentina (€25.7 million) attributable to the increase in the number of machines and the daily net win, the absence of the EBITDA decrease registered in 2009 due to the impact of the H1N1 virus, partially offset by the increases in gaming tax associated with license renewals and the losses on the foreign exchange contracts which matured during the period, compared to gains in the comparable period in 2009; Spain AWP (€5.8 million) primarily as a result of cost reduction initiatives; and Mexico (€3.1 million) principally attributable to the increase in the number of machines, the increase in the daily net win per machine in ICELA and the absence of the EBITDA decrease registered in 2009 due to the impact of the H1N1 virus. This increase was partially offset by the decrease in Panama (€6.0 million) mainly attributable to the closure of Casino Colon (June 1, 2009 to September 25, 2010), the increase in gaming taxes in the three months ended March 31, 2010 and the €4.0 million non-recurring expenses recorded in 2010, and by the increase in Corporate Overhead (€9.9 million) principally attributable to the absence of €10.2 million non-recurring provision reversal in the three months ended December 31, 2009 associated with the Ballesteros litigation. EBITDA margin decreased to 21.4% from 23.9% in 2009.

Financial Revenues

Financial revenues in 2010 increased by €1.0 million, or 13.0%, to €8.7 million from €7.7 million in 2009.

Financial Expenses

Financial expenses increased by €1.8 million, or 2.4%, to €78.0 million in 2010 from €76.2 million in 2009. The increase was principally attributable to: the interest accrued on the €100 million of Notes issued in July 2010, costs associated with the early renewal of the Senior Credit Facility; the absence of €2.5 million in non-recurring, non-cash charge recorded in 2009 in Spain AWP, and financial expenses associated with the debt assumed in the acquisition of the six casinos in Panama (consolidated beginning September 2010).This increase was partially compensated by the lower debt outstanding under the Senior Credit Facility, lower interest paid in Colombia due to the amortization of its debt in May 2010, and lower debt balances in Italy.

Exchange gains (losses), net

Exchange gains (losses), which reflect the impact of changes in exchange rates on balances in foreign currencies, decreased by €9.0 million to a gain of €1.0 million in 2010, from €10.0 million in 2009 due to absence in 2010 of the volatility of the Argentine and Mexican pesos against the U.S. dollar experienced in 2009, which resulted in significant gains in 2009. In 2010 the €13.7 million gains recorded in the first half of 2010 which resulted from the appreciation of the U.S. dollar against the euro, were largely offset by the combination of €13.4 million losses recorded in the three months ended September 30, 2010 resulting from the appreciation of the euro against the U.S. dollar, and remained relatively flat in the three months ended December 31, 2010 as a result of the relative stability in the U.S. dollar/euro exchange rate in the quarter.

Corporate Income Tax

Corporate income tax increased by €8.8 million to €45.4 million in 2010 from €36.6 million in 2009. The increase was principally attributable to the increase in profit before tax in Argentina, which resulted in an increase in corporate taxes of €6.6 million, a non-cash, non-recurring cost of €3.9 million related to the restructuring implemented in our Mexican subsidiaries associated with the Caliente Restructuring, and the absence, in 2010, of the positive effect of the activation of net operating losses of €11.2 million in Mexico and Italy recorded in 2009. This increase was partially offset by a reduction of taxes in Mexico (ICELA) and Panama resulting from tax optimization initiatives and the activation of deferred tax assets in Italy, and of net operating losses in Spain Sports Betting, Uruguay, Mexico (Promojuegos) and Colombia, totaling €6.4 million.

Minority Interest

Minority interest increased by €0.1 million, or 5.0%, to €2.1 million in 2010 from €2.0 million in 2009. This increase is primarily attributable to greater minority interest in Spain AWP and Panama, partially offset by minority interest in Sports Betting as a result of the consolidation of 100% of the business, which is currently loss making, in 2010.

Net Income

As a result of the foregoing, net income increased by €10.2 million, or 53.4%, to €29.3 million in 2010 from €19.1 million in 2009.

Results of Operations by Business

Argentina

	Year ended December 31,		
	2009	**2010**	**% change**
	(€ in millions, except percentages) (unaudited)		
Operating revenue	351.9	461.0	*31.0%*
Operating expenses:			
Consumption and other external expenses	6.7	10.1	*50.7%*
Personnel expenses	51.3	68.4	*33.3%*
Depreciation	12.2	14.0	*14.8%*
Amortization of intangible assets	1.9	2.8	*47.4%*
Other operating expenses	183.8	246.7	*34.2%*
Gaming and other taxes	140.9	194.2	*37.8%*
Machine rentals	0.1	0.1	*0.0%*
Others	42.8	52.4	*22.4%*
Total operating expenses	255.9	342.0	*33.6%*
Operating profit	96.0	119.0	*24.0%*
EBITDA	110.1	135.8	*23.3%*

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. It also reflects gains or losses from Argentine peso forward foreign exchange contracts which mature during the period. Operating revenue increased by €109.1 million, or 31.0%, to €461.0 million in 2010 from €351.9 million in 2009, which was principally attributable to the increase in the number of machines (partially as a result of the expansion of the Ramos Mejia Hall which added 172 machine seats), the absence of the revenue decrease registered in 2009 due to the impact of the H1N1 virus, the increase in the net win per day primarily as a result of the installation of the TITO and other coinless systems, and to a lesser extent, the appreciation of the Argentine peso against the euro. At a constant exchange rate, and excluding the gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €463.5 million in 2010, representing an increase of 31.9% compared to 2009. Losses on the forward foreign exchange contracts which matured during the period were €6.3 million, compared to gains of €0.5 million in 2009.

Operating expenses increased by €86.1 million, or 33.6%, to €342.0 million in 2010 from €255.9 million in 2009. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses,* which principally include food and beverage cost of sales, increased by €3.4 million, or 50.7%, to €10.1 million in 2010 from €6.7 million in 2009, due primarily to an increase in the sale of food and beverages in the halls, as well as the price of goods sold.

- *Personnel Expenses* increased by €17.1 million, or 33.3%, to €68.4 million in 2010 from €51.3 million in 2009, principally due to increases in payroll resulting from inflation as well as personnel increases associated with an increase in the number of machines.

- *Depreciation* increased by €1.8 million, or 14.8%, to 14.0 million in 2010 from €12.2 million in 2009, due primarily to the increase in the portfolio and the appreciation of the Argentine peso against the euro.

- *Amortization* increased by €0.9 million, or 47.4%, to €2.8 million in 2010 from €1.9 million in 2009 due primarily to the recording of the San Martin and Puerto license renewals in the three months ended December 31, 2009 and the appreciation of the Argentine peso against the euro.

- *Other Operating Expenses,* which include gaming and other taxes, marketing expenses, and payments to the non-profit organizations that nominally hold the licenses to operate the halls, increased by €62.9 million, or 34.2%, to €246.7 million in 2010 from €183.8 million in 2009. The increase is principally attributable to an increase in gaming tax related to: the absence of the €4.2 million provision reversal associated with the La Plata renewal recorded in the three months ended December 31,2009; the increase in commercial activity as a result of the increase in the number of machines installed and in the daily net win per machine; and the canon tax surcharge associated with the renewal of the San Martin and Puerto licenses which we began recording in the three months ended September 30, 2010; as well as a non-recurring provision of €1.0 million recorded in 2010 relating to a potential fiscal contingency.

Operating Profit increased by €23.0 million, or 24.0% to €119.0 million in 2010 from €96.0 million in 2009. Operating margin decreased to 25.8% in 2010 from 27.3% in 2009.

EBITDA increased by €25.7 million, or 23.3%, to €135.8 million in 2010 from €110.1 million in 2009. The increase is principally attributable to an increase in the commercial activity (higher daily net win and number of machines installed), as well as the absence in 2010 of the negative impact of H1N1 virus in the three months ended September 30, 2009 (€6.0 million), and the appreciation of the Argentine peso against the euro, and was partially offset by the absence of the €4.2 million provision reversal associated with the La Plata license renewal recorded in the three months ended December 31, 2009. At a constant exchange rate (and adjusted to eliminate the losses on the foreign currency contracts which matured during the corresponding periods) EBITDA would have been €141.0 million in 2010, representing an increase of 28.7% compared to 2009. EBITDA margin decreased to 29.5% in 2010 from 31.3% in 2009.

Mexico

	Year ended December 31,		
	2009	**2010**	**% change**
	(€ in millions, except percentages) (unaudited)		
Operating revenue	193.1	219.3	*13.6%*
Of which sales to Caliente	12.7	2.5	*(80.5%)*
Operating expenses			
Consumption and other external expenses	48.8	46.0	*(5.7%)*
Of which sales to Caliente	15.2	3.0	*(80.5%)*
Personnel expenses	17.6	24.3	*38.1%*
Depreciation	16.0	15.7	*(1.9%)*
Amortization of intangible assets	3.2	3.5	*9.4%*
Variation in provisions for trade transactions	0.2	-	*(100.0%)*
Other operating expenses:	66.2	85.4	*29.0%*
Gaming and other taxes	10.5	13.3	*26.7%*
Machine rentals (1)	8.1	11.1	*37.0%*
Other(1)	47.6	61.0	*28.2%*
Total operating expenses	152.0	174.9	*15.1%*
Gains or losses on asset disposals	(0.1)	0.3	*n.a.*
Operating profit	41.0	44.7	*9.0%*
EBITDA	60.5	63.6	*5.1%*

(1) These line items for 2009 differ from those previously reported because we include €2.1 million in Machine Rentals which were previously classified under Other.

Operating Revenue includes our participation in the operating companies of ICELA (our joint venture with CIE), and the directly-owned licensees (Promojuegos and Mio Games), as well as revenue from our previous management services agreement with Agua Caliente. We proportionally consolidate our 49% stake in ICELA, and, for 2010, we consolidated 100% of Promojuegos and Mio Games. Through June 30, 2010, our operating revenue under the previous management services agreement with Agua Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Agua Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on 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 provides for an annual fee of up to U.S.$36.4 million, as well as an aggregate monthly fee of U.S.$1 million through December 31, 2010, and we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Agua Caliente at cost. Our operating revenue also includes gains and losses from the Mexican peso forward exchange contracts which mature during the period.

Operating revenue increased by €26.2 million, or 13.6%, to €219.3 million in 2010 from €193.1 million in 2009. The increase is principally attributable to: the appreciation of the Mexican peso against the euro, the increase in the number of machines installed in ICELA and Promojuegos and in the net win in ICELA, as well as the absence of the revenue decrease registered in 2009 due to the impact of the H1N1 virus in the three months ended June 30, 2009. This increase has been partially offset by lower sales to Agua Caliente as a result of the Caliente Restructuring, the implementation of anti-tobacco regulation in states other than the Federal District since the three months ended September 30, 2009 and the losses on the foreign exchange contracts which matured during the period compared to gains on the contracts which matured in 2009. At a constant exchange rate, and excluding the gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €198.1 million in 2010, representing an increase of 4.4% compared to 2009. Losses on the foreign exchange contracts which matured during the period were €4.1 million, compared to gains of €3.3 million in 2009.

Operating expenses increased by €22.9 million, or 15.1%, to €174.9 million in 2010 from €152.0 million in 2009. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*, which include the cost of building out and equipping the halls sold to Agua Caliente (through June 30, 2010), fees paid in connection with the use of machines, expenses primarily in connection with the roll-out of machines, and personnel costs related to the salaries of hall managers whom we provide for Caliente's halls, and food and beverage cost of sales for ICELA, Promojuegos and Mio Games, decreased by €2.8 million, or 5.7%, to €46.0 million in 2010 from €48.8 million in 2009, due primarily to the lower sales to Agua Caliente as a result of the Caliente Restructuring and was partially offset by the increase in sales of food and beverages compared to 2009 (associated in part with the reduced costs in 2009 resulting from the impact of the H1N1 virus in the three months ended June 30, 2009) and to the appreciation of the Mexican peso against the euro.

- *Personnel Expenses* increased by €6.7 million, or 38.1% to €24.3 million in 2010 from €17.6 million in 2009 primarily due to the increase in the installed capacity in ICELA and to the appreciation of the Mexican peso against the euro.

- *Depreciation,* which includes the investment in halls operated by ICELA, Promojuegos and Mio Games, as well as the racetrack and the convention center and the capitalized leases associated with the IGT machines (in ICELA), decreased by €0.3 million, or 1.9% to €15.7 million in 2010 from €16.0 million in 2009. The decrease was principally attributable to the re-estimation of the useful life of some assets of ICELA and was partially offset by the appreciation of the Mexican peso against the euro.

- *Amortization*, which primarily includes the amortization of the licenses for the ICELA halls, increased by €0.3 million, or 9.4%, to €3.5 million in 2010 from €3.2 million in 2009 due primarily to the appreciation of the Mexican peso against the euro.

- *Other Operating Expenses* increased by €19.2 million, or 29.0% to €85.4 million in 2010 from €66.2 million in 2009 principally due to: the appreciation of the Mexican peso, the increase in the number of machines installed in ICELA and Promojuegos, the increase in gaming taxes, the decreased operating costs in 2009 associated with the impact of the H1N1 virus, and the recording of non-recurring charge of €1.2 million associated with the Caliente Restructuring in the second and third quarters of 2010. These increases were partially offset by the non-recurring reversal of a fiscal contingency in ICELA (€0.9 million) and of a provision (€1.2 million) in the three months ended December 31, 2010.

Gains or losses on asset disposals In 2010, we registered a gain of €0.3 million from a loss of €0.1 million in 2009.

Operating Profit increased by €3.7 million, or 9.0% to €44.7 million in 2010 from €41.0 million in 2009. Operating margin decreased to 20.4% in 2010 from 21.2% in 2009.

