

April 30, 2013

ANNUAL REPORT OF CODERE, S.A.

PURSUANT TO (i) SECTION 4.19(a)(i) OF THE EURO NOTES INDENTURE DATED JUNE 24, 2005, AS AMENDED AND SUPPLEMENTED FROM TIME TO TIME (THE "EURO NOTES INDENTURE"), AMONG CODERE FINANCE (LUXEMBOURG) S.A. (THE "ISSUER"), THE GUARANTORS (AS DEFINED THEREIN), DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE (THE "EURO NOTES TRUSTEE") AND THE OTHER PARTIES LISTED THEREIN, GOVERNING THE ISSUER'S 8¹/₄% SENIOR EURO NOTES DUE 2015 AND (ii) SECTION 4.19(a)(i) OF THE DOLLAR NOTES INDENTURE DATED FEBRUARY 8, 2012, AS SUPPLEMENTED ON JUNE 29, 2012, AMONG THE ISSUER, THE GUARANTORS (AS DEFINED THEREIN), DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE (THE "DOLLAR NOTES TRUSTEE") AND THE OTHER PARTIES LISTED THEREIN, GOVERNING THE ISSUER'S 9¹/₄% SENIOR DOLLAR NOTES DUE 2019 (THE "REPORT").

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

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

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USE OF CERTAIN DEFINITIONS

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

- “AAMS” are to the *Amministrazione Autonoma dei Monopoli di Stato*, the Italian betting and gaming authority;
- “AAMS PREU payments” are to the estimate of gaming taxes owed by concessionaires based on the amounts spent by customers on slot machines;
- “Argentine peso” or “AR\$” are to the lawful currency of the Republic of Argentina;
- “AWP machines” or “AWPs” are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as “Type-B machines”) and in Italy (as “Comma 6” or “Comma 6A” machines) to be placed in bars, cafés, arcades and bingo halls;
- “Brazilian reais” are to the lawful currency of Brazil;
- “Caliente Holdcos” are to Grupo Caliente, S.A.P.I. de C.V., Jomaharho, S.A.P.I. de C.V. and Grupo Inverjuego, S.A.P.I. de C.V., each a holding company of certain of the Legacy Caliente companies;
- “Caliente Restructuring” are to a restructuring agreement with Grupo Caliente, which closed on March 31, 2011, pursuant to which we acquired a majority stake in the Joint Opcos;
- “CdC” are to the Italian *Corte dei Conti*, a constitutional body in Italy charged with supervising and auditing the management and accounts of the public administration (including the exercise of certain jurisdictional activities relating thereto);
- “CIE” are to Corporación Interamericana de Entretenimiento, S.A.B. de C.V.;
- “Codere Group”, “Group” or “Codere” are to Codere, S.A. and its subsidiaries; “we”, “us” or “our” are also to Codere, S.A. and its subsidiaries unless the context otherwise requires such reference to be to Codere, S.A. or to the Issuer;
- “Codere México” are to Codere México S.A. de C.V.;
- “Codere Network” are to Rete Franco, S.p.A. which we acquired from Franco Distribución, S.A. on April 28, 2006 and renamed “Codere Network S.p.A.” on September 7, 2006;
- “COFECO” are to the *Comisión Federal de Competencia*, the Mexican competition authority;
- “Colombian peso” or “COP\$” are to the lawful currency of Colombia;
- “Consolidated Financial Statements” are to the audited consolidated annual accounts of Codere, S.A. and its subsidiaries as of and for the year ended December 31, 2012 including comparative financial information for the year ended December 31, 2011, prepared in accordance with IFRS and included in this Report;
- “CTH” are to Complejos Turísticos de Huatulco;
- “Dalla Pria” are to Dalla Pria Service, S.r.l.;
- “Dollar Notes” are to U.S.\$300,000,000 aggregate principal amount of 9.250% senior notes due 2019 issued by Codere Finance (Luxembourg) S.A. on February 8, 2012;
- “Dollar Notes Indenture” are to the indenture governing the Dollar Notes dated as of February 8, 2012, as supplemented on June 29, 2012, among the Issuer, the Guarantors (as defined therein), Deutsche Bank Trust Company Americas as trustee, and the other parties listed therein;

- “Dollar Notes Trustee” are to Deutsche Bank Trust Company Americas;
- “dollars”, “U.S. dollars”, “U.S.\$” or “\$” are to the lawful currency of the United States of America;
- “EBITDA” (earnings before interest, tax, depreciation and amortization) are to operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less gains or losses on asset disposals or acquisitions;
- “EBT” are to Electronic Bingo Terminals, which are similar to U.S. Class II machines;
- “EU” or “European Union” are to the European Union as constituted on April 30, 2004, specifically comprising the countries of Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which becomes a member of the European Union after April 30, 2004;
- “euro” or “€” are to the lawful currency of the Member States of the European Monetary Union;
- “Euro Notes” are to the €760,000,000 aggregate principal amount of 8¹/₄% senior notes due 2015 issued by Codere Finance (Luxembourg) S.A. on June 24, 2005, April 19, 2006, November 7, 2006 and July 29, 2010 under the Euro Notes Indenture;
- “Euro Notes Indenture” are to the indenture governing the Euro Notes dated June 24, 2005, as supplemented on February 10, 2006, February 27, 2006, May 17, 2007, July 17, 2007, April 24, 2009, June 25, 2009, March 22, 2011, December 21, 2011 and January 18, 2012, as further supplemented or amended from time to time, among the Issuer, the Guarantors (as defined therein), Deutsche Bank Trust Company Americas, as trustee, and the other parties listed therein;
- “Euro Notes Trustee” are to Deutsche Bank Trust Company Americas;
- “free cash flow” are to EBITDA less net financial income (loss) excluding exchange gains (losses) less corporate income tax and less total capital expenditures;
- “Gap Games” are to Gap Games, S.r.l.;
- “gaming halls” are to venues, including bingo halls with machines, casinos, machine halls at racetracks and stand-alone machine halls that have a number of different gaming devices offering various types of games, the number of which varies from country to country;
- “gaming machines” are to traditional reel spinning slots, machines with video screens and progressive jackpot machines, which include the Type-B machines operated in Spain, the Comma 6, Comma 6A and VLTs operated in Italy, the EBTs operated in Mexico and Spain and the slot machines operated in Argentina, Mexico, Panama, Colombia and Uruguay, which are similar to U.S. Class III Machines or electronic gaming machines that are specifically defined under U.S. federal law as Class III gambling devices and are typically permitted in U.S. casinos;
- “Gaming Re” are to Gaming Re, S.r.l.;
- “Grupo Caliente” are to Jorge Hank Rohn and the Mexican companies engaged in the gaming business, including Turística Akallí, S.A. de C.V. and Hipódromo de Agua Caliente, S.A. de C.V., in which Jorge Hank Rohn, directly or indirectly, holds a controlling interest;
- “HRU” are to Hipica Rioplatense Uruguay;
- “IAS” are to the International Accounting Standards;
- “ICELA” are to Impulsora de Centros de Entretenimiento de Las Américas, S.A.P.I. de C.V.;
- “ICELA Acquisition” are to the acquisition of 35.8% of the outstanding ordinary shares of ICELA by Codere, S.A. (through its wholly owned subsidiary Codere México, S.A. de C.V.) pursuant to the ICELA Acquisition Agreement;

- “ICELA Acquisition Agreement” are to the sale and purchase agreement dated January 25, 2012 between Codere, S.A., Codere México, S.A. de C.V., CIE, ICELA and Administradora Mexicana de Hipódromo, S.A. de C.V. pursuant to which Codere, S.A. (through its wholly owned subsidiary Codere México, S.A. de C.V.) purchased 35.8% of the outstanding ordinary shares of ICELA;
- “IFRS” are to International Financial Reporting Standards (formerly known as “International Accounting Standards”, or “IAS”) as endorsed by the European Union;
- “IGT” are to International Game Technology;
- “IPLyC” are to the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, the gaming regulator of the Province of Buenos Aires;
- “IPO” are to the initial public offering of 10,780,469 shares of Codere, S.A. on October 19, 2007;
- “JCs” are to Jockey Clubs with a presence in Rio de Janeiro, Rio Grande do Sul and Paraná;
- “JC Agreements” are to exclusive agreements between Codere and JCs to jointly develop “any new form of gaming” permitted under the JCs’ licenses;
- “Joint Opcos” are to Operadora Cantabria, S.A. de C.V., Libros Foraneos, S.A. de C.V. and Operadora de Espectáculos Deportivos, S.A. de C.V., the licensees indirectly purchased from Grupo Caliente and others in March 2011;
- “Legacy Caliente” are to the Caliente Holdcos, the Joint Opcos, Promojuegos and Mio Games;
- “Mexican peso” or “Mex. Ps.” are to the lawful currency of Mexico;
- “Mio Games” are to Mio Games S.A. de C.V.;
- “Net win” is to amounts wagered minus prizes paid in the gaming products which we offer (machines, bingo, sports betting and betting on horse races);
- “Notes” are to the Dollar Notes together with the Euro Notes;
- “Operadora de Espectáculos Deportivos” are to Operadora de Espectáculos Deportivos, S.A. de C.V.;
- “Operating Cash Flow” are to EBITDA less net interest and taxes from the income statement;
- “original CIE Joint Venture” are to the joint venture entered into between Codere and CIE in March 1999;
- “Panamanian balboa” are to the lawful currency of Panama, which are equivalent in value to the U.S. dollar;
- “Parent Guarantor” or “Codere, S.A.” are to Codere, S.A., the parent company of the Codere Group;
- “Promojuegos” are to Promojuegos de México, S.A. de C.V.;
- “Recreativos Marina” are to Recreativos Marina S.A. de C.V.;
- “SAT” are to the Servicio de Administracion Tributaria;
- “SATASB” are to SAT’s Administrative Supervisory Body;
- “Senior Credit Facility” are to (i) a €60.0 million senior revolving credit facility, (ii) a €28.9 million (as of March 31, 2013) letter of credit facility and (iii) a €40.0 million surety bond facility (provided that the maximum amount that can be drawn at any time under the letter of credit facility and the surety bond facility is €60.0 million) pursuant to a senior facilities agreement, dated October 19, 2007, as amended and restated and as further amended from time to time, among, Codere, S.A. and certain of its

subsidiaries as subsidiary guarantors, and Barclays Bank PLC, as agent, Barclays Capital, Credit Suisse International and Banco Bilbao Vizcaya Argentaria, S.A. as mandated lead arrangers, Houston Casualty Company Europe, Seguros y Reaseguros, S.A.U., as surety bond provider, and Deutsche Trust Company Limited, as security trustee;

- “SLI Group” are to the Sociedad Latinoamericana de Inversiones Group;
- “slot machines” are to gaming devices into which a player inserts a form of currency and, based on a set of probability variables, the player either loses the wager or is awarded a prize;
- “TAR Lazio” are to the Lazio Regional Administrative Court;
- “Thunderbird” are to International Thunderbird Gaming (Panama) Corp.;
- “VLT machines” or “VLTs” are to video lottery terminals, which are prize machines that pay out cash prizes as a percentage of total wagers over a random statistical process, and are permitted in Italy (as Comma 6B machines) to be placed only in gaming halls, bingo halls and betting shops. The main difference between VLT machines and AWP machines is that the VLT machines are connected to a central system that provides the machine with a winning number based on a lottery system that makes the machine more random, while AWP machines are stand-alone machines that give prizes depending on a pre-determined cycle of games; and
- “William Hill” are to William Hill plc.