EBITDA increased €3.1million, or 5.1%, to €63.6 million in 2010 from €60.5 million in 2009 primarily due to the appreciation of the Mexican peso against the euro, the absence, in 2010, of the negative impact of the H1N1 virus in 2009 (€3.5 million), the lower sales to Agua Caliente and the increase in the net win per machine per day in ICELA. This increase was partially offset by losses on the foreign exchange contracts which matured during the period compared to gains in 2009, the increase in gaming taxes and the implementation of anti-tobacco regulation in states other than the Federal District since the three months ended September 30, 2009. At a constant exchange rate (and adjusted to eliminate the gains and losses on the foreign currency contracts) EBITDA would have been €60.0 million in 2010, an increase of 4.9% compared to 2009. EBITDA margin decreased to 29.0% in 2010 from 31.3% in 2009.

Spain AWP

	Year ended December 31,		
	2009	**2010**	**% change**
	(€ in millions, except percentages) (unaudited)		
Operating revenue	176.6	171.8	*(2.7%)*
Operating expenses:			
Consumption and other external expenses	9.5	6.7	*(29.5%)*
Personnel expenses	37.6	33.1	*(12.0%)*
Depreciation	15.9	15.2	*(4.4%)*
Amortization of intangible assets	14.4	13.7	*(4.9%)*
Variation in provisions for trade transactions	2.6	2.0	*(23.1%)*
Other operating expenses:	85.0	81.7	*(3.9%)*
Gaming and other taxes	61.3	59.6	*(2.8%)*
Machine rentals	0.1	0.1	*0.0%*
Others	23.6	22.0	*(6.8%)*
Total operating expenses	165.0	152.4	*(7.6%)*
Gains or losses on asset disposals	(2.5)	(2.2)	*n.a.*
Operating profit	9.1	17.2	*89.0%*
EBITDA	44.5	50.3	*13.0%*

Operating Revenue decreased by €4.8 million, or 2.7%, to €171.8 million in 2010 from €176.6 million in 2009, as a result of a decrease in the number of machines installed, as well as a decrease in the number of machines sold to third parties. We had 15,347 machines in Spain as of December 31, 2010, compared to 15,587 as of December 31, 2009. In 2010 we entered into new contracts for the placement of 1,593 machines in bars, restaurants and other establishments. In 2010, contracts related to 1,451 machines expired or were otherwise terminated. The net win per day per machine was €49.2 in 2010, which was the same in 2009. We believe that the maintenance of the net win per machine per day resulted from the continuous renewal and rotation of the machine portfolio and the positive effect from regulatory changes in Madrid and the Basque Region which compensated the adverse macroeconomic conditions.

Operating Expenses decreased by €12.6 million, or 7.6%, to €152.4 million in 2010 from €165.0 million in 2009. The key changes in operating expenses were as follows:

- *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 machines purchased for resale. Consumption and other external expenses decreased by €2.8 million, or 29.5%, to €6.7 million in 2010 from €9.5 million in 2009 principally attributable to the decrease in payments to machine operators and in the costs related to ancillary services.

- *Personnel Expenses* decreased by €4.5 million, or 12.0%, to €33.1 million in 2010 from €37.6 million in 2009. The decrease is principally attributable to a reduction in personnel in 2010 compared to 2009 and by lower restructuring expenses recorded in 2010 (€0.3 million) compared to 2009 (€2.3 million).

- *Depreciation* decreased by €0.7 million, or 4.4%, to €15.2 million in 2010 from €15.9 million in 2009. This decrease is attributable to the lower number of machines installed.

- *Amortization* decreased by €0.7 million, or 4.9% to €13.7 million in 2010 from €14.4 million in 2009 as a result of the reduction in exclusivity payments to bar owners associated with the change, in the three months ended January 31, 2009 from up-front payments to payments conditional on the performance of the machines at the bars.

- *Other Operating Expenses* decreased by €3.3 million, or 3.9%, to €81.7 million in 2010 from €85.0 million in 2009 principally due to: a decrease in gaming taxes as a result of the decrease in the number of machines installed, a provision reversal of €0.5 million in the three months ended January 31, 2010 associated with gaming taxes for previous periods, and cost reduction initiatives.

Losses on asset disposals decreased by €0.3 million from a loss of €2.5 million in 2009 to a loss of €2.2 million in 2010.

Operating Profit increased by €8.1 million, or 89.0%, to €17.2 million in 2010 from €9.1 million in 2009. Operating margin increased to 10.0% in 2010 compared to 5.2% in 2009

EBITDA increased by €5.8 million, or 13.0%, to €50.3 million in 2010 from €44.5 million in 2009 principally due to cost reduction initiatives implemented in recent years. EBITDA margin increased to 29.3% in 2010 from 25.2% in 2009.

Italy

	Year ended December 31,		
	2009	**2010**	**% change**
	(€ in millions, except percentages) (unaudited)		
Operating revenue	130.7	137.4	*5.1%*
Operating expenses:			
Consumption and other external expenses	1.7	2.3	*35.3%*
Personnel expenses	24.0	28.0	*16.7%*
Depreciation	8.2	7.9	*(3.7%)*
Amortization of intangible assets	0.8	1.2	*50.0%*
Variation in provisions for trade transactions	0.1	(1.1)	*n.a.*
Other operating expenses	89.7	92.9	*3.6%*
Gaming and other taxes	70.5	65.0	*(7.8%)*
Others	19.2	27.9	*45.3%*
Total operating expenses	124.5	131.2	*5.4%*
Gains or losses on asset disposals	(0.6)	(0.2)	*n.a.*
Operating profit	5.6	6.0	*7.1%*
EBITDA	15.3	14.2	*(7.2%)*

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 bingo 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 our machine operation, which includes amounts collected from AWP machines placed in non-specialized locations (for example, 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 increased by €6.7 million, or 5.1%, to €137.4 million in 2010 from €130.7 million in 2009, due to an increase in the daily net win per machine per day (following the introduction of a new type of machine, the Comma 6a), as well as the beginning of the deployment of VLTs and the incorporation the Caserta Hall, acquired in the three months ended December 31, 2010. This increase was partially offset by the bingo business where the increase in the number of cards sold due to the more attractiveness of the game was offset by a decrease in bingo revenues resulting from the increase in the prize payout (from 58% to 70%) following the regulatory change introduced in November 2009, as revenues are reported net of prizes.

Operating Expenses increased by €6.7 million, or 5.4%, to €131.2 million in 2010 from €124.5 million in 2009. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses* which principally includes food and beverage cost of sales in our bingo halls. Consumption and other external expenses increased by €0.6 million, or 35.3%, to €2.3 million in 2010 from €1.7 million in 2009 mainly attributable to increased food and beverage sales.

- *Personnel Expenses* increased by €4.0 million, or 16.7%, to €28.0 million in 2010 from €24.0 million in 2009. The increase is principally attributable to an increase in personnel associated with an increase in the number of bingo cards sold as well as the roll-out of the VLTs.

- *Depreciation* decreased by €0.3 million, or 3.7% to €7.9 million in 2010 in from €8.2 million in 2009 principally attributable to the increase in the useful life of certain components of the network and the machines, the latter associated with the renewal of the portfolio associated with the change to the Comma 6a.

- *Amortization* increased by €0.4 million, or 50.0%, to €1.2 million in 2010 in from €0.8 million in 2009. The increase is mainly derived from the amortization of software applications related to the deployment of the VLTs, and the amortization of the VLTs licenses which we began operating in 2010.

- *Variation in provisions for trade transactions,* resulted in a cost decrease of €1.2 million, as a result of the difference between a reversal of provisions for trade transactions of €1.1 million recorded in 2010 (principally attributable to €1.3 million in provisions related to amounts due from AWP operators to the network and the AAMS, which have been, or are expected to be recovered in the near future); compared to a €0.1 million provision recorded in 2009.

- *Other Operating Expenses* increased by €3.2 million, or 3.6%, to €92.9 million in 2010 from €89.7 million in 2009 principally due to the absence, in 2010, of a €6.0 million provision reversal in Codere Network recorded in the three months ended September 30, 2009 relating to the reversal of 0.5% of the Codere Network service fee provision, the increase in costs associated to the deployment of VLTs, and the increase in gaming taxes due to the increase in the net win per machine per day; partially offset by lower gaming taxes in bingo as a result of regulatory changes in November 2009.

Losses on asset disposals decreased by €0.4 million from a loss of €0.6 million in 2009 to a loss of €0.2 million in 2010.

Operating Profit increased by €0.4 million to €6.0 million in 2010 from €5.6 million in 2009. Operating margin increased to 4.4% in 2010 from 4.3% in 2009.

EBITDA decreased by €1.1 million, or 7.2%, to €14.2 million in 2010 from €15.3 million in 2009 principally due to the absence, in 2010, of a €6.0 million provision reversal in Codere Network recorded in the three months ended September 30, 2009 relating to the reversal of 0.5% of the Codere Network service fee provision, partially offset by the increase in amounts wagered in bingo, the decrease in the gaming tax in bingo, and the increase in the net win per machine per day, and the launch of the VLTs. EBITDA margin decreased to 10.3% in 2010 from 11.7% in 2009.

Other Operations

Other Operations includes the results of our operations in Panama, Uruguay, Colombia, Brazil, Spain Bingo, Spain Sports Betting and Internet gaming, but excludes Corporate Overhead.

Operating revenue increased by €22.3 million, or 19.5%, to €136.8 million in 2010 from €114.5 million in 2009 principally attributable to the increase in: Panama (€14.3 million) due primarily to the consolidation of the six casinos that we acquired (consolidated beginning September 1, 2010), and to the appreciation of the U.S. dollar against the euro, partially offset by the temporary closure of Casino Colon (from June 1, 2009 to September 25, 2010); Colombia (€4.4 million) due to the appreciation of the Colombian peso against the euro; Uruguay (€2.0 million) mainly due to the appreciation of the Uruguayan peso against the euro as well as the increase of the daily net win per machines and the number of machines installed; and Spain Sports Betting (€1.9 million) associated with progressive build-out of the operations, including the launch of the business in Navarra (October 2010) and the consolidation of 100% of the business from January 2010 following the purchase of William Hill's 50% stake. This increase was partially offset by the decrease in Spain Bingo (€0.9 million) due to a decrease in the number of bingo cards sold related to the adverse macroeconomic situation.

Operating Expenses increased by €27.2 million, or 20.8%, to €158.2 million in 2010 from €131.0 million in 2009 mainly attributable to: Panama (€21.5 million) due to the consolidation of the six casinos that we acquired in Panama, the appreciation of the U.S. dollar against the euro, the increase in gaming tax since the three months ended January 31, 2010 and the €4 million non-recurring expenses associated with the casino acquisition and, the re-opening of Casino Colon, among others; Spain Sports Betting (€10.7 million) associated with the 100% consolidation of the business from January 2010, the increase in the number of sports betting locations and the recording in the three months ended December 31, 2010 of a €2.8 million charge associated with the accelerated amortization of certain assets; Uruguay (€3.0 million) due to the appreciation of the Uruguayan peso against the euro and costs associated with the Carrasco project; and Internet gaming (€2.7 million) due to the resources dedicated to the project development. This increase is partially offset by the decrease in costs in Colombia (€11.7 million) due to the absence of the impairment recorded in the three months ended December 31, 2009 (€14.0 million) partially offset by the appreciation of the Colombian peso against the euro, and in Spain Bingo (€1.6 million) principally as a result of the decrease in personnel expenses and by the difference between the non-recurrent restructuring charges of €0.9 million recorded in 2009 compared to €0.2 million registered in 2010.

Gains or losses on asset disposals or acquisitions resulted in a gain of €5.5 million in 2010 compared to a loss of €1.5 million in 2009, primarily as a result of the adjustment in the Sports Betting business (€7.5 million) as a result of the consolidation of 100% of the Sports Betting business in January 2010 following the purchase of William Hill's 50% stake. This gain is partially offset by losses on assets disposals in the same business unit (€1.0 million).

Operating profit or loss increased by €2.0 million to a loss of €16.0 million in 2010 from a loss €18.0 million in 2009.

EBITDA decreased by €13.6 million, or 86.6%, to €2.1 million 2010 from €15.7 million in 2009.

Liquidity and Capital Resources

Liquidity

To date, our and our subsidiaries' liquidity needs have been met principally from proceeds from the offerings of 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, 2009 and 2010.

	As at December 31,	
	2009	**2010**
	(audited) **(€ in millions)**	
Short term debt payable to credit institutions	20.3	37.2
Other current liabilities[1]	241.6	289.3
Total current liabilities	261.9	326.5
Long term debt payable to credit institutions	68.5	61.0
Other long term liabilities[2]	826.8	930.3
Total long term liabilities	895.3	991.3
Total liabilities	1,157.2	1,317.8

(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.

Historical Cash Flows

The following is our consolidated cash flow statement under IFRS for the years ended December 31, 2009 and 2010.

	Year ended December 31,	
	2009	2010
	(audited) (€ in millions)	
Cash flow from continuing operations:		
Operating profit	116.2	143.8
Expenses that do not represent cash movements:		
Depreciation and amortization	92.8	99.8
Impairment loss	14.0	-
Other operating expenses	17.6	21.7
Income(loss) that does not represent cash movements	(1.8)	(9.6)
Changes in working capital	(21.2)	(16.9)
Corporate income tax	(44.8)	(39.4)
Net Cash from Operating Activities	**172.8**	**199.4**
Capital expenditures(1)	(101.6)	(109.0)
Long term loans and receivables(2)	16.0	11.2
Investments(3)	(0.8)	(43.5)
Net Cash Used in Investing Activities	**(86.4)**	**(141.3)**
Issuance of Notes in July 2010	-	100.0
Net change in financial debt(4)	(47.7)	9.9
Net change in other bank loans	33.8	(26.5)
Dividends (net)	(1.5)	(2.3)
Net change in other debt and contingent payments(5)	5.9	(80.8)
Net investment in treasury shares	0.0	(0.1)
Interest income	1.8	3.1
Interest expense	(68.4)	(70.9)
Net cash effect of exchange rate changes	(1.5)	4.7
Net Cash from Financing Activities	**(77.6)**	**(62.9)**
Effects of exchange rate fluctuations(6)	**(1.9)**	**5.2**
Net Change in Cash Position	**6.9**	**0.4**
Reconciliation		
Cash at beginning of period	83.3	90.2
Cash at end of period	90.2	90.6
Change in cash position	6.9	0.4

(1) 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.

(2) Long-term loans and receivables include, through June 30, 2010, amounts related to building out and equipping halls that are sold to Agua Caliente, which before the Caliente Agreements signed in July 2010, paid for such halls over a five-year period. Loans to site owners and other loans are also included.

(3) Investments include expenditures relating to acquisitions.

(4) Net change in financial debt includes our Senior Credit Facility, 50% of Notes issued by Hipica Rioplatense Uruguay (HRU), our JV in Uruguay and the discount, and the accrued interest since June 15, 2010 corresponding to the Notes issued in July 2010.

(5) Net change in other debt and contingent payments reflects movements in temporary financial investments such as vendor financing, contingent payments, the payment of deferred gaming taxes and expenses related to the Notes issued in July 2010 and the Senior Credit Facility renewed in June 2010.

(6) Includes the effect of exchange rate fluctuations in the conversion of balances to euros (these amounts were previously reported under Changes in working capital).

Cash Flow for 2010

Net cash from operating activities for the year ended December 31, 2010 was €199.4 million, an increase of 15.4% from €172.8 million for 2009.

Net cash used in financing activities was €62.9 million, the principal drivers of which were as follows:

- An increase relating to the €100.0 million aggregate principal amount of Notes issued in July 2010.

- A net increase in changes in financial debt of €9.9 million resulting from draw downs under the Senior Credit Facility (€16.0 million) and interest accrued on the Notes issued in July 2010 since June 15, 2010 (€1.0 million) offset by amortizations of the HRU bond (€1.1 million) and the discount of the Notes issued in July 2010 (€6.0 million)

- Negative variation in other debt and contingent payments of €80.8 million, which consists of a net decrease in vendor financing of €16.8 million, an increase in financial assets of €58.1 million (which includes the €51.4 million credit granted to the Joint Opcos following the Caliente Restructuring), and costs incurred in the renewal of the Senior Credit Facilities (€4.9 million) and in the Notes issued in July 2010 (€5.2 million), partially offset by an increase in liabilities associated with the deferral of gaming taxes in Spain (€4.2 million). The €16.8 million net decrease in vendor financing consists of a positive variation of €20.4 million principally reflecting investments in machines in Spain AWP (€4.2 million), Italy Bingo (€5.8 million), Panama (€1.5 million), and the financing of hall expansions and refurbishments in Mexico (€5.5 million); and a negative variation of €37.2 million principally reflecting the payment of capital expenditures in Mexico (€12.6 million), Argentina (€4.6 million) and Spain AWP (€5.0 million), the final payment associated with the ICELA acquisition (€9.3 million) and the payment of the deferred portion of a minority acquisition in Argentina (€5.6 million.

- A net decrease in other bank loans of €26.5 million, due primarily to amortization of debt in Colombia, Mexico, Spain AWP and Italy Bingo, partially offset by debt incurred primarily in Italy AWP.

- €0.1 million invested in treasury shares, as part of a liquidity contract.

- Dividends paid to minorities of €2.3 million, financial expenses paid of €70.9 million, financial revenues of €3.1 million and a net positive variation of €4.7 million related to changes in exchange rates (€13.6 million in positive variations and €8.9 million in negative variations).

We used cash for capital expenditures for intangible and fixed assets (€109.0 million), received a net of €11.2 million in long term loans and receivables consisting of: €7.8 million received from Agua Caliente (repayments of €9.7 million, net of receivables generated of €1.9 million), €3.6 million received for long-term loans provided to Spain AWP site owners (repayments of €9.1 million, net of €5.5 million in loans), and €0.2 million for long-term loans provided to Italy AWP site owners (loans of €10.0 million, net of repayments of €9.8 million). We also used cash in Panama for the acquisition of six casinos (€30.3 million), and the minority stake in the Panamanian racetrack (€0.8 million); and in Italy for the acquisition of the Caserta hall (€7.0 million) and the machine operator, FG Slot Services (€4.9 million).

Variations in foreign exchange rates (in the conversion of the cash balances) resulted in a positive impact of €5.2 million.

During the year ended December 31, 2010 we had a net increase in cash of €0.4 million

Working Capital Requirements

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

	Year ended December 31,	
	2009	**2010**
	(unaudited)	
	(€ in millions)	
Variations in:		
Receivables	(14.0)	(25.1)
Inventories	3.7	0.4
Payables	(9.2)	12.3
Prepaid expenses	(0.3)	2.8
Deferred income	(0.3)	(0.2)
Deferred expenses	0.6	(0.1)
Other	(1.7)	(7.0)
Total	**(21.2)**	**(16.9)**

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 Facilities.

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 2010, we recorded €12.2 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 bingo halls or otherwise expanding our business. Maintenance capital expenditures are capital expenditures that are not related to expanding our business.

	Year ended December 31	
	2009	**2010**
	(unaudited)	
Spain AWP	**(€ in millions)**	
Maintenance	19.6	18.9
Growth	19.1	18.4
Argentina	0.5	0.5
Maintenance	25.1	29.4
Growth	21.3	16.0
Mexico	3.8	13.4
Maintenance	12.3	13.8
Growth	13.4	0.1
Holding Company	(1.1)	13.7
Maintenance	0.9	0.3
Growth	0.6	0.3
Italy	0.3	—
Maintenance	19.0	29.8
Growth	6.2	3.5
Spain Bingo	12.8	26.3
Maintenance	(0.1)	0.7
Growth	(0.1)	0.7
Spain Sports Betting	—	—
Maintenance	1.7	4.2
Growth	—	0.4
Panama	1.7	3.8
Maintenance	1.7	34.7
Growth	1.3	2.8
Colombia	0.4	31.9
Maintenance	4.7	2.9
Growth	1.0	2.9
Uruguay	3.7	—
Maintenance	1.4	6.0
Growth	0.5	1.2
Brazil	0.9	4.8
Maintenance	0.1	0.2
Growth	0.1	0.2
Internet gaming		—
Maintenance	—	0.4
Growth	—	—
		0.4
Total Maintenance		
Total Growth	63.4	46.5
Total Capex	23.0	94.8
	86.4	141.3

We invested an aggregate amount of €227.7 million, excluding capitalized expenses, during 2009 and 2010. Our investing activities during the periods under review included the following capital expenditures, long-term loans and receivables and investments:

	Year ended December 31,	
	2009	**2010**
	(unaudited) (€ in millions)	
Spain AWP	19.6	18.9
Capital expenditures	23.8	22.1
Long term loans and receivables	(3.9)	(3.7)
Investments	(0.3)	0.5
Argentina	25.1	29.4
Capital expenditures	25.1	29.4
Long term loans and receivables	—	—
Investments	—	—
Mexico	12.3	13.8
Capital expenditures	24.6	21.5
Long term loans and receivables	(12.3)	(7.7)
Investments	—	—
Holding Company	0.9	0.3
Capital expenditures	0.6	0.3
Long term loans and receivables	—	—
Investments	0.3	—
Italy	19.0	29.8
Capital expenditures	17.9	17.7
Long term loans and receivables	0.2	0.2
Investments	0.9	11.9
Other	9.5	49.1
Capital expenditures	9.5	18.0
Long term loans and receivables	—	—
Investments	—	31.1
Total capital expenditures	101.6	109.0
Total long term loans and receivables	(16.0)	(11.2)
Total investments	0.8	43.5
Total cash invested excluding capitalized expenses	86.4	141.3

We expect to invest approximately €170.0 million in our existing businesses during the course of 2011, including approximately €51.1 million in Argentina, €33.7 million in Spain, €30.4 million in Italy, €19.1 million in Mexico and €35.6 million in our other operations including Uruguay, Colombia, Brazil, Panama and corporate headquarters. We expect these investments will help us grow the slot machine portfolio by 14-18% in Argentina and 2-4% in Mexico. The investments will relate to: hall refurbishments and TITO installation in Argentina; hall refurbishments, including adaptation to anti tobacco regulation and, hall expansions in Mexico; AWP machine renewals and exclusivity contracts and increase in self-service sports betting terminals and deployment in new regions in Spain; machines operators, halls and/or VLT rights and Bingo hall refurbishments in Italy; and the Carrasco project in Uruguay. The investments are expected to be evenly divided between growth and maintenance.

Our actual capital expenditures for the year 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 take to undertake potential investments, or acquisitions that we are currently considering or consider making 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, 2010 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]	822.7	—	38.6	784.1
Other long term debt[2]	82.4	—	37.6	44.8
Short term debt[3]	27.4	27.4	—	—
Capital lease agreements (short term)[4]	14.2	14.2	—	—
Other obligations (short term)[5]	90.6	90.6	—	—
Purchase obligations (trade account payable) [6]	92.0	92.0	—	—
Total contractual obligations	1,129.2	224.1	76.2	828.9

(1) Includes the Notes and the HRU Bonds (€744.4 million and €3.3 million), long term payable to credit entities (€61.0 million) and the Senior Credit Facility (€14.0 million).

(2) Includes the deferred portion of the purchase price of AWP Spain operators (€5.1 million), long-term payments of exclusivity rights in Spain (€10.6 million), long term financial leasing (€22.3 million), long-term payables related to our request for deferral of gaming taxes in Spain (€9.1 million), the balance remaining of the deferred portion of the purchase of the minority stake in the Argentina business (€5.9 million), long-term debt due to acquisition of VLT rights in Italy AWP (€15.8 million) and other long-term debts in Argentina, Panama and Italy.

(3) Includes the Notes accrued and unpaid interest of €2.6 million, the HRU Bond principal and accrued and unpaid interest of €1.5 million, plus bank loans in Italy (€4.2 million), Mexico (€11.1 million) and Panama (€5.1 million), excluding the Senior Credit Facility.

(4) Includes short term capital lease agreements.

(5) Other short term obligations include deferred gaming taxes in Spain AWP (€36.2 million) and excludes short-term capital lease agreements.

(6) Includes trade account payable.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet entities and do not utilize 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 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, loans to 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, LIBOR or TIEE. We do not currently hedge our interest rate exposure and do not expect to do so in the future.

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 and Brazil, and to the U.S. dollar in Panama where the dollar is the functional currency, and Uruguay where the revenues are referenced to the dollar. In addition, 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 dollar. Following the consummation of the Caliente Restructuring, we also have currency translation related exposure relating to the U.S. dollar-euro exchange rates in Mexico, where receivables from the Joint Opcos, Promojuegos, Mio Games and the Excluded Caliente Companies are denominated in U.S. dollars. For a more detailed discussion of foreign currency risks, see the sensitivity analysis in Note 20 of our audited consolidated annual accounts as of and for the year ended December 31, 2010.

In order to mitigate part of the foreign exchange risk to which we are subject, we hedge 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. At February 25, 2011, we had in place foreign exchange forward contracts to purchase a total of U.S.$104.0 million in exchange for Argentine pesos (U.S.$25.0 million, U.S.$ 25.0 million, U.S.$ 26.0 million and U.S.$28.0 million for the quarters ended March 31, June 30, September 30, and December 31 2011, respectively), U.S.$50.0 million in exchange for Mexican pesos (U.S.$20.0 million, U.S.$15.0 million and U.S.$15.0 million for the quarters ended March 31, June 30 and September 30 2011, respectively) and €78.7 million in exchange for U.S. dollars (€18.9 million, €18.9 million, €19.7 million and €21.2 million for the quarters ended March 31, June 30, September 30, and December 31 2011). Our Argentine peso foreign exchange forward contract which matured during 2010 amounted to a net loss of €6.3 million in 20010. Realized losses on the Mexican pesos foreign exchange forward contract which matured during 2010 amounted to €4.1 million.

BUSINESS

Overview

We are a leading gaming company engaged in the management of gaming machines, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Spain and Italy. As of December 31, 2010, we managed 53,572 gaming machines, 129 bingo halls with an aggregate of 29,916 seats, 597 sport betting locations, three horse racing tracks and seven casinos. In 2010, we generated operating revenue of €1,126.5 million and EBITDA of €241.1 million.

In the Province of Buenos Aires, Argentina, as of December 31, 2010, we believe we are the largest operator of bingo halls with 14 bingo venues in which we operated 5,043 slot machine seats. In 2010, our Argentina business generated operating revenue of €461.0 million and EBITDA of €135.8 million.

In Mexico, through ICELA (our joint venture with Corporación Interamericana de Entretenimiento, S.A.B. de C.V. ("CIE")), and our agreement with Hipódromo de Agua Caliente, S.A. de C.V. ("Agua Caliente") (for a discussion of recent changes relating to our relationship with Agua Caliente, see "—Recent Developments—Approval of the Caliente Restructuring") and our participation in Promojuegos de México S.A. de C.V. ("Promojuegos") and Mio Games, S.A. de C.V. ("Mio" or "Mio Games"), as of December 31, 2010, we were the largest operator of gaming sites with 96 bingo halls in which we operated, 19,299 slot machines. As of December 31, 2010, we also operated 97 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City which included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2010, CIE, the Joint Opcos, Promojuegos and Mio Games held licenses to build and operate an additional 27 bingo halls. In 2010, our Mexico business generated operating revenue of €219.3 million and EBITDA of €63.6 million.