PRESENTATION OF FINANCIAL AND OTHER DATA

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

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

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

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

FORWARD LOOKING STATEMENTS

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

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

SELECTED FINANCIAL INFORMATION AND OTHER DATA

Our Selected Consolidated Financial Information and Other Data

The selected audited consolidated financial information as of and for the years ended December 31, 2011 and 2012 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2012. The audited consolidated financial statements as of and for the years ended December 31, 2011 and 2012 have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers Auditores, S.L., our independent auditors.

	Year ended December 31,	
	2011	2012
	(audited) (€ in millions)	
Income statement data:		
Operating revenue.....	1,374.4	1,663.9
Operating expenses:		
Consumption and other external expenses	63.3	54.4
Personnel expenses.....	261.9	327.9
Depreciation	87.4	115.9
Amortization of intangible assets	38.2	38.9
Variation in provisions for trade transactions.....	(2.1)	1.8
Impairment loss	4.1	75.2
Other operating expenses:	759.5	976.4
Gaming and other taxes	429.9	520.6
Machine rental costs	44.3	54.0
Other	285.3	401.8
Total operating expenses	1,212.3	1,590.5
Gains (losses) on asset disposals or acquisitions	(1.4)	36.6
Operating profit	160.7	110.0
Financial items:		
Financial income	16.9	7.6
Financial expenses.....	86.5	115.0
Gains or losses on financial assets ⁽¹⁾	-	(51.4)
Exchange gains (losses), net.....	3.1	0.4
Profit before tax of continuing activities	94.2	(48.4)
Corporate income tax.....	58.4	73.0
Profit after tax of continuing activities	35.8	(121.4)
Consolidated net income	35.8	(121.4)
Non-controlling interests	(16.4)	(16.8)
Net income (loss) attributable to owners of the parent	52.2	(104.6)

	Year ended December 31,	
	2011	2012
	(audited)	
	(€ in millions)	
Balance sheet data:		
Cash and cash equivalents ⁽²⁾	135.7	84.8
Working capital ⁽³⁾	(178.1)	(128.5)
Total assets ⁽⁴⁾	1,563.0	1,933.6
Total debt ⁽⁵⁾	867.1	1,174.3
Equity attributable to owners of the parent.....	115.5	(2.0)
Non-controlling interests ⁽⁴⁾	48.7	100.6

	Year ended December 31,	
	2011	2012
	(audited)	
	(€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities.....	232.3	209.0
Net cash flow used in investing activities.....	(118.7)	(429.4)
Net cash flow provided by financing activities.....	(66.0)	170.9
Net increase (decrease) in cash.....	45.1	(50.9)

	Year ended December 31,	
	2011	2012
	(€ in millions)	
Other financial data:		
EBITDA ⁽⁶⁾	289.7	305.2

- (1) The amount recorded in 2012 includes write-offs in the Legacy Caliente business and realized losses related to transactions in Argentine securities.
- (2) Cash and cash equivalents consists of cash at banks, cash on hand and short-term deposits with an original maturity of three months or less, which are not subject to significant fluctuations.
- (3) We define working capital as current assets (excluding cash and cash equivalents) less current liabilities (excluding payables to credit entities and bonds and other marketable securities).
- (4) The balance as at December 31, 2011 was restated as a result of the application of the definitive accounting treatment for business acquired in 2011.
- (5) We define total debt as non-current and current issued senior notes, plus non-current and current debt owed to finance entities.
- (6) We define EBITDA as operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less gains or losses on asset disposals or acquisitions. EBITDA is not a measurement required by, or presented in accordance with, IFRS. EBITDA should not be considered in isolation and is not a measurement of our financial performance or liquidity under IFRS and should not be considered as an alternative to operating profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. EBITDA does not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, EBITDA as we define it may not be comparable to other similarly titled measures used by other companies.

The reconciliation of EBITDA to operating profit is as follows:

	Year ended December 31,	
	2011	2012
	(unaudited)	
	(€ in millions)	
EBITDA	289.7	305.2
- Depreciation and amortization	125.6	154.8
- Variation in provisions for trade transactions	(2.1)	1.8
- Impairment loss	4.1	75.2
+ Gains (losses) on asset disposals or acquisitions.....	<u>(1.4)</u>	<u>36.6</u>
Operating profit	160.7	110.0

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

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

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

Overview

We are a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of December 31, 2012, we managed 56,474 gaming machines, 186 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 1,379 sports betting locations and three horse racing tracks. In 2012, we generated operating revenue of €1,663.9 million and EBITDA of €305.2 million.

In Argentina, we believe we are the largest operator of gaming halls with 14 gaming halls in which we operated 5,856 slot and other gaming machine seats and 10,533 bingo seats in the Province of Buenos Aires as of December 31, 2012. In 2012, our business in Argentina generated operating revenue of €653.8 million and EBITDA of €160.6 million.

In Mexico, through ICELA and Legacy Caliente, as of December 31, 2012, we were the largest operator of gaming sites with 89 gaming halls in which we operated 19,222 gaming machine seats. As of December 31, 2012, we also operated 79 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City that included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2012 we held licenses to build and operate an additional 46 gaming halls. In 2012, our business in Mexico generated operating revenue of €37.2 million and EBITDA of €103.2 million.

In Italy, we believe we are the leading gaming hall operator with 13 gaming halls as of December 31, 2012 in which we operate VLT and AWP machines and offer bingo. We also operate AWP machines in non-specialized locations, such as bars. As of December 31, 2012, we operated 6,907 AWP, 1,157 VLTs and 5,775 bingo seats, and 13,210 gaming machines (which include the ones operated by us and by other operators) were connected to our network in Italy. In 2012, our business in Italy generated operating revenue of €261.0 million and EBITDA of €35.0 million.

In Spain, we believe we are the second largest operator of AWP machines with 12,188 machines located in over 8,464 bars, restaurants, machine halls and one gaming hall as of December 31, 2012. The gaming hall we operate is the Canoe gaming hall in Madrid, which features a bingo venue, AWP and sports betting locations. In total, we operated 1,176 sports betting locations in Spain as of December 31, 2012. In 2012, our business in Spain generated operating revenue of €154.3 million and EBITDA of €5.9 million.

Our Other Operations, which generated operating revenue of €157.6 million and EBITDA of €18.5 million in 2012, included (i) 12 gaming halls (including 11 casinos and a machine hall at the racetrack), one racetrack and 73 sports betting locations in Panama, (ii) 52 gaming halls, including five casinos, in Colombia, (iii) a joint venture in horse racing, five gaming halls and 44 sports betting locations in Uruguay and (iv) seven sports betting locations in Brazil.

Presentation of Financial Information

The financial statements contained in this Report include our audited consolidated financial statements as of and for the year ended December 31, 2012, including comparative financial information for the year ended December 31, 2011 prepared in accordance with IFRS (the “Consolidated Financial Statements”).

Segment Reporting

In the discussion below we review our results of operations on a consolidated basis and on the basis of our four principal businesses: Argentina, Mexico, Italy and Spain. We also have operations in Colombia, Uruguay, Panama and Brazil, which are of a smaller scale. A limited discussion of these operations has been included below under the heading Other Operations. Internet gaming operations, which we are developing in certain countries in which we operate, are included in the corresponding businesses.

In 2012, our four principal businesses comprised 39.3%, 26.3%, 15.7% and 9.3%, respectively, of our consolidated operating revenue and 48.2%, 31.0%, 10.5% and 4.8%, respectively, of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses). Our operations discussed under Other Operations comprised 9.5% of our consolidated operating revenue and 5.6% of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses) in 2012. The organization of our operations into our four principal businesses reflects the manner in which our management evaluates the performance of our various businesses and, on the basis of such information, makes financial and strategic decisions regarding our operations. We believe that the organization of our operations into the foregoing businesses also enhances our ability to adapt to the different market and regulatory environments of the countries in which we conduct our operations.

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

Factors Affecting the Comparability of Our Results of Operations

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

Latin American Currency Depreciation

We are exposed to foreign exchange rate risk in that our reporting currency is the euro, whereas the majority of our subsidiaries keep their accounts in other currencies, principally Argentine peso and Mexican peso and also Panamanian balboa (equivalent to the U.S. dollar), Colombian peso, Uruguayan peso and Brazilian reais, and a portion of our costs and revenues are referenced to U.S. dollars. If we continue to expand our operations in Latin America, we will increase the proportion of our operating revenue that we generate in currencies other than the euro. In 2012, 39.3% and 26.3% of our operating revenue (including the gains and losses on foreign exchange currency contracts and excluding in each case headquarters revenues) was denominated in Argentine peso and Mexican peso, respectively, and a total of 75.0% of our operating revenue was in non-euro denominated currencies. During the periods under review, Latin American currencies, in particular the Argentine peso, have generally depreciated against the euro and this has had a significant impact on our financial condition and results of operations when expressed in euro. As a result of the Latin American currencies depreciating against the euro, the euro value of the operating results of our Latin American subsidiaries upon inclusion in our Consolidated Financial Statements has decreased even if, in local currency terms, their results of operations and financial condition have remained the same or improved relative to the prior year. Accordingly, declining exchange rates may limit the ability of our results of operations, stated in euro, to fully describe the performance in local currency terms of our Latin American subsidiaries. Our Latin American subsidiaries generally generate revenues and incur expenses and liabilities in their local currency, which provides them with a natural hedge against foreign currency fluctuations.

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

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

	Year ended December 31,		2011/2012 % change
	2011	2012	
Mexican peso/euro (€1.00 = Mex. Ps.)			
Period end.....	18.09	17.14	(5.3)%
Argentine peso/euro (€1.00 = Arg. Ps.)			
Period end.....	5.59	6.50	16.3%
U.S. dollar/euro (€1.00 = U.S.\$)			
Period end.....	1.29	1.32	2.3%

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

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

	Year ended December 31,		2011/2012 % change
	2011	2012	
Mexican peso/euro (€1.00 = Mex. Ps.)			
Average.....	17.33	16.93	(2.3)%
Argentine peso/euro (€1.00 = Arg. Ps.)			
Average.....	5.76	5.87	1.9%
U.S. dollar/euro (€1.00 = U.S.\$)			
Average.....	1.39	1.29	(7.2)%

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

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

	Year ended December 31,		2011/2012 % change
	2011	2012	
Mexican peso/U.S. dollar (U.S.1.00 = Mex. Ps.)			
Period end.....	13.98	12.99	(7.1)%
Argentine peso/ U.S. dollar (U.S.1.00 = Arg. Ps)			
Period end.....	4.30	4.91	14.2%

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

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

	<u>Year ended December 31,</u>		<u>2011/2012 % change</u>
	<u>2011</u>	<u>2012</u>	
Mexican peso/U.S. dollar (U.S.\$1.00 = Mex. Ps.) Average.....	12.44	13.12	5.5%
Argentine peso/U.S. dollar (U.S.\$1.00 = Arg. Ps) Average	4.13	4.55	10.2%

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

As of March 31, 2013, the exchange rate of the euro to the Mexican peso was €1.00 = 15.82 Mex. Ps., the exchange rate of the euro to the Argentine peso was €1.00 = 6.55 AR\$ and the exchange rate of the euro to the U.S.\$ was €1.00 = 1.28 U.S.\$.. As of March 31, 2013, the exchange rate of the U.S. dollar to the Mexican peso was U.S.\$1.00 = 12.35 Mex. Ps. and the exchange rate of the U.S. dollar to the Argentine peso was U.S.\$1.00 = 5.12 AR\$.