In Spain, we were the second largest operator of AWP machines with 15,347 machines in over 10,733 bars, restaurants and machine halls as of December 31, 2010. We have over 30 years of experience in operating machines in Spain and have established a large portfolio of exclusive gaming sites for our machines. In 2010, our Spain AWP business generated operating revenue of €171.8 million and EBITDA of €50.3 million.

In Italy, we are the leading bingo operator with 13 bingo halls as of December 31, 2010 and also operated AWP and VLT machines. As of December 31, 2010, we operated 2,178 AWPs, 402 VLTs and 6,071 bingo seats and 8,483 gaming machines were connected to our network in Italy. In 2010, our Italy business generated operating revenue of €137.4 million and EBITDA of €14.2 million.

Our other operations, which generated operating revenue of €136.8 million and EBITDA of €2.1 million for 2010, include:

- a bingo hall in Spain;
- 11 casinos, one racetrack and sports betting locations in Panama;
- bingo halls, slot machines and two casinos in Colombia;
- a joint venture in horse racing, four machine halls, sports betting locations and slot machines in Uruguay;
- sports betting locations in Spain;
- sports betting locations in Brazil; and
- internet gaming.

The following table sets forth the number of gaming machines (AWP, slot machines, EBTs and VLTs), bingo halls and other gaming facilities we operated as of December 31, 2010 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (each before corporate headquarters revenues and expenses) for the 12 months ended December 31, 2010).

	Gaming machines or machine seats	Bingo Halls/Betting Locations	Casinos	Horse Race Tracks	Revenue (1)	EBITDA (1)	Percent of EBITDA
						(unaudited) (€ in millions)	
Argentina	5,043	14/0	—	—	461.0	135.8	51.1%
Mexico	19,299	96/97	—	1	219.3	63.6	23.9%
Spain AWP	15,347	—	—	—	171.8	50.3	18.9%
Italy	2,580	13/0	—	—	137.4	14.2	5.3%
Other Operations:							
Spain Bingo	105	1/0	—	—	21.9	1.1	0.4%
Sports Betting	—	0/461	—	—	5.3	(6.9)	(2.6%)
Internet gaming	—	—	—	—	—	(2.7)	(1.0%)
Panama	3,377	0/6	11	1	62.3	4.1	1.5%
Colombia	6,179	5/0	2	—	27.5	5.4	2.0%
Uruguay	1,642	0/27	—	1	16.9	3.2	1.2%
Brazil	—	0/6	—	—	2.9	(2.1)	(0.8%)
Total	53,572	129/597	13	3	1,126.3	266.0	100.0%

(1) Revenue and EBITDA do not reflect revenues and expenses relating to corporate services provided to each of our three principal businesses and Other Operations by our Group headquarters (€0.2 million and €(24.9) million, respectively, for 2010).

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 Agua 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 Bingo Canoe in Madrid in 2000 which is the largest bingo hall in Spain and added 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, and we 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 entered the Panamanian market through the acquisition of a horse-racing track. In January 2006, we sold our minority interest in four casinos in Chile in exchange for the acquisition of 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 million and €165 million aggregate principal amount of Notes and the Martinez Sampedro family entered into an agreement to purchase Jesús y 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 17, 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 minority shareholder in our Mexican business.

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

In 2010, we purchased six casinos in Panama and entered into a restructuring agreement with Caliente to acquire a majority stake in the Joint Opcos, which hold an aggregate of 46 gaming licenses in Mexico (the "Caliente Restructuring"). We also launched internet gaming operations, began the installation of VLTs in Italy and issued €100 million aggregate principal amount of Notes.

Recent Developments

Approval of the Caliente Restructuring

On July 16, 2010, we signed definitive documentation with Grupo Caliente ("Caliente") to restructure our previous contractual relationship (the "Caliente Agreements"), the consummation of which was subject to the approval of COFECO, the Mexican competition authority. Caliente is the Mexican group to whom we have provided gaming management services and hall development funding since 1997.

On March 9, 2011, COFECO approved the transactions under the Caliente Agreements in accordance with their terms and conditions.

As a result of the restructuring Codere Mexico indirectly acquired 67.3% of the capital stock of the Joint Opcos, with the remaining 32.7% held by Caliente, and sold to Caliente 32.7% of the capital stock of Promojuegos and Mio Games, retaining a 67.3% stake in those entities.

In addition, effective July 1, 2010, the previous management services agreements with Agua Caliente were terminated and new management services agreements were entered into among Codere and the Joint Opcos, which at December 31, 2010 operated 35 halls. Prior to the Caliente Restructuring, our management services agreement was equivalent to 50% of the profit before tax of the halls we managed for Agua Caliente (49 halls at June 30, 2010). The new agreement provides for an annual fee of up to U.S.$36.4 million through 2014, as well as an aggregate monthly fee of U.S.$1 million from July 1, 2010 to December 31, 2010. In addition, the previous agreement pursuant to which Codere constructed or refurbished halls and sold them to Agua Caliente at cost, and Agua Caliente reimbursed us over five years, was also terminated effective July 1, 2010.

We began consolidating the Joint Opcos in our financial statements beginning April 1, 2011.

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 roulettes allowed in gaming halls, B3/EBTs allowed in bingo halls), 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 and Sports Betting business units will be reported as a combined unit under Spain beginning January 1, 2011.

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

Changes to Spanish Bingo regulation

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 1 percentage point increases the margin to the operator.

Acquisition of AWP machine operator in Italy

In December 2010, we acquired a majority stake in FG Slot Services SLR, an AWP machine operator with approximately 620 AWP machines and a leading AWP machine operator in the region of Verona. The acquisition is 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.

Smoking ban in Spain

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 Bingo Canoe.

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 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 bingo halls with slot machines in that market. With 14 out of 46 bingo halls, we represent approximately 50% of the market of 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. We have grown rapidly and have become a market leader in several of the most populous regions of Spain, including Madrid, Catalonia and Valencia, in terms of the number of AWP machines as of December 31, 2010. We are now the second-largest operator of AWP machines in Spain, with 15,347 AWP machines in 10,733 points of sale, including bars, cafés and gaming halls, as of December 31, 2010. In Italy, we operate 13 bingo halls and, with a market share of 11% of bingo cards sold, we believe we are the market leader.

- ***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 a market in light of our experiences 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 we became one of the first companies to operate AWP machines in bars in Spain in the early 1980s through to our present operation of bingo halls, racetracks, betting locations and casinos 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. As the trend in the industry is 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 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 that we have benefited or expect to benefit from:

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 allowed in proportion 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.

Spain. The Community of Madrid authorized the installation of sports betting and Class B3 machines in traditional (paper-based) bingo halls in 2008 and 2009, respectively.

Italy. Italy permitted the installation of gaming machines in its bingo halls in 2007 and we have expanded the products offered with the introduction of VLTs in bingo halls, betting shops and selected gaming venues.

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 critical to our growth and success and the enhancement of our 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 in respect of 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 or 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' places of work or residences, 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.

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

Stable EBITDA during macroeconomic downturn. Our EBITDA has increased at a compound annual growth rate of 6.4%, from €200 million in 2007 to €241 million in 2010, despite the global macroeconomic crisis during the period and the strong appreciation of the euro against the local currencies in which we generate revenues in our Latin American operations. This performance reflects a combination of growth of our consolidated operations as well as discipline in controlling expenses.

Free cash flow generation and flexibility of investment program. Despite the global economic downturn, we were cash generative in 2008 and 2009. We achieved this by focusing on maintaining liquidity and as a result of the flexibility afforded by our investment program, which consists of a series of small discretionary investments with very short lead time, including the expansion of gaming halls in Argentina, the purchase of gaming machines in Mexico or the acquisition of small AWP machine operators in Spain. In 2010, in line with the global economic recovery and the reopening of financial markets, we increased our investment program, principally in connection with the acquisition of casinos in Panama, which reduced free cash flow in 2010.

Reduction in leverage since 2005. The EBITDA growth we have achieved since our original issue of Notes in 2005 has enabled us to reduce our leverage from 3.9x in 2005 to 3.1x in 2010, despite investments in the aggregate of €995.1 million and the strong appreciation of the euro during that time.

- ***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 19 years. In addition, our key operations in Argentina, Mexico 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 bingo halls and slot machine portfolio in the Province of Buenos Aires, as well as the continued introduction of ticket-in/ticket-out ("TITO") technology or other coinless systems in our gaming halls to satisfy unmet demand and maintain our leading market share.

  Mexico. We continue to build new halls and expand existing halls and deploy gaming machines to capitalize on and maintain our first mover advantage in this rapidly growing market. In 2010, we replaced most of the Class II machines in the portfolio with Class III machines, which are more attractive to players as a result of a greater randomness of prizes and greater diversity of games available. Following the consummation of the Caliente Restructuring, we acquired controlling stakes in companies that, as of December 31, 2010, held an aggregate of 46 gaming licenses and operated 35 halls in Mexico.

Spain. Our strategy in the AWP machine market is focused on 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. We expect to continue to build on this advantage through the continued selection of the most attractive machines in the market and the resumption of selective acquisitions of smaller AWP machine operators when the transactions offer attractive returns. Additionally, we expect to enhance the profitability of our position in the Spanish gaming market through other activities, such as the expansion of sports betting in other regions upon the passage of enabling regulation. We may also consider acquiring existing bingo hall operators in Spain to take advantage of potentially favorable regulatory changes.

Italy. We plan to continue to grow the Italy bingo business primarily as a result of the passage of favorable regulatory changes in November 2009, which reduced gaming taxes and increased prizes, as well as prior regulations that permitted the interconnection of bingo halls. In addition, our Italy AWP and bingo businesses benefit from the introduction of a new type of machine, the VLTs, for which we received licenses and we expect to finalize installation in 2011, assuming receipt of regulatory approvals in a timely manner.

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 following the 49% acquisition of ICELA. 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 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 AWP operators in Spain and Italy, gaming halls or permits in Argentina, Mexico and Italy 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. We may also pursue growth opportunities in geographically complementary markets or other markets in which we can leverage our expertise. In addition, following the launch of the internet gaming business in Italy, we are exploring opportunities to expand this business to certain countries in which we already operate, which adopt specific regulations governing the online gaming industry. We believe that a presence in online gaming provides an additional distribution channel for certain gaming products that we currently offer and may offer opportunities to leverage our experience operating a variety of gaming products and our relationship with local regulators.

- ***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.

- ***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 replacing our debt at headquarters with debt at our subsidiaries, improving pre-tax profits of business units in which we have net operating losses and decreasing corporate overhead expenses.

Argentina

In Argentina, we are focused on the development and management of bingo halls with slot machines. As of December 31, 2010, our Argentina business owned and operated 14 bingo halls with a total of 8,991 bingo seats and 5,043 slot and other gaming machine seats. In 2010, our Argentine business generated operating revenue of €461.0 million and EBITDA of €135.8 million, representing 40.9% of our total consolidated revenues and 51.1% 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 2010.

The following table sets forth the historical development of our Argentine business's operations:

	Year ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
Number of bingo halls (at period end)	14	14	14	14	14
Number of bingo hall seats (at period end)	7,524	8,051	7,981	8,308	8,991
Number of slot machine seats (at period end)	4,352	4,605	4,485	4,679	5,043
Net win per bingo hall seat per day (in Argentine pesos)	48.2	48.3	52.4	53.3	58.4
Net win per bingo hall seat per day (in euros)	12.8	11.3	11.3	10.3	11.3
Net win per slot seat per day (in Argentine pesos)	538.2	681.1	868.2	989.5	1,223.4
Net win per slot seat per day (in euros)	141.8	159.1	187.5	189.8	236.2

The following table sets forth certain information regarding our Argentina business's bingo halls as of December 31, 2010. All of the bingo halls are located in the Province of Buenos Aires.

Name	**Opening Date**	**Concession Expiration Date**	**Number of Bingo Seats**	**Slot Machine Seats**	**Revenues for 2010 (€ in millions)[(1)]**	**Company**
Bingo San Martín	Oct. 1994	June 2021	1,026	589	63.9	Iberargen, S.A.
Bingo Lomas del Mirador	July 2006	Sep. 2014	1,182	656	57.8	Interbas, S.A.
Bingo Lanús	Apr. 1992	June 2021	882	512	55.9	Iberargen, S.A.
Bingo Platense	June 1992	June 2021	962	549	55.4	Bingos Platenses S.A.
Bingo Morón	June 1998	June 2013	810	469	48.2	Iberargen, S.A.
Bingo San Justo	Dec. 1999	Dec. 2014	800	410	45.3	Interbas, S.A.
Bingo San Miguel	May 1999	May 2014	674	389	39.4	Interjuegos S.A.
Bingo Lomas de Zamora	July 1991	June 2021	506	296	29.4	Bingos del Oeste S.A.
Bingo Sol	Feb. 1991	June 2021	490	298	21.9	Intermar Bingos S.A.
Bingo Ramos Mejía	Apr. 1999	Apr. 2014	552	312	23.6	Interbas, S.A.
Bingo del Mar	Sep. 1991	June 2021	450	211	10.7	Intermar Bingos S.A.
Bingo Peatonal	Jan. 1991	June 2021	244	121	6.1	Intermar Bingos S.A.
Bingo Temperley	Aug. 2001	Aug. 2016	214	127	5.0	Bingos del Oeste S.A.
Bingo Puerto	Jan. 1994	June 2021	199	104	4.7	Intermar Bingos S.A.
Total			**8,991**	**5,043**	**467.3**	

(1) Revenues consist of net win at bingo halls, net wins for slot machines, food and beverage sales and other revenues, but exclude gains on the foreign exchange forward contracts.