In order to mitigate part of the foreign exchange risk to which we are subject, in prior years we have entered into hedge agreements to cover sales for an amount approximately equivalent to 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. The hedges consist of forward purchases of foreign currency (local currency to U.S. dollar or euro, and on certain occasions, U.S. dollar to euro). The application of the policy takes into account our expectations of the amount of funds we expect to upstream, the amount of euro or U.S. dollar commitments we have, the currency these are denominated in, and our expectations about U.S. dollar and euro currency market movements. As of February 28, 2013, however, we had no foreign exchange forward contracts in place.

Our Argentine peso foreign exchange forward contract that matured during 2012 amounted to a net loss of €3.8 million in 2012. We did not have any Mexican peso foreign exchange forward contracts in 2012. The realized losses have been recorded as other operating revenue in our Argentine business.

Caliente Management Services

Through June 30, 2010 our operating revenue under the previous management services agreement with Grupo Caliente was equivalent to 50% of the profit before tax of the halls we managed. Mexico operating revenue also included sales to Grupo Caliente of gaming halls, improvements, and equipment including machines, as well as reimbursement of costs incurred on Grupo Caliente's behalf, such as hall managers' salaries and fees paid in connection with the use of machines. From July 1, 2010, the new management services agreements with the Joint Opcos provide for an annual fee of up to U.S. \$36.0 million as well as an aggregate monthly fee of U.S.\$1.0 million until December 31, 2010. In addition, Codere México entered into management services agreements with Promojuegos and Mio Games pursuant to which these companies pay Codere México an aggregate maximum annual fee of U.S.\$7.6 million through the end of 2014. The management services fees are payable on a monthly basis. In 2010, we entered into a restructuring agreement with Grupo Caliente, which closed on March 31, 2011 (the "Caliente Restructuring") pursuant to which we acquired a majority stake in the Joint Opcos, which held an aggregate of 46 gaming licenses in Mexico in March 2011. In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished gaming halls and Grupo Caliente bought such halls at cost, but we maintained the management services agreements with the Joint Opcos, Promojuegos and Mio Games. Payment of the management service fees under these agreements are now accounted for as intercompany transactions. Following the closing of the Caliente Restructuring, we began fully consolidating the Joint Opcos (reflecting Grupo Caliente's stake in each of these entities, as well as its stake in Promojuegos and Mio Games, as non-controlling interests) effective March 31, 2011 for balance sheet purposes and April 1, 2011 for income statement purposes.

Write offs in Legacy Caliente Business

As part of the agreements signed at the time of the Caliente Restructuring (including the management services agreement and the revolving credit facility agreement granted by Codere México to the Joint Opcos), €29.7 million remained on our balance sheet as debt from Grupo Caliente, which was to be repaid from dividends attributable to Grupo Caliente's 32.7% stake in the Joint Opcos. In the second quarter of 2012, we wrote-off this €29.7 million because the assessed net present value of the dividends is very low compared to the amount of the outstanding debt, principally due to the fact that the Joint Opcos must first satisfy the payments due under the management services agreement and service the credit facility loan granted by Codere México. In 2012, we also wrote-off €11.5 million associated with the put option we had on 7.3% of the shares in the Joint Opcos.

Spain Impairment Charge

In 2012 and 2011 we recorded a goodwill impairment charge of €75.2 million and €4.1 million, respectively, in our Spain business as a result of a goodwill impairment test conducted in relation to the 2012 and 2011 financial statements. The impairment was triggered by the weak macroeconomic condition and its negative impact on the gaming industry. The impairment loss is a non-cash charge to operating earnings, and does not affect our liquidity, operating cash flow, or debt service capacity.

ICELA Transaction

On February 8, 2012 we completed the purchase of a 35.8% stake in ICELA from CIE. The purchase price was Mex. Ps. 2,653 million (equivalent to approximately €158 million as of February 8, 2012). The acquisition of the 35.8% stake was in addition to our 49% stake already held in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method. Beginning February 1, 2012 we began to consolidate ICELA under the global method of consolidation.

Gain on Revaluation of Our 49% Stake in ICELA

Upon the acquisition of a controlling stake in ICELA, we valued our pre-existing 49% stake in ICELA at fair market value, as required under IFRS, which resulted in €38.8 million recorded under gains and (losses) on asset disposals or acquisitions on the income statement. The €38.8 million is the result of the €64 million difference between the fair value and book value recorded at the time of the acquisition, minus €25.2 million in losses on foreign currency associated with these assets through February 8, 2012, which are required to be reclassified from the balance sheet to the income statement.

Tax Provisions in Mexico

In 2012, we took charges against contingent tax liabilities for five claims in Mexico in an amount of Mex. Ps. 75.6 million (equivalent to approximately €4.8 million as of March 31, 2013), of which, Mex. Ps. 41.8 million (equivalent to approximately €2.6 million as of March 31, 2013) are reflected in other expenses, and Mex. Ps. 33.8 million (equivalent to approximately €2.1 million as of March 31, 2013) in corporate income tax. See "Business—Litigation—Tax Contingencies—Mexican Tax Disputes".

Argentine License Renewals

On November 29, 2012, the five gaming licenses for the halls that Codere operates in the Province of Buenos Aires, the original terms of which would have expired in 2013 and 2015, were renewed for 15 years from their original expiry date following the signing of individual agreements for each of these halls with the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, or "IPLYC" (the gaming regulator of the Province of Buenos Aires).

The table below provides for each hall, the resolution pursuant to which the relevant gaming license was granted and its expiry date:

Hall	Individual Resolution	Expiry Date
Moron	1788/12	June 11, 2028
Ramos Mejia	1789/12	April 9, 2029
San Miguel	1787/12	May 1, 2029
Lomas del Mirador	1785/12	September 30, 2029
San Justo	1786/12	October 14, 2029

As stipulated under Resolution 1078/12 and Decree 569/12 published in July 2012, the renewal of the five gaming licenses was subject to a fixed renewal fee of AR\$614 million (equivalent to approximately €107million as of August 29, 2012), for all five halls, which we began paying in August 2012 and finished paying in January 2013, and an AR\$232 million (equivalent to approximately €40 million as of August 29, 2012) canon tax surcharge payable monthly over five years, beginning in September 2012.

Following these renewals, out of the 14 halls we operate in the Province of Buenos Aires, eight have licenses which expire in 2021, one has a license which expires in 2028, four have licenses which expire in 2029 and one has a license which expires in 2016. The latter refers to Temperley, the smallest of our halls in the Province.

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

Reduction of Gaming Tax in Spanish Bingo Business

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

Acquisitions

During 2011 and 2012, we acquired companies in several countries in which we operate. These acquisitions have affected the comparability of our results of operations. The table below shows our significant acquisitions during this period (for more information on acquisitions, see Note 6 to our Consolidated Financial Statements):

Company	Date	Segment	Percentage stake
Grupo Caliente SAPI de C.V.....	March 2011	Mexico	67.3%
Operadora de Espectáculos Deportivos S.A. de C.V.....	March 2011	Mexico	67.3%
Jomaharho SAPI de CV.....	March 2011	Mexico	67.3%
Operadora Cantabria S.A. de CV.....	March 2011	Mexico	67.3%
Libros Foráneos S.A. de CV.....	March 2011	Mexico	67.3%
Gap Games, S.r.l.....	May 2011	Italy	51.0%
Gaming Re, S.r.l.....	July 2011	Italy	75.0%
Gaming Service, S.r.l.....	July 2011	Italy	75.0%
ICELA ⁽¹⁾	February 2012	Mexico	35.8%
Dalla Pria Service, S.r.l.....	June 2012	Italy	60.0%

(1) Before February 2012, we held a 49% stake in this company.

Ballesteros Litigation Settlement

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

Exceptional Items

In addition to the items mentioned above, we recorded exceptional losses in 2012 of: €6.8 million associated with restructuring charges in Spain, Mexico, Argentina and Italy; €1.6 million associated with opening expenses of the Crown Casinos in Colombia; €1.5 million and €12 million in Italy related to the AWP renewal fee and the adjustment of the contingent payment for Gap Games; and €0.7 million associated with the ICELA transaction in Mexico. We recorded exceptional gains of €0.9 million related to the reversal of compensation provisions in Spain and €0.6 million associated with the adjustment of the contingent payment for Future Games in Italy.

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

Key Factors Affecting Our Results of Operations

General Factors

Regulation

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

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

Macroeconomic Factors and Demographics

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

Competition

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

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

Argentina

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

The license renewals in Argentina result in additional upfront payments and a canon tax surcharge which have affected results, and which we expect to affect results in the coming years. As of the date of this Report, and since 2007, we have renewed 13 licenses. See "Business—Argentina" for additional detail regarding these license renewals.

Mexico

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

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

The sports betting books which we operate in Mexico do not assume any financial risk for the bets placed at our sites. The financial risk is assumed by Grupo Caliente as we only act as agent for Grupo Caliente and receive a percentage of the win. Therefore the key factor affecting the sports betting books operating revenue is the volume of betting by visitors to Grupo Caliente's sports betting locations. Betting volume is principally affected by traffic at the gaming halls and the ability of the books to attract betting, which is most significantly affected by the number and type of sporting events and races on which betting is made available and the availability of televised simulcasts of such events displayed on televisions throughout the site. As of March 31, 2013 the Mexico Internet operation had not yet launched and therefore the 2012 accounts include principally expenses associated with the operation.

Italy

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

Spain

Our Spain business principally operates AWP machines located in third-party locations as well as betting locations and gaming halls in which we offer bingo, gaming machines and sports betting. The Spain business also includes the Spain Internet operation. The key factors that affect the results of operations of our Spain AWP business are the number of our installed AWP machines and the average daily net win per AWP machine. The factors that most significantly affect the number of our installed AWP machines are our ability to enter into new agreements, or renew existing agreements, with site owners and our ability to identify and undertake acquisitions. In addition to regulation, the average daily net win per AWP machine is most significantly affected by our ability to select high producing AWP machines and to efficiently rotate our AWP machine portfolio. In many cases, our success in entering into agreements with site owners depends on our making of exclusivity payments or loans and advances to the site owners, which payments, loans and advances are customary in the market. The key factors affecting our sports betting business are the location of our shops, corners or self-service terminals, the number and type of events on which the client can bet and the odds offered. In the case of the Spanish business we assume financial risk for the bets placed. The operating results of the bingo business in our gaming hall operation are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales. As of March 31, 2013 the Spain Internet operation had not yet launched and therefore the 2012 accounts include principally expenses associated with the operation, including legal costs.