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 takes a commission for handling such wagers. The amount remaining after the gaming operator receives a commission is distributed to the players in the form of winnings. Slot machines that are installed in bingo halls, however, are different from AWP machines in Spain, in that they permit higher wager amounts, allow for higher maximum prize payouts and are similar to the Class III machines present in the United States. In addition, the Argentine bingo 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 2010, operating revenue generated from slot machines accounted for approximately 88% of our consolidated operating revenue in Argentina.

To encourage gaming to be conducted in a manner that is socially responsible and also in the public interest, Argentine law requires that gaming licenses be awarded to Argentine nonprofit organizations which, in turn, enter into agreements with gaming operators such as us. Accordingly, in Argentina we have entered into operator agreements with various local nonprofit organizations that apply the revenues to their nonprofit activities.

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 €9.4 million as of April 15, 2011) and a canon tax surcharge of AR$72.3 million (equivalent to €12.3 million as of April 15, 2011). 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 April 15, 2011), and a canon tax surcharge of AR$7.2 million (equivalent to €1.2 million as of April 15, 2011). 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 instalments starting in the three months ended September 30, 2010.

Slot Machines

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.$25,000 (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 92%.
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 AWP operator.

Main Operating Projects

Our Argentine operations' principal operating project in the near term is the continued general refurbishment and updating of our bingo halls and renewal of 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. In particular, we are currently in the process of introducing TITO or other coinless systems in the machines in our bingo halls. 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 is expected to increase the average net win per machine as it increases the productivity of the machine. We also expect to increase the number of machines in the halls.

As of December 31, 2010, we had completed the installation of TITO or other coinless systems in the majority of the machines in ten halls (Lomas del Mirador, San Martín, Lanús, Morón, San Justo, San Miguel, Lomas de Zamora, Ramos Mejía, La Plata and Sol) representing 85% of the total machine seats operated by us in the Province of Buenos Aires, an increase from 75% as of December 31, 2009.

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, 2010, we operated 14 bingo halls in the Province of Buenos Aires and estimate that 49% 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.

The rest of the private gaming market in the Province of Buenos Aires is limited to casinos and racetracks. Casinos in the Province of Buenos Aires are generally restricted to certain areas (with the exception of Casino del Tigre, which is located 50 kilometers from the City of Buenos Aires), and there are only two racetracks in the Province of Buenos Aires, where slot machines are not allowed. There are two casinos operated by Cirsa and local partners and a racetrack with slot machines in the City of Buenos Aires.

Sales and Marketing

Argentine regulations limit the extent and manner by which we can advertise our bingo halls and slot machines.

Mexico

Our operations in Mexico have been conducted through a joint venture with CIE (currently ICELA), a management services agreement with Agua Caliente, as well as through Promojuegos and Mio Games, which we acquired in December 2006 and June 2007, respectively. In 2010, our Mexican operations generated operating revenue of €219.3 million and EBITDA of €63.6 million, representing 19.5% of our total consolidated revenues and 23.9% of our consolidated EBITDA (both before corporate headquarters revenues and expenses). In Mexico, the development and management of bingo halls, in which we manage or operate slot machines and some EBTs, as well as traditional (paper-based) bingo, is our most significant activity. As of December 31, 2010, our Mexico business managed or operated 96 bingo halls in which we operated 19,299 slot machines and EBTs and 97 betting locations. Since the acquisition of 49% of ICELA in November 2007, we jointly 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, 2010, Codere held licenses to build and operate an additional 27 bingo halls.

For a discussion of recent developments relating to the Caliente Restructuring, see "—Recent Developments—Approval of the Caliente Restructuring".

Competition

We began our operations in Mexico in 1988 through our management services agreement with Agua Caliente and then grew them in 1999 through our joint venture with CIE. 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 Agua 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 25 licenses to operate a total of 482 gaming facilities have been granted by the Mexican government as of December 31, 2010. Of these, 6 licenses for approximately 123 gaming permits were associated with Codere and an additional 19 for approximately 359 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, 2010, Codere, through CIE, Agua Caliente, Promojuegos and Mio Games, managed or operated 96 halls, and we estimate that there were approximately 137 halls in Mexico opened and operated by third parties.

In addition, there is a proliferation of gaming halls operating without the permits required by local regulation. These halls are located principally in Northern Mexico, particularly in the city of Monterrey. These halls are attractive to certain portions of the gaming community in Mexico and affect our competitiveness in such regions, as in most cases the operators do not comply with the applicable regulation, including the payment of gaming taxes.

Under our joint venture with CIE, CIE is required to provide us with a right of first refusal to participate with it in any new gaming opportunities, and we are subject to an identical requirement (other than opportunities we may have with the Caliente Companies, Promojuegos and Mio Games). Under our previous agreement with Agua Caliente, we were subject to limitations on operating sports books, horse-racing tracks and dog-racing tracks in Mexico and on operating in Baja California without its participation. Our Mexico business has separate teams of employees dedicated to our businesses (with CIE and the Caliente Companies) that maintain divisions between our activities conducted with each of them and the operations of our own licensees, Promojuegos and Mio Games.

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 both in existing halls, as well as in new halls.

Operations

The following tables set forth certain historical and operating data for our off-track betting sites and bingo halls (including halls with only electronic bingo terminals) in Mexico:

	Year ended December 31,				
	2006	**2007**	**2008**	**2009[(1)]**	**2010[(1)]**
Number of bingo halls (at period end)	82	94	104	94	96
Number of bingo hall seats (at period end)	19,665	15,396	15,460	13,266	12,574
Number of EBTs and slot machines (at period end)	10,630	16,788	20,351	17,421	19,299
Net win per bingo hall seat per day (in Mexican pesos)	164	177	164	141	114
Net win per bingo hall seat per day (in euros)	12.4	11.8	10.1	7.5	6.8
Net win per EBT/slot machine per day (in Mexican pesos)	885	958	889	883	881
Net win per EBT/slot machine per day (in euros)	67.1	63.8	54.5	47.0	52.9

(1) As a result of the Caliente Agreements signed on July 16, 2010, data shown for the Caliente part of our Mexican operations corresponds only to the halls included in such new agreements. Data for 2009 and 2010 has also been adjusted to reflect this change.

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.

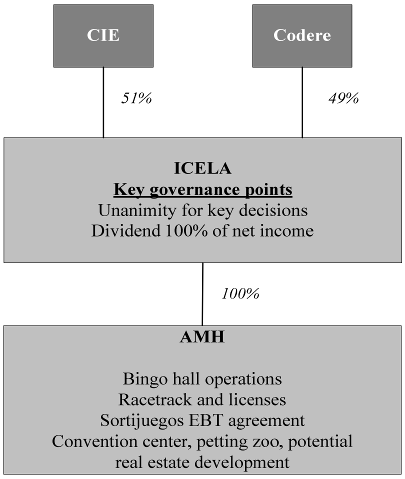
Since 1995, CIE's shares have been traded on the Mexican Stock Exchange under the symbol "CIE B". In 1998, a subsidiary of CIE, AMH, was awarded a 25-year concession to operate the Hipódromo de las Américas racetrack in Mexico City. In connection with this concession, AMH obtained permission to operate 45 off-track betting sites countrywide for a 25-year period and offer bingo at these locations. In May 2007, AMH's license was expanded to develop and operate an additional 20 bingo halls in addition to the original 45 bingo 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 ERSA, in which our subsidiary CIMSA held a 50% interest less one share and CIE held the remaining 50% interest plus one share. Under the joint venture agreement, ERSA 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 CIMSA 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. Pursuant to the agreement, we exchanged our 50% interest in the original CIE joint venture and a cash payment of U.S.$173 million (financed in part by a dividend of Mex. Ps. 302 million, equal to approximately U.S.$28 million) for the 49% stake in ICELA. The purchase price included a deferred payment of U.S.$27 million, of which approximately U.S.$15.4 million was paid in 2008 (financed through a capital reduction of Mex. Ps. 400 million, of which Mex. Ps. 196 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. CIE Las Américas owns 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.

Pursuant to the agreements, unanimity is required for certain key decisions regarding the joint venture and, to the extent permitted by law, a dividend of 100% of ICELA's distributable profits will be declared every year. Additionally, the agreements include exit mechanisms for each of CIE and Codere, a preferential acquisition right in the case of a share sale and certain provisions applicable in the case of a public offering of ICELA. Following the acquisition of ICELA, in November 2007, we began proportionally consolidating ICELA's results in our accounts.

The following chart sets forth the corporate organization of our Mexico CIE business after the acquisition of 49% of ICELA in November 2007.

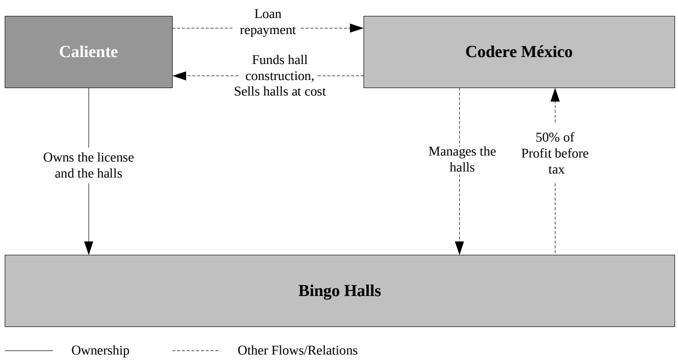


As of December 31, 2010, our Mexico CIE business operated 52 bingo halls.

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 Agua 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 Agua 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 sets forth the corporate organization of our Mexico Caliente business before the consummation of the Caliente Restructuring.



Our previous management services agreement with Agua Caliente focused on the development and management of bingo halls at its off-track betting sites. Agua 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. Agua Caliente is a Mexican company that started operations on January 1, 1916 with a horse racetrack in Tijuana, Mexico. Since 1950, Agua Caliente has operated a greyhound track, with daily racing all year round. Agua 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, Agua Caliente has been awarded a license to operate an additional 93 off-track betting sites, which are also authorized to include bingo halls, throughout Mexico. Pursuant to the previous management services agreement with Agua Caliente, as of June 30, 2010, our Mexico Caliente business operated 49 bingo halls and no sports books. Agua Caliente's licenses to operate the off-track betting sites and bingo halls expire between 2014 and 2018. In May

1998, we entered into the management services agreement with Agua Caliente to develop and manage bingo halls at Agua Caliente's off-track betting sites.

Under the previous management services agreement, Codere Mexico identified locations for bingo halls, negotiated leases, constructed or refurbished the halls, provided equipment, trained all bingo hall employees, and provided managers for the bingo halls. Agua Caliente owned the licenses and the bingo halls and paid the salaries of the bingo hall managers. Upon completion of the construction of a bingo hall, Codere Mexico sold the hall to Agua Caliente at cost, fixed in U.S. dollars at the time of transfer. Agua Caliente repaid Codere Mexico 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 Joint Holdcos and the Joint Opcos are consolidated in our financial statements from April 1, 2011. For a further discussion of recent developments relating to the Caliente Restructuring, see "—Recent Developments—Approval of the Caliente Restructuring".

Following the consummation of the Caliente Restructuring, Codere Mexico holds indirectly through the Joint Holdcos a stake representing 67.3% of the capital stock of each of the Joint Opcos with JHR holding the remaining 32.7%. As of December 31, 2010, the Joint Opcos held an aggregate of 46 gaming permits and operated 35 halls in Mexico. In addition, Codere Mexico and Turística Akalli now hold a 67.3% and 32.7% stake, respectively, in Grupo Inverjuegos, which holds a 100% stake in each of Promojuegos and Mio Games. As of December 31, 2010, Promojuegos and Mio Games held an aggregate of 12 gaming permits and operated nine halls in Mexico.

The previous management services agreements with Agua Caliente have been terminated. On July 16, 2010 (with retroactive effect as of July 1, 2010), Codere Mexico and the Joint Opcos entered into new management services agreements pursuant to which the Joint Opcos pay Codere Mexico 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 Mexico provided transitional assistance services to the Joint Opcos for an aggregate monthly fee of U.S.$1 million until December 31, 2010. In addition, Codere Mexico entered into management services agreements with Promojuegos and Mio Games pursuant to which these companies pay Codere Mexico 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.

Gaming Machines

We and our partners have entered into agreements with leading suppliers of slot machines, including Bally Technology, Inc. and IGT, and have significantly increased the pace of the roll-out of slot machines and some EBTs in Mexico and, as of December 31, 2010, had 19,299 gaming machines installed. We will install gaming machines in terminal-only halls that have between approximately 350 to 500 machines at a cost of between approximately U.S.$3.0 to 4.0 million per hall, excluding the cost of machines. In 2010, we estimate that operating revenue generated from gaming machines accounted for approximately 75% of the total operating revenue of all the Mexican businesses.