Critical Accounting Policies

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

Intangible Assets

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

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

	Annual Depreciation Rate
Computer software.....	20 - 25%
Installation rights	10 - 33%
Gaming licenses	2.5 - 11%
Leasehold assignment rights	10 - 20%
Client portfolio.....	4.5 - 10%
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 the income statement.

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

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

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

Financial expenses related to loans directly attributable to acquisition, construction or production of tangible assets, in the terms and conditions included in the IAS 23, are recorded as part of the cost of that asset.

Goodwill

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

Impairment of Tangible and Intangible Assets

At each year-end, indications of possible impairment of the value of fixed noncurrent assets are evaluated, including goodwill and intangibles. If there are such indications of possible impairment, or when the nature of the assets requires an annual analysis of impairment, the Group estimates the recoverable value of the asset, which is the larger of the fair value, deducting transfer costs, and its value in use. The value in use is determined by the present value of future estimated cash flows, applying a discount rate 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.

Provisions and Contingent Liabilities

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

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

Provisions related to tax contingencies are recognized in the profit and loss account according to the nature of the tax.

Financial Liabilities

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

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

Income Tax

Income tax in the consolidated profit and loss account includes both current and deferred taxes. Income tax expense is recognized in the consolidated income statement except to the extent that the tax relates to items directly recognized in equity, in which case the tax is also recognized in equity. The consolidated income statement for the year includes the expense for company tax of the group companies by global and proportional integration the calculation of which contemplates the amount of the tax accrued over the financial year, the differences between the taxable base and the consolidated accounting result as well as the bonuses and deductions in the amount to which the group companies have a right. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect to previous years.

Deferred income tax is recorded, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes calculated at the consolidated balance sheet date. Deferred taxes relating to the following temporary differences are not recorded: goodwill not deductible for tax purposes and the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or loss. Deferred taxes relating to temporary differences that arise in investments in subsidiaries and associates are recognized except when the Group could control the date of the temporary differences reversal and it is likely that they will not be reverted in the foreseeable future. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates (and tax laws) that have been enacted at the consolidated balance sheet date.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. See Note 2(b)(17) to our Consolidated Financial Statements for additional details.

Use of Estimates

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

Principal Consolidated Income Statement Line Items

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

Operating Revenue

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

Revenues from the principal business divisions are recorded as follows:

- Slot machines: revenues from slot machines are recorded as the net amount collected by the operator (net of prizes) before gaming taxes, except in Uruguay, where there is no direct tax.
- Bingo: revenues from bingo halls are recorded as the total amount of bingo cards sold, according to their face value, less bingo prizes, which are recorded as a deduction from gross receipts.
- Casinos and others: revenues are recorded as the net amount collected by the operator (net of prizes).
- Racetracks: revenues are recorded as the net amount collected by the operator (net of prizes).
- Sports betting: revenues are recorded as the net amount collected by the operator (net of prizes).

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

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

Mexico. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA, which we hold an 84.8% stake, and in the operating companies of Legacy Caliente (*i.e.*, the Joint Opcos, Promojuegos and Mio Games) as well as revenue from our management services agreement with the Joint Opcos until April 1, 2011 and previously with Grupo Caliente. In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished gaming halls and Grupo Caliente bought such halls at cost. Following the closing of the Caliente Restructuring, we now fully consolidate Legacy Caliente, reflecting Grupo Caliente's stake in each of the Legacy Caliente entities as a non-controlling interest. On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE for Mex. Ps. 2,653 million (equivalent to approximately U.S.\$209.0 million and €158.0 million as of the date of closing of the acquisition). The acquisition of the 35.8% stake was in addition to Codere México's already existing 49% stake in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements. Our operating revenue also includes gains and losses from the Mexican peso forward exchange contracts which matured during 2011. See “—Market and Credit Risks—Foreign Currency Risks”.

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

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

The following table summarizes the manner in which revenue is recognized in 2012 across our businesses and certain business lines within certain businesses under IFRS:

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

(1) Share of net box to site owners.

Operating Expenses

Operating expenses comprise:

- *Consumption and Other External Expenses.* In Argentina, Panama and Italy, consumption and other external expenses principally comprises food and beverage cost of sales. In Mexico, it primarily includes food and beverage cost of sales for ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning in the three months ended June 30, 2011). Through March 31, 2011, it also included fees paid in connection with the use of gaming machines, expenses primarily in connection with the installation of gaming machines, and personnel costs related to the salaries of hall managers whom we provided for Grupo Caliente's halls. In Spain, it includes payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and other costs, including food and beverage, incurred at our gaming halls and sports betting locations.
- *Personnel Expenses.* Our personnel expenses include wages and salaries and social security costs.
- *Depreciation and Amortization.* Tangible fixed assets are depreciated on a straight-line basis over the estimated useful lives of each component of the assets. Other intangible assets are depreciated in the same way. The elements are depreciated from the date they are available for use. Land is not depreciated.
- *Variation in Provisions for Trade Transactions.* Variation in provisions for trade transactions principally relates to movements in provisions we have taken in connection with doubtful account receivables and loans that we have made to site owners. The amount of the variation in provisions is principally affected by our assessment of the likelihood that the account receivables will be paid or the loans will be repaid.
- *Impairment.* Impairment includes the amount by which asset values have been reduced at period end. See Note 2(b)(7) to our Consolidated Financial Statements.

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

Operating Profit

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

Financial Items

- *Financial Income.* Financial income principally comprises other interests, income from marketable securities and noncurrent loans.
- *Financial Expenses.* Financial expenses principally comprise interest paid on our outstanding indebtedness.
- *Gains or Losses on Financial Assets.* In 2012, gains or losses on financial assets principally comprise write-offs in the Legacy Caliente business and realized losses related to transactions in Argentine securities.
- *Exchange Gains (Losses), Net.* Exchange gains (losses), net, principally comprise gains and losses recorded upon translation of non-euro assets and liabilities into euro.

Corporate Income Tax

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

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

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

For Spanish tax purposes, in 2012, 33 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).

32 Italian companies are included in the consolidated tax regime applicable in Italy. This consolidated regime was applied from January 1, 2005 for companies included in the tax group headed by Codere Italia, S.p.A., and since January 1, 2006, for companies included in the tax group headed by Operbingo Italia, S.p.A. Since January 1, 2012 companies included in the tax group under Operbingo Italia, S.p.A. are included in the tax group under Codere Italia, S.p.A.

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

VAT taxes are generally not deductible for gaming companies and, accordingly, are recorded as an operating expense. Since January 1, 2009, 36 Spanish companies in our Group are taxed under the Special VAT Regime for groups of companies. This has allowed us to minimize the VAT cost of Spanish intra-group transactions.

Non-Controlling Interests

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

Results of Operations

The following tables set forth, by principal business and for our Other Operations, operating revenue, operating expenses, operating profit (loss) and EBITDA for the years ended December 31, 2011 and 2012 prepared in accordance with IFRS:

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages)		
Operating Revenue:			
Argentina	553.2	653.8	18.2%
Mexico	291.5	437.2	50.0%
Italy ⁽¹⁾	224.2	261.0	16.4%
Spain ⁽²⁾	165.7	154.3	(6.9%)
Other Operations:			
Brazil	3.6	3.4	(5.6%)
Colombia	28.9	35.7	23.5%
Panama	87.0	92.5	6.3%
Uruguay	20.3	26.0	28.1%
Corporate Overhead.....	0.0	0.0	n.a.
Total	1,374.4	1,663.9	21.1%

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages)		
Operating Expenses:			
Argentina	405.3	511.7	26.3%
Mexico ⁽³⁾⁽⁴⁾	265.0	399.9	50.9%
Italy ⁽¹⁾⁽⁵⁾	189.5	244.5	29.0%
Spain ⁽²⁾	187.2	243.6	30.1%
Other Operations:			
Brazil	5.2	4.7	(9.6%)
Colombia	26.3	35.1	33.5%
Panama	85.2	92.2	8.2%
Uruguay	18.8	29.4	56.4%
Corporate Overhead.....	29.8	29.4	(1.3%)
Total	1,212.3	1,590.5	31.2%

	Year ended December 31,		
	2011	2012	% change
(€ in millions, except percentages)			
Operating Profit (Loss):			
Argentina	147.9	142.2	(3.9%)
Mexico ⁽⁶⁾	26.4	74.5	n.a.
Italy ⁽¹⁾⁽⁷⁾	34.7	16.4	(52.7%)
Spain ⁽²⁾	(22.9)	(91.5)	n.a.
Other Operations:			
Brazil	(1.6)	(1.3)	18.8%
Colombia	2.6	1.4	(46.2%)
Panama	1.8	1.0	(44.4%)
Uruguay	1.5	(3.3)	n.a.
Corporate Overhead.....	(29.7)	(29.4)	1.0%
Total.....	160.7	110.0	(31.5%)

	Year ended December 31,		
	2011	2012	% change
(unaudited)			
(€ in millions, except percentages)			
EBITDA:			
Argentina	165.2	160.6	(2.8%)
Mexico ⁽³⁾⁽⁶⁾	61.5	103.2	67.8%
Italy ⁽¹⁾⁽⁷⁾	44.6	35.0	(21.5%)
Spain ⁽²⁾	19.6	15.9	(18.9%)
Other Operations:			
Brazil	(0.9)	(0.7)	22.2%
Colombia	5.9	5.4	(8.5%)
Panama	17.6	14.2	(19.3%)
Uruguay	3.9	(0.4)	n.a.
Corporate Overhead.....	(27.7)	(28.0)	(1.1%)
Total.....	289.7	305.2	5.4%

(1) In 2012 Italy excludes Codere Interactiva S.L. (the Internet operation outside of Italy, which is focused primarily on Mexico), which was included in 2011.

(2) Includes Spain AWP, Spain Bingo, Spain Sports Betting and Spain Internet.

(3) In 2012 Mexico includes Codere Interactiva S.L., which was included in the results for Italy in 2011.

(4) Operating expenses increased €0.3 million due to Codere Interactiva S.L.

(5) Operating expenses decreased €0.3 million due to Codere Interactiva S.L.

(6) Operating profit and EBITDA decreased €0.3 million due to Codere Interactiva S.L.

(7) Operating profit and EBITDA increased €0.3 million due to Codere Interactiva S.L.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Group Results of Operations

Operating Revenue

Operating revenue increased by €289.5 million, or 21.1%, to €1,663.9 million in 2012 from €1,374.4 million in 2011. The increase was principally attributable to:

- an increase in Mexico (€145.7 million) due to the global consolidation of the operations purchased from Grupo Caliente beginning April 1, 2011 and the global consolidation of ICELA beginning February 1, 2012, the increase in the net win per machine per day in ICELA and the absence in 2012 of losses on foreign exchange contracts, partially offset by a lower average number of machines.
- an increase in Argentina (€100.6 million) due to an increase in the net win per seat per day, boosted by inflation, and an increase in the number of machines installed, mainly due to relocation of one of the halls in Mar de la Plata, partially offset by higher losses on the foreign exchange currency contracts which matured in 2012 compared to 2011, the implementation of the total smoking ban on October 1, 2012 and the depreciation of the Argentine peso against the euro;

- an increase in Italy (€36.8 million) principally due to the increase of the VLTs and the consolidation of the acquisitions made during 2011 and 2012 (Gap Games, Gaming Re and Dalla Pria) and an increase in the number of third party machines connected to the network. This increase was partially offset by a deterioration in the bingo business, the decrease in the net win per AWP due to the installation of VLTs and the incorporation of recently acquired machines with lower net win and a decrease in the net win of VLTs, as well as the fall in consumer spending which has negatively affected gaming in general.
- an increase in Colombia (€6.8 million) due to the opening of new Crown Casinos in San Rafael in the fourth quarter of 2011 and in Zona T in the third quarter of 2012; an increase in the net win per seat per day and the appreciation of the Colombian peso against the euro.
- The increase in operating revenue was partially offset by Spain in 2012 (€11.4 million) as a result of a lower number of machine installed due to the rationalization of the portfolio and in the context of a severe macroeconomic crisis and a resulting decline in consumer spending.

Operating Expenses

Operating expenses increased by €378.2 million, or 31.2%, to €1,590.5 million in 2012 from €1,212.3 million in 2011. The increase was principally attributable to:

- an increase in Mexico (€134.9 million) due to the global consolidation of the operations purchased from Grupo Caliente and the global consolidation of ICELA; the incurrence of €6.7 million of non-recurring charges in 2012 (primarily related to fiscal provisions and restructurings), and the increase in gaming taxes in several states.
- an increase in Argentina (€106.4 million) principally due to an increase in commercial activity, the impact of inflation on expenses (mainly personnel expenses) and an increase in personnel expenses related to an increase in staff. Gaming and other taxes also increased as a result of the increase in gross revenue tax in the Province of Buenos Aires from 6% to 8% as of January 1, 2012.
- an increase in Spain (€56.4 million) as a result of the asset impairment test, and increased costs relating to the expansion of the sports betting business. This increase was partially offset by a decrease in gaming taxes resulting from the reduction in the number of machines installed and a reduction in exclusivity payments to bar owners.
- an increase in Italy (€55.0 million) principally as a result of an increase in VLT gaming tax (4% of amounts wagered in 2012 compared to 2% of amounts wagered in 2011), the consolidation of the acquisitions made during 2011 and 2012 (Gap Games, Gaming Re and Dalla Pria) and the higher number of VLTs in the market. In addition, operating expenses have been affected by a decrease in the net balance of non-recurring items to €(2.9) million in 2012 from €4.0 million in 2011.
- an increase in Uruguay (€10.6 million) due to the costs associated with the development of the Carrasco Hotel and Casino project and the fifth gaming hall, as well as the appreciation of the Uruguayan peso against the euro.

Gains or Losses on Asset Disposals or Acquisitions

Gains on asset disposals or acquisitions increased by €38.0 million due to a gain of €36.6 million in 2012 from a loss of €1.4 million in 2011, primarily attributable to the provisional revaluation of our 49% stake in ICELA (€38.8 million), partially offset by disposal of assets in Spain.

Operating Profit

Operating profit decreased by €50.7 million, or 31.5%, to €110.0 million in 2012 from €160.7 million in 2011. Operating margin decreased to 6.6% in 2012 from 11.7% in 2011.

EBITDA

EBITDA increased by €15.5 million, or 5.4%, to €305.2 million in 2012 from €289.7 million in 2011. The increase in EBITDA was principally attributable to Mexico (€41.7 million) primarily due to the global consolidation of the operations purchased from Grupo Caliente and the global consolidation of ICELA and to the absence in 2012 of losses on foreign exchange contracts. This increase was partially offset by a decrease in Italy (€96 million), principally associated with an increase in gaming taxes and non-recurring items; Argentina (€4.6 million) due to a slowdown in the economic growth rate after the second quarter of 2012, the implementation of the total smoking ban on October 1, 2012 and the operating expenses increase attributable to the increase in commercial activity, the impact of inflation and the increase of gaming and other taxes; Uruguay (€4.3 million) principally due to costs associated with the Carrasco project and Spain (€37 million) principally due to a decrease in revenue. EBITDA margin decreased to 18.3% in 2012 from 21.1% in 2011.

Financial Income

Financial income decreased by €9.3 million, or 55.0%, to €7.6 million in 2012 from €16.9 million in 2011. This decrease was primarily due to the absence in 2012 of interest accrued in connection with the Ballesteros transaction (€5.0 million in 2011) as a result of the settlement of the Ballesteros litigation, the recalculation of the 7% put option of the Joint Opcos at fair value, and lower cash balances, principally in Spain.

Financial Expenses

Financial expenses increased by €28.5 million (32.9%) to €115.0 million in 2012 compared to €86.5 million in 2011. The increase was primarily due to the accrual of interest on the Dollar Notes, the financings obtained in Argentina for the renewal of the licenses and the global consolidation of ICELA.

Gains or Losses on Financial Assets

Gains or losses on financial assets resulted in a loss of €51.4 million in 2012 compared to nil in 2011, due to the €41.1 million of write-offs in the Legacy Caliente business and to €10.2 million of realized losses related to transactions in Argentine securities.

Exchange Gains (Losses), Net

Exchange gains (losses), net, which principally reflect the impact of changes in exchange rates on balances in foreign currencies, decreased by €2.7 million to €0 million in 2012 from €3.1 million in 2011.

Corporate Income Tax

Corporate income tax increased by €14.6 million, or 25.0%, to €73.0 million in 2012, primarily attributable to withholding taxes; the consolidation of ICELA; the absence, in 2012, of the registration of a tax asset of €3.5 million associated with tax incentives and inflation adjustments in Uruguay recorded in 2011; and the registration of a provision amounting to €2.0 million associated with Mexican tax claims. This increase was partially offset by the decrease in profits before tax in Argentina. The increase in withholding tax is due to a change in the way in which we recognize tax. Beginning in 2012 we register withholding tax when the expenses with which they are associated are accrued, whereas in prior years we registered the withholding tax when the expenses were paid. In 2012, we registered €6.8 million as a result of this change in recognition method, which corresponds to accruals for 2012 and for previous years.

Non-controlling Interests

Non-controlling interests was €(16.8) million in 2012 compared to €(16.4) million in 2011. The decrease was principally attributable to the loss to the minority shareholder of the Joint Opcos resulting from the debt write-off in the Legacy Caliente operations, partially offset by the profits to the minority shareholders of ICELA.

Net Income

As a result of the foregoing, net income decreased by €156.8 million, to a loss of €104.6 million in 2012 from a profit of €52.2 million in 2011.

Results of Operations by Business

Argentina

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	553.2	653.8	18.2%
Operating expenses:			
Consumption and other external expenses	12.2	14.4	18.0%
Personnel expenses.....	85.6	130.7	52.7%
Depreciation	14.5	15.8	9.0%
Amortization of intangible assets	2.8	2.7	(3.6)%
Other operating expenses	290.2	348.1	20.0%
Gaming and other taxes.....	229.9	269.8	17.4%
Machine rental costs.....	2.6	2.0	(23.1)%
Others	57.7	76.3	32.2%
Total operating expenses	405.3	511.7	26.3%
Gains or losses on asset disposals or acquisitions	-	0.1	n.a.
Operating profit	147.9	142.2	(3.9%)
EBITDA	165.2	160.6	(2.8%)

Operating Revenue. Operating revenue in Argentina principally comprises revenue collected from slot machines located in our halls after prize payouts and from sales of bingo cards after prize payouts and revenues from food and beverages. It also reflects gains or losses from Argentine peso and U.S. dollar forward foreign exchange contracts that mature during the period. Operating revenue increased by €100.6 million, or 18.2%, to €653.8 million in 2012 from €553.2 million in 2011, which increase was principally attributable to the increase in the net win seat per day boosted by inflation, an increase in the number of machines installed, mainly due to the relocation of one of the halls in Mar de la Plata, partially offset by a slowdown in the economic growth rate after the second quarter in 2012, the implementation of the total smoking ban on October 1, 2012 and the depreciation of the Argentine peso against the euro. Losses on the foreign exchange contracts which matured in 2012 were €3.8 million, compared to losses of €2.2 million in 2011. At a constant exchange rate and adjusted to eliminate gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €668.2 million in 2012, representing an increase of 20.3% compared to 2011.

Operating Expenses. Operating expenses increased by €106.4 million, or 26.3%, to €511.7 million in 2012 from €405.3 million in 2011. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses.* Consumption and other external expenses, which principally include food and beverage cost of sales, increased by €2.2 million, or 18.0%, to €14.4 million in 2012 from €12.2 million in 2011, primarily due to an increase in the sale of food and beverages in 2012 compared with 2011, as well as to the price of goods sold, which were affected by inflation, partially offset by the depreciation of the Argentine peso against the euro.
- *Personnel Expenses.* Personnel expenses increased by €45.1 million, or 52.7%, to €130.7 million in 2012 from €85.6 million in 2011, principally due to increases in payroll resulting from inflation, as well as personnel increases associated with an increase in the number of machines installed, partially offset by the depreciation of the Argentine peso against the euro.
- *Depreciation.* Depreciation increased by €1.3 million, or 9.0%, to €15.8 million in 2012 from €14.5 million in 2011 as a result of an increase in the portfolio, partially offset by the depreciation of the Argentine peso against the euro.
- *Amortization.* Amortization decreased €0.1 million to €2.7 million in 2012 from €2.8 million in 2011.

- *Other Operating Expenses.* Other operating expenses, which include gaming and other taxes, payments to the non-profit organizations that nominally hold the licenses to operate the gaming halls, marketing expenses, lease payments and other expenses, increased by €57.9 million, or 20.0%, to €348.1 million in 2012 from €290.2 million in 2011. The increase was primarily due to an increase in costs resulting from an increase in commercial activity as a result of an increase in the number of machines installed and in the net win per day and an increase in gaming and other taxes due to the increase in gross revenue tax in the Province of Buenos Aires from 6% to 8% as of January 1, 2012, partially offset by the depreciation of the Argentine peso against the euro.
- *Operating Profit.* Operating profit decreased by €5.7 million, or 3.9% to €142.2 million in 2012 from €147.9 million in 2011. Operating margin decreased to 21.7% in 2012 from 26.7% in 2011.
- *EBITDA.* EBITDA decreased by €4.6 million, or 2.8%, to €160.6 million in 2012 from €165.2 million in 2011. The decrease in EBITDA was principally attributable to an increase in gaming and other taxes, an increase in commercial expenses, the slowdown in the economic growth rate after the second quarter in 2012, the implementation of the total smoking ban on October 1, 2012 and the depreciation of the Argentine peso against the euro, partially offset by the increase in net win per seat per day and the increase in the number of machines installed. At a constant exchange rate (and adjusted to eliminate gains and losses on the foreign currency contracts which matured during the corresponding periods) EBITDA would have been €166.5 million in 2012, representing a decrease of 0.5% compared to 2011. EBITDA margin decreased to 24.6% in 2012 from 29.9% in 2011.