Sales and Marketing

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

Spain AWP Machines

Our main business in Spain is the management and operation of AWP machines. As of December 31, 2010, we install, maintain, service and collect cash from over 15,347 AWP machines throughout Spain in over 10,690 bars and restaurants and in 43 machine halls. Growth in our installed base of AWP machines has been driven through organic growth as well as acquisitions. We had 15,347 AWP machines in operation in Spain, as of December 31, 2010, compared to 15,587, as of December 31, 2009. In 2010, the Spain AWP business entered into new contracts to install 1,593 AWP machines in bars, restaurants and other establishments. In 2010, 1,451 machine contracts expired or otherwise terminated. The average daily net box per AWP machine was €49.2 in 2010 and €49.2 in 2009. We believe that the maintenance of the net win per machine per day resulted from the continuous renewal and rotation of the machine portfolio and the positive effect from regulatory changes in Madrid and the Basque Region, which offset in part the adverse macroeconomic condition in Spain. In 2010, our Spanish AWP machine business generated operating revenue of €171.8 million and EBITDA of €50.3 million, representing 15.3% of our consolidated operating revenues and 18.9% of our consolidated EBITDA (each before corporate headquarters revenues and expenses), respectively.

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 the number of AWP machines operated in the five autonomous regions where we have the greatest number of AWP machines and our market share throughout Spain, as of December 31, 2009, which is the latest date for which the Spanish National Gaming Commission has published data regarding the number of AWP machines in such regions:

	Madrid	**Catalonia**	**Valencia**	**Castilla-La Mancha**	**Andalucía**	**Spain**
Number of AWP machines in region(1)	30,464	38,726	30,281	11,010	40,572	246,651
Number of our AWP machines in region(2)	3,309	2,442	1,953	1,285	1,999	15,347
Market share as of December 31, 2009	11.0%	6.3%	6.5%	11.7%	5.2%	6.3%

(1) Source: Spanish National Gaming Commission Annual Reports (2009).

(2) Codere figures as of December 31, 2010.

From January 1, 2011, Spain AWP will be reported together with Spain Bingo and Sports Betting as a consolidated Spanish business. See "—Recent Developments—Consolidation of the Spanish businesses".

Operations and the Economics of the AWP Machine Business

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,				
	2006	**2007**	**2008**	**2009**	**2010**
AWP machines					
Number of AWP machines operated (at period end)	13,995	15,431	15,963	15,587	15,347
Average daily net box per AWP machine (in €)(1)					
Spanish market average(2)	30.5	34.4	39.3	36.4	n.a.
Our average(3)	57.6	59.3	55.7	49.2	49.2

(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 – 2009),* which includes AWP machines in storage.

(3) Based on our installed AWP machines, which excludes our AWP machines in storage.

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

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 represents 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.

Relationship with Site Owners

We have established relationships with over 10,690 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, the owner typically receives 50% of net box per machine after deducting gaming taxes (which equals approximately 12% of the amounts wagered). We are responsible for paying applicable AWP machine taxes to the regulatory authority in each Spanish region in which we operate.

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 €4,000, 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. As of December 31, 2010, these guarantees amounted to €23.4 million.

Although we prefer to enter into agreements directly with site owners, if there is a strong relationship between a gaming machine operator and site owners in an area in which we are interested, it is often preferable, and occasionally necessary, for us to agree that the operator will continue to maintain his or her relationship with the site owner in exchange for a percentage of the revenues when we acquire that operator's business. Typically, we pay the operator ("*colaborador*") 50% of our share of the net box per AWP machine after deducting gaming taxes and operating and depreciation costs due to us from the site owner. In order to get a toehold in a particular area and develop a relationship with local site owners, occasionally we also enter into another type of collaboration agreement ("*aportación*" agreements) with local operators in which we operate the AWP machines in exchange for a fee from the operator. We receive 50% of net box after all costs and expenses other than rental costs. As of December 31, 2010, we had *aportación* agreements and *colaborador* agreements covering approximately 0.8% and 17.3% of our Spanish AWP machines, respectively. Payouts to operators under *colaborador* agreements were €4.8 million and fees earned under *aportación* agreements were €0.1 million for 2010.

AWP Machines

We test substantially all of the AWP machines produced for the Spanish market each year to identify those that will perform best in our market. There are six to eight distributors that serve the Spanish market. Although we have chosen in recent years to obtain most of our machines from Recreativos Franco ("Franco"), we are not obliged to do so and are subject to no contractual restrictions over the ability to purchase or rent other manufacturer's machines. Jesús Franco and Joaquín Franco, the original owners of Franco, were until April 2006, two of our principal shareholders and members of our Board of Directors. The balance of our AWP machines are sourced from other manufacturers, including Cirsa, Gi Games, Sleic and Tourvisión. As of December 31, 2010, AWP machines sourced from Franco, Cirsa and others represented 65%, 16% and 19%, respectively, of our AWP machines. The average purchase price for an AWP machine ranges from €2,700 to €7,500 depending on the model (the average is approximately €3,500). The useful life of an AWP machine is approximately five years.

Since July 1, 2006, we have obtained our AWP machines from Franco pursuant to a framework gaming machine lease agreement. The agreement was renewed in May 2009 for a period of three years. The framework agreement generally provides for a monthly installment payment which decreases after each six-month period. We may return an AWP machine to Franco after one year. Franco also provides us with prototype AWP machines on a risk-free basis for up to six months before we are required to make any installment payments. If the prototype is successful, we agree to keep it and pay Franco for the six-month trial period. If the prototype is not successful, we return it to them without any obligation to pay.

Given the success of the agreement with Franco, as well as the fact that other manufacturers are producing machines which are performing well in the market, in 2009, we signed similar agreements, based on installment payments and the right to return machines, with several other suppliers in the Spanish market. We believe that these agreements are attractive because our limited up-front payment commitment reduces our risk in deploying machines in comparison with outright purchase arrangements under which we do not have a right to return machines. In addition, although the average daily net box per AWP machine is highest over the first 12 months following the machine's introduction and decreases as the age of the AWP machine increases, our installment payment obligations decrease faster than the net box decreases over the same period. Accordingly, our installment agreements allow us to keep AWP machines during the optimal period of their life-cycle and return them when their productivity will begin to decline. For the AWP machines that are not returned after 12 months, AWP machine rotation lengthens the AWP machines' average life since they can be moved from one location to the next as they age, retaining their novelty and appeal in each new location, thereby increasing the AWP machines' net box performance.

Coin Collection and Information and Collection Controls System

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. The electronic portable devices read two sets of counters in the AWP machines, one electronic and one mechanical. The electronic counter controls in the case of a conflict due to its enhanced security. We upload data from the electronic portable device daily to our computerized information and control system. On average, each AWP machine is visited by one of our collectors once per week. As of December 31, 2010, we employed 163 collectors in Spain. The collectors are based in each Spanish region in which we have operations and report each day to our regional headquarters.

Our collectors do not carry a significant amount of cash at any given time and we do not believe that additional security in the form of security vans or armed guards is necessary in light of the low incidence of crimes committed against our collectors while carrying out the collections. Furthermore, our collectors are required to deposit bank notes in local bank branches while on their daily route to reduce the amount they carry at any time.

Each AWP machine contains a "hopper," which holds cash to ensure the AWP machine always has a sufficient amount of cash to pay out prizes. The amount of the hopper is approximately €227 per AWP machine contributed approximately equally by us and the site owner.

Expansion of AWP Machine Portfolio

We primarily grow the number of AWP machines in our portfolio through acquisitions of smaller AWP operators and organic growth. Many of the smaller operators represent attractive acquisition opportunities because their acquisition generally requires a low-capital investment, and results in a high EBITDA and cash flow contribution to our Spain AWP operations. Once we have identified a potential business to acquire or location to develop, we prefer to take a controlling stake in the business. This typically includes taking over the acquired operator's rights under its installation agreements and its obligations under its service and maintenance agreements. We believe we can significantly increase the average daily net box of the AWP machines we acquire through AWP machine rotation and the other performance optimization measures described above. We believe that acquisitions in the regions where we currently enjoy significant local market share are particularly attractive, since we can leverage our existing cost structure and relationships with local regulators.

We also seek to grow the number of our AWP machines by negotiating the renewal of our existing contracts with site owners and generally attempting to limit the number of contracts that are terminated to those that we do not wish to renew. 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.

Sales and Marketing

In Spain, our sales force is responsible for maintaining our relationships with site owners and identifying new locations to install AWP machines and acquisition opportunities. Our sales force is spread throughout the country and is generally based out of our regional headquarters. Our sales employees' salaries comprise fixed and variable components, the latter of which is based on commissions related to the value of contracts they are able to close.

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. However, alongside the sports betting legislation, the government has recently eased some of the restrictions that existed for gaming related advertisements. Due to such restrictions, our marketing and public relations expenditures tend to be modest and totaled €0.1 million in 2010.

Regulatory change

Gaming is regulated on a regional level in Spain. On August 13, 2009, the Community of Madrid published the new regulation for gaming machines which adapts the regional regulation to that adopted by most other communities in Spain, including Cataluña, Andalucia, Valencia and Castilla La Mancha starting in 2005. Among the principal changes related to AWP machines are: an increase in the maximum wager amount from €0.40 to €0.60, by allowing triple bets; a decrease in the prize payout from 75% to 70%; an increase in the maximum prize from €120 to €240; and the authorization to install video machines. In the three months ended December 31, 2009, we adapted the entire machine portfolio in Madrid (approximately 3,400 machines) to comply with the new regulation.

Italy

Italy Bingo

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. We have owned and operated these bingo halls since our acquisition of Operbingo, on December 15, 2005, and have since acquired Bingo Palace, Mortara, Maxibingo and Royal, each with one hall, and opened a greenfield bingo hall in Bologna, and today we own and operate 13 halls. In addition to the traditional bingo game available in our bingo halls, pursuant to Italian legislation in 2007, we have installed AWP machines in our bingo halls. As of December 31, 2010, we had 480 AWP machines and 402 VLTs installed in our bingo halls. In 2010, our Italy Bingo business generated operating revenue of €88.0 million and EBITDA of €8.1 million, representing 7.8% of our consolidated revenues and 3.0% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

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 Bingo operations:

	Year ended December 31,				
	2006	2007	2008	2009	2010
Number of bingo halls (at period end)	10	12	12	12	13
Number of bingo hall seats (at period end)	5,535	6,447	5,930	5,817	6,071
Net win per bingo hall seat per day (in euros)	41.5	36.6	33.0	30.0	27.1

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2010:

Name of Bingo Hall	City/Region	Concession Date	Concession Expiration Date	Seating Capacity	No. of Seats	Revenues for 2010 (in millions of €)[1]
Palace	Turin, Piemonte	Jan. 2002	Jan. 2014	867	834	12.7
Re	Rome, Lazio	Feb. 2002	Feb. 2014	927	806	21.0
Modernissimo	Salerno, Campania	Mar. 2002	Mar. 2014	583	401	7.4
Living	Bologna, Emilia Romagna	Apr. 2002	Apr. 2014	497	336	2.5
Marconi	Vigevano, Lombardia	Apr. 2002	Apr. 2014	431	303	3.1
Garbini	Viterbo, Lazio	Aug. 2002	Aug. 2014	497	374	6.3
Ariston	Lecce, Puglia	Sep. 2002	Sep. 2014	585	422	8.1
Vittoria	Parma, Emilia Romagna	Jan. 2002	Jan. 2014	530	443	6.3
Cola di Rienzo	Rome, Lazio	Dec. 2004	Dec. 2016	499	395	7.0
Regina	Bologna, Emilia Romagna	Sep. 2002	Sep. 2014	393	336	3.5
Mortara	Mortara, Lombardia	Mar. 2002	Mar. 2014	327	306	1.8
Maxibingo	Salerno, Campania	Mar. 2002	Mar. 2014	485	485	4.8
Royal	Caserta, Abruzzo	Jan. 2002	Jan. 2014	750	630	
Total				7,371	6,071	84.5

(1) Revenues consist of net win at bingo halls, food and beverage sales and other revenues.

Italy AWP

Since 2004, the year in which regulation intended to reform the Italian gaming machine industry was implemented, we have also been active in Italy in the AWP machines market. We entered the market as an operator of AWP machines and subsequently acquired a network concessionaire. In 2010, our Italy AWP business generated operating revenues of €49.4 million and EBITDA of €6.1 million, representing 4.4% of our consolidated revenues and 2.3% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

The following table sets forth the historical development of our Italy AWP operations:

	Year ended December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
Number of AWP machines operated (at period end)	—	952	1,782	1,688	1,698
Net win per machine per day (in euro)	—	64.9	63.1	67.8	74.6

In the AWP machines 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 55% 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%)	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) (25%)	Net box represents amounts wagered less prize payouts.
Less Site Owner (5.8%)	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 (19.2%)	Operator revenues represents 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 under IFRS.
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 tax surcharge.
Less Interconnection Fee (1%)	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 (4.8%)	Operator revenues after gaming taxes and interconnection fee represents the percentage of amounts wagered that we retain as AWP operator.

There are three key differences between the Italian AWP machine business and the Spanish AWP machine business. First, in Italy, all AWP machines are required to be interconnected through a national network. A network provider must make all gaming tax payments and is expected to carry out all money collection activities (though currently operators are in fact carrying out money collection activities), while in Spain, network interconnection is not required and tax payment and collection activities are carried out by the AWP machine operator. Second, in Italy, an operator is a service provider with lower exposure to regulatory authorities as the relationship with the regulatory authorities is carried out through the network provider. In Spain, the AWP machine operator's activities are highly regulated. Third, in Italy, the use of video AWP machines is much more prevalent than it is in Spain.

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 8,483 machines connected to its network as of December 31, 2010. With this acquisition, and following the restructuring of our direct machine business in 2008 and our current focus on indirect operations through the three AWP operators in which we acquired majority stakes in 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. VLT machines are technologically advanced versions of AWP machines, with higher prizes payout 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 December 2010, we acquired a majority stake in FG Slot Services SLR, an AWP machine operator with approximately 620 AWP machines and a leading AWP machine operator in the region of Verona. The acquisition is 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.

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.