Mexico

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages)		
		(unaudited)	
Operating revenue	291.5	437.2	50.0%
Operating expenses:			
Consumption and other external expenses.....	32.3	19.4	(39.9%)
Personnel expenses.....	44.7	54.2	21.3%
Depreciation.....	25.1	53.1	111.6%
Amortization of intangible assets.....	9.9	12.8	29.3%
Other operating expenses ⁽¹⁾ :	153.0	260.4	70.2%
Gaming and other taxes.....	20.2	41.3	104.5%
Machine rental costs.....	41.4	50.8	22.7%
Others ⁽¹⁾	<u>91.4</u>	<u>168.3</u>	84.1%
Total operating expenses ⁽¹⁾	265.0	399.9	50.9%
Gains or losses on asset disposals or acquisitions.....	(0.1)	37.2	n.a.
Operating profit ⁽¹⁾	26.4	74.5	n.a.
EBITDA ⁽¹⁾	61.5	103.2	67.8%

(1) In 2012 Mexico Internet included Codere Interactiva S.L., which was included in the results for Italy in 2011.

Operating Revenue. Operating revenue includes our 84.8% stake in the operating companies of ICELA, which we began consolidating globally beginning February 1, 2012 (until January 31, 2012, we consolidated our 49% stake in ICELA proportionally), and the directly-owned licensees (Promojuegos and Mio Games, which we also consolidate globally). Beginning April 1, 2011, we began consolidating globally the operations acquired from Grupo Caliente, the Caliente Holdcos and the Joint Opcos. In 2012, our operating revenue did not include any gains or losses on forward exchange contracts, while we recorded a loss in 2011 from the Mexican peso forward exchange contracts that matured in that year.

Operating revenue increased by €145.7 million, or 50.0%, to €437.2 million in 2012 from €291.5 million in 2011. The increase was principally attributable to: the global consolidation of the operations purchased from Grupo Caliente beginning April 1, 2011, the global consolidation of ICELA beginning February 2012, an increase in the net win per machine per day in ICELA, and the absence, in 2012, of losses on the foreign exchange contracts.

This increase was partially offset by a lower average number of machines. Losses on the foreign exchange contracts which matured in 2011 were €1.0 million, and nil in 2012.

At a constant exchange rate, and excluding gains and losses on the foreign exchange contracts which matured during the corresponding periods, revenues would have been €427.2 million in 2012, representing an increase of 46.1% compared to 2011.

Operating Expenses. Operating expenses increased by €134.9 million, or 50.9%, to €399.9 million in 2012 from €265.0 million in 2011. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses.* Consumption and other external expenses include primarily food and beverage cost of sales for ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning in the three months ended June 30, 2011). Through March 31, 2011, it also included fees paid in connection with the use of gaming machines, expenses primarily in connection with the installation of gaming machines, and personnel costs related to the salaries of hall managers whom we provided for Grupo Caliente's halls. Consumption and other external expenses decreased by €12.9 million, or 39.9%, to €19.4 million in 2012 from €32.3 million in 2011, primarily due to the absence of the aforementioned expenses following the termination of the management services agreements pursuant to the Caliente Restructuring.
- *Personnel Expenses.* Personnel expenses increased by €9.5 million, or 21.3% to €54.2 million in 2012 from €44.7 million in 2011 primarily due to the consolidation of the Joint Opcos (consolidated beginning in the three months ended June 30, 2011), the global consolidation of the ICELA business beginning February 1, 2012 and €2.6 million of non-recurring costs.
- *Depreciation.* Depreciation, which includes the investment in halls operated by ICELA, Promojuegos, Mio Games and the Joint Opcos (the latter beginning April 1, 2011), as well as the racetrack and the convention center, and the capitalized leases associated with the International Game Technology ("IGT") machines (in ICELA), increased by €28.0 million, or 111.6% to €3.1 million in 2012 from €25.1 million in 2011, primarily due to the consolidation of Legacy Caliente (beginning in the three months ended June 30, 2011) and the global consolidation of the ICELA business beginning February 1, 2012.
- *Amortization.* Amortization, which primarily includes the amortization of the licenses, increased by €2.9 million to €12.8 million in 2012 from €9.9 million in 2011, primarily due to the consolidation of Legacy Caliente and the ICELA business.
- *Other Operating Expenses.* Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments and others, increased by €107.4 million, or 70.2%, to €260.4 million in 2012 from €153.0 million in 2011, principally due to the consolidation of Legacy Caliente (beginning in the second quarter of 2011), the global consolidation of the ICELA business beginning February 1, 2012, and to the increase in gaming taxes in several states. In addition, it includes €4.1 million of non-recurring expenses primarily related to fiscal provisions recorded in 2012, compared to €0.4 million non-recurring gains recorded in 2011.

Operating Profit. Operating profit increased by €48.1 million, or 182.2%, to €74.5 million in 2012 from €26.4 million in 2011. Operating margin increased to 17.0% in 2012 from 9.1% in 2011.

EBITDA. EBITDA increased €41.7 million, or 67.8%, to €103.2 million in 2012 from €61.5 million in 2011. The increase in EBITDA was primarily due to the consolidation effects of the Legacy Caliente and the ICELA business, to the absence, in 2012, of losses on the foregoing exchange contracts and to the increase in the net win per machine per day in ICELA. At a constant exchange rate (and adjusted to eliminate gains and losses on the foreign currency contracts which matured during 2011, due to the absence of foreign exchange contracts in 2012) EBITDA would have been €100.7 million in 2012, an increase of 61.2% compared to 2011. EBITDA margin increased to 23.6% in 2012 from 21.1% in 2011.

Italy

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	224.2	261.0	16.4%
Operating expenses:			
Consumption and other external expenses	2.8	2.6	(7.1%)
Personnel expenses.....	36.5	41.0	12.3%
Depreciation	10.3	12.4	20.4%
Amortization of intangible assets	4.8	5.9	22.9%
Variation in provisions for trade transactions.....	(5.2)	0.2	103.8%
Other operating expenses ⁽¹⁾	140.3	182.4	30.0%
Gaming and other taxes	95.6	131.0	37.0%
Others ⁽¹⁾	<u>44.7</u>	<u>51.4</u>	15.0%
Total operating expenses ⁽¹⁾	189.5	244.5	29.0%
Gains or losses on asset disposals or acquisitions	-	(0.1)	n.a.
Operating profit ⁽¹⁾	34.7	16.4	(52.7%)
EBITDA ⁽¹⁾	44.6	35.0	(21.5%)

(1) In 2012 Italy Internet excludes Codere Interactiva S.L. (the Internet operation outside of Italy, which is focused primarily on Mexico) which was included under Italy in 2011.

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

Operating revenue increased by €36.8 million, or 164%, to €261.0 million in 2012 from €224.2 million in 2011, due to the higher number of VLTs and AWP machines, the latter resulting from the consolidation of recently acquired machine operators (Gap Games in the second quarter of 2011, Gaming Re in the third quarter of 2011; and Dalla Pria in the second quarter of 2012) and the increase in the number of third party machines connected to the network. This increase is partially offset by a deterioration in the bingo business; the decrease in the net win per AWP due to the installation of VLTs and incorporation of recently acquired machines with lower net win; and a decrease in net win of the VLTs resulting from an increase in capacity (according to data published by the AAMS in October 2012, 80% of the awarded licenses had been installed), as well as a decrease in consumer spending which has negatively affected gaming in general.

Operating Expenses. Operating expenses increased by €55.0 million, or 29.0%, to €244.5 million in 2012 from €189.5 million in 2011. The key changes in operating expenses were as follows:

- **Consumption and Other External Expenses.** Consumption and other external expenses, which principally includes food and beverage cost of sales in the gaming halls. Consumption and other external expenses decreased by €0.2 million, or 7.1%, to €2.6 million in 2012 from €2.8 million in 2011. The decrease was principally attributable to decreased food and beverage sales.
- **Personnel Expenses.** Personnel expenses increased by €4.5 million, or 12.3%, to €41.0 million in 2012 from €36.5 million in 2011. The increase was principally attributable to an increase in personnel associated with the acquisition of the AWP machine operators as well as the increase in the number of VLTs.

- *Depreciation.* Depreciation increased by €2.1 million, or 20.4% to €12.4 million in 2012 from €10.3 million in 2011. The increase was principally attributable to the consolidation of the acquired AWP machines operators and the higher number of AWP machines.
- *Amortization.* Amortization increased by €1.1 million to €5.9 million in 2012 from €4.8 million in 2011. The increase was principally associated with the amortization of the VLT rights. This increase was partially mitigated by the absence in 2012 of a non-recurring amortization regularization totaling €0.6 million recorded in the three months ended June 30, 2011.
- *Variation in Provisions for Trade Transactions.* Variation in provisions for trade transactions increased by €5.4 million, to a profit of €0.2 million in 2012 from a loss of €5.2 million in 2011. The increase was principally attributable to the absence in 2012 of a provision related associated with the purchase of Gaming Re.
- *Other Operating Expenses.* Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments, and others increased by €42.1 million, or 30.0%, to €182.4 million in 2012 from €140.3 million in 2011. The increase was principally attributable to an increase in VLT gaming tax (4% of amounts wagered in 2012 compared to 2% of amounts wagered in 2011), the consolidation of the acquisitions of Gap Games, Gaming Re and Dalla Pria, and the higher number of VLTs in the market. In addition, other operating expenses have been affected by the difference in non-recurring items in 2012 compared to 2011. In 2011, other operating expenses decreased by a €3.5 million non-recurring tax reversal recorded in the three months ended June 30, 2011 resulting from the recalculation of the 2010 PREU (gaming tax) by the Italian regulator and the reclassification of €1.3 million in VLT costs from operating expenses to financial expenses and lower liability. In 2012, other operating expenses increased €2.1 million due to a charge for an AWP renewal fee in respect of Codere Network and by an adjustment in contingent payments in respect of Gap Games and Future Games.

Gains or Losses on Asset Disposals or Acquisitions. Gains or losses on asset disposals or acquisitions was a loss of €0.1 in 2012 compared to nil in 2011.

Operating Profit. Operating profit decreased by €18.3 million to €6.4 million in 2012 from €34.7 million in 2011. Operating margin decreased to 6.3% in 2012 from 15.5% in 2011.

EBITDA. EBITDA decreased by €9.6 million to €35.0 million in 2012 from €44.6 million in 2011. The decrease in EBITDA was principally attributable to the increase in gaming taxes and non-recurring items mentioned above. EBITDA margin decreased to 13.4% in 2012 from 19.9% in 2011.

Spain

	Year ended December 31,		
	2011	2012	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	165.7	154.3	(6.9%)
Operating expenses:			
Consumption and other external expenses	7.8	8.3	6.4%
Personnel expenses.....	42.7	40.1	(6.1%)
Depreciation	20.2	17.6	(12.9%)
Amortization of intangible assets	13.3	10.7	(19.5%)
Variation in provisions for trade transactions.....	3.5	1.7	(51.4%)
Asset impairment test	4.1	75.2	n.a.
Other operating expenses:	95.6	90.0	(5.9%)
Gaming and other taxes	69.3	58.7	(15.3%)
Machine rental costs	0.3	1.2	n.a.
Others	<u>26.0</u>	<u>30.1</u>	15.8%
Total operating expenses	187.2	243.6	30.1%
Gains or losses on asset disposals or acquisitions	(1.4)	(2.2)	(57.1%)
Operating profit	(22.9)	(91.5)	n.a.
EBITDA	19.6	15.9	(18.9%)

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

Operating revenue decreased by €11.4 million, or 69%, to €154.3 million in 2012 from €165.7 million in 2011, as a result of a lower number of machine installed due to the rationalization of the portfolio and in the context of a severe macroeconomic crisis and a resulting decline in consumer spending. This decrease was partially offset by an increase in the net win per machine per day as a result of the portfolio rationalization and the continued increase in revenues from sports betting operations as a result of product improvements and an increase in the number of locations (1,176 in December 2012 compared to 600 in December 2011) in existing and new communities (including Valencia, where the roll out began in the three months ended June 30, 2012).

Operating Expenses. Operating expenses increased by €56.4 million, or 30.1%, to €243.6 million in 2012 from €187.2 million in 2011. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses.* Consumption and other external expenses include payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and other costs, including food and beverage, incurred at our gaming halls and sports betting locations. Consumption and other external expenses increased by €0.5 million, or 6.4%, to €8.3 million in 2012 from €7.8 million in 2011, principally attributable to the increase of costs associated with sports betting locations.
- *Personnel Expenses.* Personnel expenses decreased by €2.6 million, or 6.1%, to €40.1 million in 2012 from €42.7 million in 2011. The decrease was principally attributable to a decrease in the number of employees compared with 2011 and by a €0.9 million reversal of compensation provision. Personnel expenses in 2012 included €2.8 million non-recurring restructuring charge compared to €1.1 recorded in 2011 for a similar concept.
- *Depreciation.* Depreciation decreased by €2.6 million, or 12.9% to €17.6 million in 2012 from €20.2 million in 2011, principally attributable to the decrease in the number of machines.

- *Amortization.* Amortization decreased by €2.6 million, or 19.5% to €10.7 million in 2012 from €13.3 million in 2011 as a result of the reduction in exclusivity payments to bar owners, which are conditional on the performance of the machines.
- *Variation in Provisions for Trade Transactions.* Variation in provisions for trade transactions decreased by €1.8 million, or 51.4%, to €1.7 million in 2012 from €3.5 million in 2011.
- *Asset Impairment Test.* Asset impairment test increased by €71.1 million to €75.2 million in 2012 from €4.1 million in 2011. In 2012, the assets in the Spanish operations were impaired by €75.2 million, following a test for impairment. This charge was triggered by the current macroeconomic situation and its negative impact on the gaming industry. The impairment loss is a non-cash charge to operating earnings, and does not affect the company's liquidity, operating cash flow, or debt service capacity.
- *Other Operating Expenses.* Other operating expenses, which include gaming and other taxes, marketing expenses, lease payments, expenses related to the Internet business and others, decreased by €5.6 million, or 5.9%, to €90.0 million in 2012 from €95.6 million in 2011, principally attributable to a decrease in gaming taxes as a result of the reduction in the number of machines installed. The decrease was partly offset by the increase of costs related to growth of sports betting business.

Gains or Losses on Asset Disposals or Acquisitions. Gains or losses on asset disposals or acquisitions was a loss of €2.2 million in 2012, compared to a loss of €1.4 million in 2011, principally attributable to losses recorded in Spain AWP business and Sports betting business.

Operating Profit. Operating profit decreased by €68.6 million to a loss of €91.5 million in 2012 from a loss of €22.9 million in 2011.

EBITDA. EBITDA decreased by €3.7 million, or 18.9%, to €15.9 million in 2012 from €19.6 million in 2011. The decrease in EBITDA was principally attributable to the aforementioned revenue decrease. EBITDA margin decreased to 10.3% in 2012, compared to 11.8% in 2011.

Other Operations

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

Operating Revenue. Operating revenue increased by €17.8 million, or 12.7%, to €157.6 million in 2012 from €139.8 million in 2011. The increase in operating revenue was principally attributable to the increase in: Colombia (€6.8 million) due to the opening of new Crown Casinos in San Rafael in the three months ended December 31, 2011 and in Zona T in the three months ended September 30, 2012; an increase in the net win per seat per day and the appreciation of the Colombian peso against the euro; Uruguay (€5.7 million) principally due to the increase in revenues from slots (higher average net win per seat per day and the opening of an additional gaming hall in the three months ended September 30, 2011; starting in the three months ended December 31, 2012 our revenues reflect an increase in the fee payable from the gaming authority associated with the concession of the Las Piedras racetrack which we were awarded in September, 2012; Panama (€5.5 million) principally due to the appreciation of the U.S. dollar against the euro, partially offset by a decrease in the net win per set per day.

Operating Expenses. Operating expenses increased by €25.9 million, or 19.1%, to €161.4 million in 2012 from €135.5 million in 2011. This increase was mainly attributable to Uruguay (€10.6 million) due to costs associated with the Carrasco Hotel and Casino project and the fifth gaming hall, as well as the appreciation of the Uruguayan peso against the euro; Colombia (€8.8 million) principally associated with the opening of the new casinos and with the appreciation of the Colombian peso against the euro; and Panama (€7.0 million) due to the appreciation of the U.S. dollar against the euro, the increase in gaming taxes (from 12.5% to 15.0% of net win beginning January 1, 2012 and then 18% from May 2012), and the increase in personnel expenses as a result of the increase in the minimum salary wage, starting on January 1, 2012.

Operating Profit. Operating profit decreased by €6.5 million, to a loss of €2.2 million in 2012 from a gain of €4.3 million in 2011.

EBITDA. EBITDA decreased by €8.0 million to €18.5 million in 2012 from €26.5 million in 2011. The decrease in EBITDA was principally attributable to: Uruguay (€4.3 million) primarily associated with costs associated with the Carrasco project in Uruguay; Panama (€3.4 million) principally associated with the increased expenses and partially offset by the absence in 2012 of €1.6 million non-recurring cost recorded in 2011; and Colombia (€0.5 million) principally attributable to costs associated with the opening of new casinos. EBITDA margin decreased to 11.7% in 2012 from 19.0% in 2011.

Liquidity and Capital Resources

Liquidity

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

The following table provides a profile of our liabilities under IFRS at December 31, 2011 and 2012.

	<u>As at December 31,</u>	
	<u>2011</u>	<u>2012</u>
	(audited)	
	(€ in millions)	
Short term debt payable to credit institutions	45.6	75.9
Other current liabilities ⁽¹⁾	<u>347.6</u>	<u>411.8</u>
Total current liabilities.....	<u>393.2</u>	<u>487.7</u>
Long term debt payable to credit institutions.....	59.7	100.6
Other long term liabilities ^{(2) (3)}	<u>994.6</u>	<u>1,347.3</u>
Total long term liabilities ⁽³⁾	<u>1,054.3</u>	<u>1,447.9</u>
Total liabilities ⁽³⁾	<u>1,447.5</u>	<u>1,935.6</u>

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

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

(3) The balance as at December 31, 2011 was restated as a result of the application of the definitive accounting treatment for business acquired in 2011.

Historical Cash Flows

The following is our consolidated cash flow statement under IFRS for the years ended December 31, 2011 and 2012.

	Year ended December 31,	
	2011	2012
	(audited)	
	(€ in millions)	
Cash flow from continuing operations:		
Operating profit	160.6	109.9
Non cash expenses:		
Depreciation and amortization.....	125.6	154.8
Impairment test.....	4.1	75.2
Other operating expenses.....	13.3	16.4
Non cash income(loss)	(0.9)	(41.9)
Changes in working capital	(16.6)	(24.3)
Corporate income tax	(53.8)	(81.1)
Net Cash from Operating Activities.....	232.3	209.0
Capital expenditures ^{(1) (2)}	(114.3)	(263.9)
Long term loans and receivables ^{(1) (3)}	2.8	0.1
Investments ^{(1) (4)}	(7.2)	(165.6)
Net Cash Used in Investing Activities	(118.7)	(429.4)
Issuance of 9.25% bond.....	-	226.0
Net change in financial debt ⁽⁵⁾	16.4	(6.1)
Net change in other bank loans.....	(0.3)	43.8
Dividends	(2.3)	(6.5)
Net change in other debt and contingent payments ⁽⁶⁾	(2.5)	15.8
Net investment in treasury shares.....	(0.7)	0.1
Interest income	4.4	3.6
Interest expense	(78.3)	(107.5)
Net cash effect of exchange rate changes	(2.7)	1.7
Net Cash used in Financing Activities	(66.0)	170.9
Effects of exchange rate fluctuations⁽⁷⁾	(2.5)	(1.4)
Net Change in Cash Position	45.1	(50.9)
Reconciliation		
Cash at beginning of period.....	90.6	135.7
Cash at end of period.....	135.7	84.8
Change in cash position.....	45.1	(50.9)

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

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

(3) Includes loans to site owners and other loans.

(4) Includes amounts committed to acquisitions. Cash from entities acquired is reported under Net change in other debt and contingent payments.

(5) Includes our Senior Credit Facility, 50% of bonds issued by Hipica Rioplatense Uruguay ("HRU"), one of our Uruguayan affiliates.

(6) Reflects movements in temporary financial investments such as vendor financing for investments, contingent payments and the payment of deferred gaming taxes, expenses related to the bond issuances and the renewal of the Senior Credit Facility, and as of 2011, the cash at the entities acquired, at the time of the purchase.

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

Cash Flow for the Year Ended December 31, 2012

Net cash from operating activities for the year ended December 31, 2012 was €209.0 million, a decrease of 10.0% with respect to the €232.3 million in 2011.

Net cash obtained in financing activities was €1709 million in 2012, the principal drivers of which were as follows:

- A net increase of €226.0 million associated with the issuance of the Dollar Notes.
- A net decrease of €6.1 million resulting from the amortization of the Senior Credit Facility of €9.5 million, the net positive change of €3.4 million associated with the HRU bonds (€4.6 million new bond issue and €1.2 million amortization of previous bond).
- Positive variation in other debt and contingent payments of €15.8 million, which consists of a net increase in vendor financing of €33.0 million, an increase in liabilities associated with the deferral of gaming taxes in Spain of €19.7 million, and the positive effect of €11.0 million of the cash balances resulting from the global consolidation of ICELA and the Italian operators acquired, compensated by an increase in financial assets amounting to €37.5 million and expenses associated with the U.S.\$300 million bond (€7.7 million), the senior debt (€0.3 million), the Argentine advances and loans (€2.3 million) and the HRU bond (€0.1 million). The €33.0 million net increase in vendor financing results from a positive variation of €409 million associated with the financing of intangible and fixed assets in Spain- Sports Betting, Mexico, Italy, Uruguay, Argentina, the deferred payment for the renewal of licenses (€22.1 million), Colombia and Panama; and a negative variation of €7.9 million, principally due to payments in Spain-AWP.
- An increase in other bank loans of €43.8 million, due primarily to increase in debt in Uruguay, Argentina, Colombia and Panama, partly offset by amortization of debt in Italy and Mexico.