Other Operations

Sports Betting

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., 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 operations 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 operations 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. For a more detailed discussion of our purchase of William Hill's 50% stake, see "Management's Discussions and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Our Results of Operations—Purchase of 100% of Sports Betting venture".

We made progress in the establishment of the Sports Betting business in Spain over the course of 2010 with 461 locations trading at the end of the year, a majority of these being self service terminals installed in bars.

On October 18, 2010, we launched sports betting operations in the region of Navarra. As of December 31, 2010 we are the only company authorized to operate in the three regions in Spain, or Comunidades Autónomas, in which sports betting was permitted. As in the Basque region, sports betting in Navarra is allowed at dedicated sports betting shops, existing gaming establishments and bars.

From January 1, 2011, Sports Betting will be reported together with Spain Bingo and Spain AWP as a consolidated Spanish business. See "—Recent Developments—Consolidation of the Spanish businesses".

Spain Bingo

We entered the Spanish bingo market in 1999 with the acquisition of Cartaya, a regional mid-sized bingo hall with 250 seats located in southeast Spain. In March 2000, we acquired Bingo Canoe, the largest bingo hall in Spain, with 1,040 seats, and Star, with 592 seats, both located in Madrid. Our lease to the premises on which Bingo Canoe is located expires in October 2012. We closed the Cartaya and Star bingo halls in 2003 and 2005, respectively, due to low profitability so that, as of December 31, 2010, our Spain Bingo business is limited to Bingo Canoe. In 2010, our Spanish bingo business generated operating revenue of €21.9 million and EBITDA of €1.1 million, representing 1.9% of our consolidated revenues and 0.4% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Operations

As owner and operator of the Bingo Canoe hall, we rent and refurbish its premises, pay required gaming taxes and withhold payout taxes on prizes, control players' entrance into and security at the bingo hall and generally operate all aspects of the bingo game. The following table sets forth certain operational information regarding our bingo operations in Spain for the periods indicated:

	Year ended December 31,				
	2006	**2007[1]**	**2008**	**2009**	**2010**
Number of halls (at period end)	1	1	1	1	1
Number of seats (at period end)	1,024	770	700	700	700
Number of visitors (in thousands)	516	388	460[2]	430[2]	425[2]
Average amount wagered per visitor (in euros)	148	153	144	131	116
Average number of employees	157	126	165	152	150

(1) The hall was closed for refurbishment for three months, resulting in a decrease in the number of visitors and in the average number of employees.
(2) This number excludes visitors to the sports betting location, approximately 35,000 to 45,000 for each year.

We believe there are four main factors that contribute to the relative success or failure of a bingo hall in Spain: (i) the size of the hall; (ii) the location of the hall; (iii) the scope of the product offered in the hall (standard paper bingo cards, electronic bingo terminals or bingo games linked with multiple bingo halls); and (iv) the atmosphere and quality of service at the hall. These factors drive traffic to the hall, which, together with the number of cards played per player, increases the jackpot size, which in turn attracts more players and induces those players to purchase more cards. The number of players is limited by the attractiveness of other gaming options or other entertainment activities, as well as by the attractiveness of the bingo hall itself as measured by the four factors listed above. The number of cards per player is generally limited by the ability of players to keep track of multiple cards, their sensitivity to the price of the cards and restrictions contained in applicable regulations. The large size of Bingo Canoe allows us to offer larger prizes than most mid- and small-sized halls in the region, attracting a larger client base. Extending the opening hours to the maximum time authorized by regional regulators (12 hours) has also helped to attract clients looking for late and early gambling.

We believe that our Spanish bingo business is strategically important to our overall operations. Our Spanish bingo business has required low levels of capital expenditures and working capital and, as such, it has been highly cash generative. In addition, operating our Spanish bingo business provides our management with know-how and best practices to apply to our bingo hall operations in Argentina, Mexico, Colombia and Italy.

We may seek to acquire other bingo hall operators in Spain in order to take advantage of possible regulatory changes we are pursuing with other operators, including the possibility of increasing the number of gaming machines in such bingo halls.

On August 13, 2009, the Community of Madrid published new regulation for gaming machines which adapts the regional regulation to that adopted by most other communities in Spain. The new regulation also permits the introduction of Class B3 machines which can be installed in arcades, bingo halls and casinos. The Class B3 machines, which are based on the bingo game and are similar to the EBTs we operate in Mexico, have a maximum prize of €6,000, which increases to €18,000 in the case of interconnected machines. At December 31, 2010, we had 60 Class B3 machines installed in Bingo Canoe.

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 1 percentage point increases the margin to the operator.

From January 1, 2011, Spain Bingo will be reported together with Sports Betting and Spain AWP as a consolidated Spanish business. See "—Recent Developments—Consolidation of the Spanish businesses".

Sales and Marketing

As in the AWP machines market, national and regional regulations in Spain limit the extent and manner by which we can advertise our Bingo Canoe hall. In particular, government regulation limits direct and indirect advertisements to potential bingo players, but such regulation has been amended to allow certain types of limited gaming publicity. However, alongside the new sports betting legislation, the government has recently eased some of the restrictions that existed for gaming-related advertisements. In lieu of conventional advertising, our marketing efforts are concentrated on promotional "soft marketing" initiatives at Bingo Canoe.

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 at December 31, 2010, the racetrack had 363 machines and we were operating six betting locations in Panama.

On January 24, 2006, we completed the purchase of Alta Cordillera, the owner 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 minority interest in four Chilean casinos for 100% of Crown Casinos. On December 6, 2008, we opened our fifth casino in Panama, located in the second largest Panamanian city of Colón, The casino, which operates under our Crown Casino's brand, has 13 tables and 189 slot machines and is located at the Radisson Hotel.

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 US$38.0 million (equivalent to €26.4 million as of April 15, 2011). As of the date of the acquisition, Thunderbird Panama, 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 is consolidated in our financial statements from September 1, 2010.

At December 31, 2010, Codere through its two brands in Panama, Crown and Fiesta, operated 11 casinos, with a total of 3,377 gaming machines and 152 tables. In 2010, our Panama business generated operating revenue of €62.3 million and EBITDA of €4.1 million, representing 5.5% of our consolidated revenues and 1.5% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Colombia

Our Colombia business focuses on the ownership and operation of gaming machines. As of December 31, 2010, we operated 6,179 gaming machines located in our two casinos as well as in bars, restaurants and salons in major cities throughout Colombia. In addition, as of December 31, 2010, we operated five bingo halls with an aggregate of 950 seats. In 2010, our operations in Colombia generated operating revenue of €27.5 million and EBITDA of €5.4 million, representing 2.4% of our consolidated revenues and 2.0% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

We estimate that the total number of licensed gaming machines in Colombia, as of December 31, 2010, was approximately 64,300. In addition, we estimate that, as of December 31, 2010, 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 315 legal operators, is highly fragmented. Currently, our main competitors in the licensed market are Unidelca, with approximately 4,379 gaming machines, Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 2,071 gaming machines and Mundo Slot with approximately 1,647 machines.

Operations

The following table sets forth the historical development of our Colombia business's operations:

	2006	2007	2008	2009	2010
Number of AWP machines (at period end)	11,578	8,463	8,502	6,556	6,179
Net win per gaming machine per day (in Colombian pesos)	24,677	28,757	32,747	33,257	39,938

Uruguay

In June 2002, the Uruguayan government granted *Hípica Rioplatense Uruguay* ("HRU"), a 50/50 joint venture between us and the *Sociedad Latinoamericana de Inversiones* Group (the "SLI Group"), an exclusive 30-year concession, to operate the historic Maroñas horse race track 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.

As of December 31, 2010, our Uruguay business operated the Maroñas horse race track, four machine halls, 27 betting locations with slot machine parlors (with a total of 1,642 slot machines seats installed). In addition, we also had betting locations at which there were no slot machines and we simulcast horse racing at the Maroñas horse race track in Latin America and Austria. In 2010, our Uruguay business generated operating revenue of €16.9 million and EBITDA of €3.2 million, representing 1.5% of our consolidated revenues and 1.2% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

The Uruguay business's operation of the Maroñas horse race track 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 race tracks. Racino gaming has grown rapidly in the United States and Canada in recent years.

On November 9, 2009, the *Intendencia Municipal de Montevideo* ("IMM") awarded the Carrasco Nobile consortium the concession for the Hotel Casino Carrasco project. In addition to us, the consortium includes international investors (Global Partners and AGG) and Sofitel, the luxury brand of the French hotel group, Accor. 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 Hotel

Casino Carrasco to a world-class standard, and then operate the emblematic Hotel Carrasco in Montevideo, together with a first class partner, under a 30-year concession. The total investment in the project is approximately U.S.$30 million and Hotel Casino Carrasco is expected to open in the first half of 2012.

Brazil

In 2004 and 2006, Codere signed ten-year exclusivity agreements with three of the four major Jockey Clubs (JCB, JCRGS and JCPR) to offer all forms of betting permitted under their licenses throughout Brazil. Recently, the Ministry of Agriculture issued permits to certain jockey clubs for betting on international simulcast races. Until that time, only pari-mutuel wagering on local races was permitted. As a result of this change and pursuant to the exclusivity agreements with JCB and JCRGS, we have opened six off-track betting facilities (two in Rio de Janeiro, one in Niterói, one in Pelotas and two in Porto Alegre) to offer betting alternatives for local and international races. In 2010, our Brazil business generated operating revenue of €2.9 million and EBITDA of €(2.1) 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 2009 and 2010 and the breakdown of those employees by activity and geographically.

Category of Activity	2009		2010	
	Men	Women	Men	Women
Managers and supervisors	660	158	702	163
Specialists	147	83	170	113
Sales personnel	2,149	1,770	2,380	1,893
Collectors	364	50	387	124
Mechanics	487	5	472	5
Clerical staff	990	781	1,127	937
Assistants	536	319	590	373
Other personnel	3,489	2,055	5,381	2,875
Total(1)	8,822	5,221	11,209	6,483

Geographic Area	2009		2010	
	Men	Women	Men	Women
Spain	1,007	304	994	321
Argentina	2,592	1,680	2,694	1,851
Mexico	3,229	1,842	4,489	2,158
Italy	432	339	452	367
Panama	619	348	1,704	1,081
Colombia	423	260	369	246
Uruguay	459	421	462	416
Brazil	61	27	45	43
Total (1)	8,822	5,221	11,209	6,483

(1) 100% of the staff have been considered independently of the method of consolidation used for these companies. Employees in the halls of the Caliente Group (in Mexico) where Codere is the operator have not been included.

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 Spain and the other 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. 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.

Ballesteros Transaction

On March 2, 2000, acting on our behalf, Hispano Chilenos, S.A., a company owned by Jesús Franco, who until April 2006 was one of our principal shareholders and a member of our Board of Directors, entered into a purchase and sale agreement with José Ballesteros Requejo and his wife ("Ballesteros") whereby Hispano Chilenos, S.A. agreed to purchase from Ballesteros 50% of the shares of all the entities that operated Ballesteros' businesses in Spain and Venezuela—12 bingo halls in the Castilla-Leon region of Spain, one in Venezuela as well as an additional license to operate bingo halls in Venezuela—for €12.0 million. On September 15, 2000 the purchase and sale agreement was novated and Codere assumed all of Hispano Chilenos, S.A.'s rights and obligations thereunder and paid an additional €2.4 million owed to Ballesteros. On January 2, 2001, Codere paid to Hispano Chilenos, S.A. €12.0 million in respect of the funds Hispano Chilenos, S.A. had advanced to Ballesteros and €1.1 million in interest.

Under the terms of the agreement, the €12.0 million payment made to Ballesteros was to be returned if the transactions contemplated by the agreement were not consummated due to the fault of Ballesteros, plus €6.0 million in penalties. The agreement also stipulated that if the transaction was not consummated due to the fault of Hispano Chilenos, S.A., Hispano Chilenos, S.A. would recover only €6.0 million of the €14.4 million that had been paid to Ballesteros.

After signing the March 2, 2000 purchase and sale agreement, but during our due diligence of the Ballesteros Group's operations, we discovered that the legal and economic aspects of the transaction were not as they had been represented and, in particular, that the Ballesteros Group did not hold a license to operate in Venezuela and that the Venezuelan economic and political crisis had significantly reduced the value of the Ballesteros Group's businesses. Since we were unsuccessful in obtaining a refund from the Ballesteros Group of the €15.5 million that we had paid in connection with the transaction, on October 29, 2003, we initiated a suit against Ballesteros in the First Instance Court of Madrid (*Juzgado de Primera Instancia de Madrid*). In the suit, we claimed that: (i) the purchase and sale agreement should be terminated based on breaches of representations and warranties and covenants by Ballesteros; (ii) we were entitled to recover €14.4 million based on Ballesteros' failure to consummate the transactions contemplated by the agreement; and (iii) Ballesteros should pay us €6.0 million as a penalty under the terms of the agreement and €1.1 million in damages. As required by the First Instance Court of Madrid, we posted a bank guarantee in the amount of €1.8 million in relation to our claim against Ballesteros.

On October 14, 2004, Ballesteros filed a counter claim alleging that we breached the purchase and sale agreement by failing to perform our obligations under such agreement. Ballesteros claimed €33.4 million in damages, including expenses incurred in making investments under the terms of the agreement, pain and suffering and loss of profits. Setting off the amount of €6.0 million that we were entitled to recover from the up-front payment under the terms of the agreement, Ballesteros' counter claim requested a total of €27.4 million in damages. The first hearing (*audiencia previa*) before the First Instance Court of Madrid regarding these proceedings was held on March 10, 2005 and oral arguments were held on May 17, 2005. On October 4, 2006, the criminal proceedings brought against Ballesteros on charges related to the facts alleged by us in our civil suit were dismissed and on May 3, 2007, both the civil suit initiated by us as well as the counter-claim filed by Ballesteros were dismissed by the court which imposed the payment of legal fees on both parties. We have appealed the court's decision to dismiss our suit.

On September 23, 2009, the Madrid Provincial Court issued a judgment on our appeal requiring Ballesteros to repay Codere approximately €12.0 million of the €15.5 million we paid in connection with the Ballesteros transaction and such amount was repaid to us in December 2009. As a result, in the quarter ended December 31, 2009, we reflected a €10.2 million (net of legal fees and expenses) reversal of the €15.5 million provision recorded in 2002 regarding the potential loss of payments in connection with the Ballesteros transaction, reducing the provision in respect of loss of payments to €5.3 million. We have not made any additional provisions in connection with the Ballesteros transaction. In parallel to the repayment, 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, and expect the Supreme Court to issue a ruling on such appeal within three years.

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.

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$10.5 million (equivalent to approximately €2.0 million as of April 15, 2010).

Other Tax Disputes

We are involved in several disputes with state tax authorities in Mexico concerning the application of state lottery taxes to our bingo hall operations. These disputes arose following the recognition by regulations enacted under the Mexican Federal Law of Games and Lotteries on September 17, 2004, of bingo as a form of lottery, which technically empowered 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 is constitutionally empowered to take such action. Caliente, Promojuegos and Mio Games had previously obtained injunctions absolving them of the obligation to pay such taxes in several states but certain of the injunctions are no longer effective and the relevant states are now claiming the taxes. Disputes relating to the taxes in other states are also ongoing. If these disputes are determined adversely to us, we could be required to pay Mex. Ps. 1,195 million (equivalent to approximately €70.5 million as of April 15, 2011).

In Bogota, Colombia, a dispute with local tax authorities regarding certain gaming taxes on slot machines that we operate at locations owned by third parties was resolved in the second half of 2009. Codere Colombia S.A. paid COP$1,675.7 million (equivalent to approximately €0.6 million as of April 15, 2011) in relation to such tax and the tax authorities have 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 authorizing tax authorities to resolve tax disputes by way of payment of agreed amounts 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 the amount that we owe as a result of the Constitutional Court ruling. If, however, such tax authorities were to seek renegotiation, we could be required to pay up to COP$10,000 million (approximately €3.9 million as of April 15, 2011) including the COP$1,675.7 million that we have already paid.

Other Litigation and Disputes

Argentina

Other Litigation and Disputes in Argentina

In 1996, Mr. Ernesto López Moreno, the lessor of a bingo hall to Intermar Bingos S.A., of which we currently hold 58.95%, filed suit in Mar del Plata Lower Court, Argentina. Mr. López claimed that Intermar Bingos S.A. owed approximately U.S.$1.5 million in rental payments. On behalf of Intermar Bingos S.A., we filed a counter-suit, arguing that we do not owe any rental payments for the bingo hall since we were not allowed to use the premises. The Lower Court suspended Mr. López's claim pending the resolution of our counter-claim, which was rejected by the Lower Court, the Court of Appeals, the Provincial Supreme Court and the National Supreme Court. We expect that the Lower Court will determine during 2011 the final amount to be paid to Mr. López.

Codere is the subject of a criminal investigation in Argentina relating to the illegal importation and exploitation of slot machines, which was 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 still being investigated and are cooperating fully with the authorities. No director, officer or employee of Codere has been subpoenaed as of the date of this Report. We believe that the investigation, insofar as it relates to Codere, does not have any merit and are additionally seeking the application of the statute of limitations.

The Argentine Central Bank ("BCRA") has initiated several proceedings under foreign exchange control laws and regulations. The applicable law imposes a fine in the range of one and ten times the amount of the alleged infraction, but the amount normally imposed is the minimum amount. BCRA is investigating alleged infractions by Codere with respect to a total of U.S.$4.1 million and €0.3million. 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 amounts, we believe that we will successfully defend our position with respect to such infractions.

Italy

AAMS Preu Payments

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. Subsequently, Codere Network received further notices from the AAMS Lazio claiming AAMS Preu payments for 2006, 2007 and 2008.

As of the date of this Report, following various requests for recalculation of the final amounts due by Codere Network, the AAMS Lazio concluded that Codere Network does not owe AAMS Preu payments for 2004, 2005, 2006 and 2007.

With respect to AAMS Preu payment for 2008, on December 27, 2010, Codere Network received a communication from AAMS which stated that Codere Network does not owe any amounts, and recognized a credit of €2.1 million in favor of Codere Network. Codere Network believes that the credit owed to Codere Network should be for a larger amount and has submitted an application for review, which review is ongoing.

In addition, 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 relating to the machines that Codere Network interconnects for such operators. Settlements have been reached with certain operators but proceedings remain in place against 33 gaming operators as of the date of this Report.

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 not requested from Codere Network €3.0 billion in penalties for the alleged incompliance with certain obligations such as the terms for the activation and management of the AWP network and the minimum levels of service (the "CdC Letter"). The CdC letter claimed four types of penalties, was addressed to official representatives of the AAMS who were allegedly responsible for revenue losses resulting from the failure to request penalties and to Codere Network as concessionaire, which the CdC considered to be jointly responsible, and, under similar circumstances, was sent to nine other concessionaries which had provided AWP network services in Italy claiming an aggregate amount of €98 billion in penalties and fines. On June 26, 2007, pursuant to the CdC Letter, the AAMS requested that Codere Network pay penalties and fines per the CdC Letter (the "AAMS Letter").

Codere Network has responded to the CdC Letter and the AAMS Letter, both directly and in coordination with the other network concessionaires. With respect to the AAMS Letter, Codere Network challenged the request of payment before the Lazio Regional Administrative Court ("TAR"). On July 25, 2007, the TAR ordered the temporary suspension of the request of payment under the AAMS Letter and on April 1, 2008, Codere Network received notice that the TAR had annulled the AAMS Letter request for payment because the AAMS had not conducted a proper administrative process (the "TAR Sentence"). While the TAR Sentence did not specify a judgment with respect to the underlying claims of the AAMS Letter, it contained certain considerations that were favorable to Codere Network. For example, the TAR Sentence noted that the AAMS had not followed appropriate procedures, including providing concessionaires with proper notice, which has led to delays. Claims against the other nine concessionaires have been met with similar developments.

On May 27, 2008 and June 11, 2008, the AAMS sent additional letters to Codere Network again claiming three of the four types of penalties contained in the CdC letter at reduced amounts (the "Additional AAMS Letters"). The Additional AAMS Letters claimed €78,888 for the late launch of the telecommunications network, €118,635 for the late activation of the telecommunications network and approximately €1.7 million for the late management of the telecommunications network. Similar additional letters claiming reduced penalties were sent to the other concessionaires. As of the date of this Report, AAMS has not provided an amount for the fourth type of penalty relating to the minimum levels of service, which is likely to be the most significant.

On September 5, 2008, October 1, 2008 and October 16, 2008, Codere Network filed motions challenging the Additional AAMS Letters, which resulted in the further reduction in the amounts of the penalties provided to €47,333 for the late launch of the telecommunications network and €445,111 for the late management of the telecommunications network and a slight increase to €183,064 in the penalty for the late activation of the telecommunications network. In addition, Codere Network and the other concessionaires with respect to their respective penalties challenged these penalties with an appeal before the TAR. On January 12, 2010, the TAR rejected such appeals and confirmed the validity of the penalties imposed by the AAMS. Codere Network has submitted an appeal with the Council of State demanding the cancellation of the sanctions imposed by the AAMS and requesting the suspension of enforcement of the rulings until a final decision has been issued by the Council of State.

On July 6, 2010 the Council of State declared at a preliminary hearing itself that it was unwilling to render the penalties ineffective. The AAMS stated that it has no intention of imposing the penalties until the Council of State issues a final judgment. As of the date of this Report, the Council of State has not issued a final judgment.

On December 23, 2010, the Council of State upheld the appeal submitted by BPlus, a concessionaire, and reversed sanctions imposed by the AAMS for the late launch, late activation and late management of the telecommunications network. We view the judgment as an important precedent in respect of the CdC, TAR and Council of State proceedings Codere Network faces.

On February 18, 2011, Codere Network was notified by the AAMS of the initiation of a proceeding with respect to the fourth type of penalty relating to the minimum levels of service by Codere Network, specifically interconnection issues. As of the date of this Report, the AAMS has not imposed the penalty, which would be capped at €2.7 million.

Additionally, with respect to the CdC Letter, Codere Network filed a defense motion before the CdC in May 2007 claiming that the penalties were not owed, which motion the CdC rejected on March 18, 2008. The CdC provisionally scheduled a hearing to discuss the merits of the penalties for December 4, 2008, which would have taken place in conjunction with hearings relating to the claims against the other concessionaires. However, as a result of an appeal before the Italian *Corte Suprema de Cassazione* ("Court of Cassation") by Codere Network and the other concessionaires seeking to clarify the calculation of penalties claimed in the CdC letter and challenging the jurisdiction of the CdC on matters on which the concessionaires believe the TAR has jurisdiction, the December 4, 2008 hearing was postponed and the CdC Letter (and similar letters for the other concessionaires) were suspended until the Court of Cassation ruled on the concessionaires' appeal. On December 9, 2009, the Court of Cassation rejected the concessionaires' appeal by confirming the jurisdiction of the CdC to decide the alleged revenue losses referenced in the CdC Letter by the official representatives of the AAMS, along with or in cooperation with the network concessionaires. According to the Court of Cassation, the CdC has jurisdiction to decide on such alleged revenue losses.

On October 11, 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 the concessionaires were allegedly responsible. In addition to the concessionaires' alleged responsibility for the technical problems, Digit S.p.A. has been requested to investigate the potential responsibility of Sogei S.p.A., the technical partner of AAMS. We expect that the technical report will be beneficial to the concessionaires with respect to the CdC proceedings because it may establish that Sogei S.p.A. was partly or fully responsible for the late activation and interconnection problems, reducing the relative fault of the concessionaires. On February 17, 2011, Sogei S.p.A. filed a motion opposing the commissioning of the report and the inclusion of Sogei S.p.A. in its scope. Codere Network and the other concessionaires intend to oppose Sogei S.p.A.'s motion.

Request for "resa del conto"

In January 2009, the CdC requested Codere Network to 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 the 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. The CdC has also sued, or is expected to sue in due course, the other concessionaires for the payment of similar penalties.

Codere Network has taken part in the legal proceeding and challenged the penalties in question, 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.

Uruguay

On July 28, 2010, Dongara Investment Inc. requested the annulment of the concession of the Hotel Casino Carrasco 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 Hotel Casino Carrasco'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 law 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.

Other

Since 2006, a former minority shareholder who owned 0.5% of our share capital had challenged all of the resolutions adopted by our shareholders at our general shareholders' meetings, except for the change of our headquarters. With respect to the minority shareholder's claims relating to the resolutions passed at the extraordinary general shareholders' meeting held on June 27, 2006, the Commercial Court of Madrid ruled in favor of the minority shareholder on January 10, 2008. We appealed this ruling, which the Court of Appeal (*Audiencia Provincial*) dismissed. However, the judgment of the Commercial Court of Madrid has not been executed by the minority shareholder. Although we do not expect that the judgment of the Commercial Court of Madrid will be executed, the minority shareholder can request the execution of the judgment until January 10, 2013. In order to avoid and prevent any damages to Codere, on May 7, 2008, the shareholders' meeting confirmed and reapproved all the resolutions that had been challenged by the minority shareholder. Given that the resolutions passed at such shareholders' meeting were not challenged within a year of their passage, the resolutions are legally binding. However, if the judgment of the Commercial Court of Madrid is executed, actions taken under the restrictions before their confirmation and reapproval may be challenged. We have not made any provisions in connection with this dispute.

Real Property

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

Other than nine bingo halls in Argentina, 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, 2010, our authorized and issued share capital was approximately €11.0 million, 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 our shares as of December 31, 2010.

	As of December 31, 2010	
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	100.00%

(1) Masampe Holding B.V., a Dutch special purpose vehicle, is owned by José Antonio Martínez Sampedro, 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 Latina 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 and Settlement with the Francos

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 Mártinez 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.

Following the passage of a payment deadline for a final installment payment arising out of the acquisition by the Mártinez Sampedros of 17.9 million Codere, S.A. shares from Jesús Franco and Joaquín Franco, on November 13, 2008 the Francos informed the Martínez Sampedros that they required the initiation of the sale process (the "Sale Process"), which required the sale of all the shares held directly or indirectly by the Martínez Sampedros, which were approximately 71% of Codere's total shares outstanding at that date, as contemplated in the sale and purchase agreements under which the Martínez Sampedros acquired Codere, S.A. shares from the Francos. The sale process was the sole recourse of the Francos under the sale and purchase agreements and it replaced the Martínez Sampedros' obligations in respect of the final installment payment. On July 28, 2009 the Martínez Sampedros announced an agreement (the "July 2009 Agreement") with Jesús Franco and Joaquín Franco pursuant to which the parties agreed to terminate the Sale Process. The July 2009 Agreement provided for the delivery by the Martínez Sampedros of 1,000,000 Codere, S.A. shares to each of the Francos, which represented an aggregate amount of 3.63% of Codere, S.A.'s share capital. The July 2009 Agreement included a full release of any and all remaining claims arising out of the initial sale and purchase agreements between the Mártinez Sampedros and the Francos.

The SPV's activities are limited to the holding of Codere, S.A. shares and certain other limited actions required or permitted under the SPV financing documentation. Although Codere, S.A. is not a party to such documentation 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.