Net cash in investing activities consists principally of €263.9 million in Capital Expenditures for intangible assets, including costs associated with the renewal of the licenses in Argentina of €107.1 million and the acquisition of new licenses in Mexico for €5.0 million, and investments of €165.6 million for the acquisition of the additional 35.8% in ICELA (€158 million) and acquisitions in Italy (€7.6 million).

During 2012, we had a net decrease in cash and cash equivalents of €50.9 million.

Working Capital Requirements

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

	Year ended December 31,	
	2011	2012
	(unaudited)	
	(€ in millions)	
Variations in:		
Receivables.....	(11.0)	(2.6)
Inventories.....	(1.8)	(0.1)
Payables.....	(2.3)	(20.9)
Prepaid expenses.....	(2.4)	(1.6)
Deferred income.....	-	
Deferred expenses.....	0.9	0.9
Other.....	-	
Total.....	(16.6)	(24.3)

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

During the periods under review, our working capital needs have been principally driven by payables related to our request for deferral of gaming taxes in Spain (negative variation of €20.4 million during 2012), variation in personnel cost provisions and payables and receivables in our Mexico business as well as receivables from clients of Codere Network.

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, and exchange rate fluctuations.

Capital Expenditures and Investments

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

	Year ended December 31	
	2011	2012
	(unaudited)	
	(€ in millions)	
Holding Company.....	1.4	2.3
Maintenance.....	1.4	2.3
Growth.....	-	-
Argentina.....	26.2	129.1
Maintenance.....	13.2	119.4
Growth.....	13.0	9.7
Mexico.....	22.9	196.8
Maintenance.....	16.7	24.1
Growth.....	6.2	172.7
Italy.....	13.5	23.0
Maintenance.....	8.0	13.7
Growth.....	5.5	9.3
Spain.....	20.7	28.6
Maintenance.....	18.3	15.0
Growth.....	2.4	13.6
Panama.....	7.4	7.0
Maintenance.....	5.6	6.8
Growth.....	1.8	0.2
Colombia.....	6.8	6.3
Maintenance.....	4.0	2.7
Growth.....	2.8	3.6
Uruguay.....	19.5	36.1
Maintenance.....	1.4	4.5
Growth.....	18.1	31.6
Brazil.....	0.3	0.2
Maintenance.....	0.1	0.2
Growth.....	0.2	-
Total Maintenance.....	68.7	188.7
Total Growth.....	50.0	240.7
Total Capex.....	118.7	429.4

We invested an aggregate amount of €548.1 million, excluding capitalized expenses, during 2011 and 2012. Our investing activities during 2011 and 2012 included the following capital expenditures, long-term loans and receivables and investments:

	Year ended December 31,	
	2011	2012
	(unaudited)	
	(€ in millions)	
Holding Company.....	1.4	2.3
Capital expenditures	1.4	2.3
Long term loans and receivables	—	—
Investments.....	—	—
Argentina	26.2	129.1
Capital expenditures	26.2	129.1
Long term loans and receivables	—	—
Investments.....	—	—
Mexico	22.9	196.8
Capital expenditures	20.9	38.8
Long term loans and receivables	—	—
Investments.....	2.0	158.0
Italy.....	13.5	23.0
Capital expenditures	8.5	14.6
Long term loans and receivables	(0.2)	0.8
Investments.....	5.2	7.6
Spain	20.7	28.6
Capital expenditures	23.3	29.5
Long-term loans and receivables	(2.6)	(0.9)
Investments.....	-	-
Other	34.0	49.6
Capital expenditures	34.0	49.6
Long-term loans and receivables	—	—
Investments.....	—	—
Total capital expenditures	114.3	263.9
Total long-term loans and receivables	(2.8)	(0.1)
Total investments.....	7.2	165.6
Total cash invested excluding capitalized expenses	118.7	429.4

We expect to invest approximately €65.0 million in our existing businesses during the course of 2013, including approximately €19.5 million in Mexico, €13.0 million in Uruguay, €9.8 million in Spain, €9.8 million in Italy, €7.8 million in Argentina and the remainder in our other operations including Colombia, Panama and corporate headquarters. The investments will be associated with: machine renewals and gaming hall refurbishments mainly in Mexico and Italy; general maintenance of the Maroñas racetrack, refurbishment of the Las Piedras racetrack and finalizing the Carrasco project in Uruguay; AWP machine renewals and exclusivity contracts and launch of sports betting in new regions in Spain; and hall refurbishments and technology enhancements in Argentina. We expect to invest €10 million in growth projects associated with the Las Piedras racetrack in Uruguay and the launch of sports betting in additional regions in Spain, and €55 million in maintenance projects.

Our actual capital expenditures for 2013 may be less than or exceed these amounts. In particular, our actual capital expenditures may be affected by changes in foreign exchange rates, decisions we make to undertake potential investments, or acquisitions that we are currently considering or will consider in the future. We expect that these capital expenditures will be funded primarily through cash from operations and bank borrowings under our existing credit facilities.

Contractual Obligations

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

Our consolidated contractual obligations as of December 31, 2012 were as follows:

Contractual Obligations	Payments due by period			
	Total	Less than 1 year	1-3 years	After 4 years
		(unaudited)		
		(€ in millions)		
Long-term debt ⁽¹⁾	1,086.2	841.8	244.4	244.4
Other long-term debt ⁽²⁾	81.1	—	25.9	55.2
Short-term debt ⁽³⁾	88.1	88.1	—	—
Capital lease agreements (short-term) ⁽⁴⁾	19.7	19.7	—	—
Other obligations (short-term) ⁽⁵⁾	104.0	104.0	—	—
Purchase obligations (trade accounts payable) ⁽⁶⁾ ...	131.1	131.1	—	—
Total contractual obligations	1,510.3	343.0	867.8	299.6

(1) Includes the Notes and the HRU bonds (€971.9 million and €13.8 million) and long-term payables to credit entities (€100.6 million).

(2) Consists mainly of the deferred portion of the purchase price of AWP operators in Spain (€6.8 million), long-term payments of exclusivity rights in Spain (€3.5 million), long-term financial leasing (€22.3 million) and long-term payables related to our request for deferral of gaming taxes.

(3) Includes the accrued and unpaid interest on the Notes of €10.4 million, the principal and accrued and unpaid interest on the HRU bonds of €1.7 million, plus bank loans in Argentina (€31.3 million), Mexico (€17.0 million), Italy (€3.1 million), Panama (€4.3 million), Uruguay (€2.3 million), Spain (€0.7 million) and Colombia (€0.4 million). The Senior Credit Facility (€16.7 million) is included.

(4) Includes short-term capital lease agreements.

(5) Other short-term obligations include deferred gaming taxes in Spain relating to the AWP business (€23.5 million) and exclude short-term capital lease agreements.

(6) Includes trade accounts payable.

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

Market and Credit Risks

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

Interest Rate Risks

We are subject to interest rate risks related to our borrowings. Borrowings under the Senior Credit Facility are principally in euro with floating interest rates based on EURIBOR or LIBOR. We do not currently hedge our interest rate exposure and do not expect to do so in the future. See Note 3 to our Consolidated Financial Statements for additional information on interest rate risks and a sensitivity analysis on such risks.

Foreign Currency Risks

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

In order to mitigate part of the foreign exchange risk to which we are subject, in prior years we have entered into hedge agreements to cover sales for an amount approximately equivalent to 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. The hedges consist of forward purchases of foreign currency (local currency to U.S. dollar or euro, and on certain occasions, U.S. dollar to euro). The application of the policy takes into account our expectations of the amount of funds we expect to upstream, the amount of euro or U.S. dollar commitments we have, the currency these are denominated in, and our expectations about U.S. dollar and euro currency market movements. As of February 28, 2013, however, we had no foreign exchange forward contracts in place. Our Argentine peso foreign exchange forward contract that matured during 2012 amounted to a net loss of €3.8 million in 2012. We did not have any Mexican peso foreign exchange forward contracts in 2012. The realized losses have been recorded as other operating revenue in our Argentine business.

BUSINESS

Overview

We are a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of December 31, 2012, we managed 56,474 gaming machines, 186 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 1,379 sports betting locations and three horse racing tracks. In 2012, we generated operating revenue of €1,663.9 million and EBITDA of €305.2 million.

In Argentina, we believe we are the largest operator of gaming halls with 14 gaming halls in which we operated 5,856 slot and other gaming machine seats and 10,533 bingo seats in the Province of Buenos Aires as of December 31, 2012. In 2012, our business in Argentina generated operating revenue of €653.8 million and EBITDA of €160.6 million.

In Mexico, through ICELA and Legacy Caliente, as of December 31, 2012, we were the largest operator of gaming sites with 89 gaming halls in which we operated 19,222 machine seats. As of December 31, 2012, we also operated 79 sports betting locations, and, through ICELA, we operated a 52 hectare gaming complex in Mexico City that included the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2012, we held licenses to build and operate an additional 46 gaming halls. In 2012, our business in Mexico generated operating revenue of €437.2 million and EBITDA of €103.2 million.

In Italy, we believe we are the leading gaming hall operator with 13 gaming halls as of December 31, 2012 in which we operate VLT and AWP machines and offer bingo. We also operate AWP machines in non-specialized locations, such as bars. As of December 31, 2012, we operated 6,907 AWP, 1,157 VLTs and 5,775 bingo seats, and 13,210 gaming machines (which include the ones operated by us and by other operators) were connected to our network in Italy. In 2012, our business in Italy generated operating revenue of €261.0 million and EBITDA of €35.0 million.

In Spain, we believe we are the second largest operator of AWP machines with 12,188 machines located in over 8,464 bars, restaurants, machine halls and one gaming hall as of December 31, 2012. The gaming hall we operate is the Canoe gaming hall in Madrid, which features a bingo venue, AWP and sports betting locations. In total, we operated 1,176 sports betting locations in Spain as of December 31, 2012. In 2012, our business in Spain generated operating revenue of €154.3 million and EBITDA of €5.9 million.

Our Other Operations, which generated operating revenue of €157.6 million and EBITDA of €18.5 million in 2012, included (i) 12 gaming halls (including 11 casinos and a machine hall at the racetrack), one racetrack and 73 sports betting locations in Panama, (ii) 52 gaming halls, including five casinos, in Colombia, (iii) a joint venture in horse racing, five gaming halls and 44 sports betting locations in Uruguay and (iv) seven sports betting locations in Brazil.

The following table sets forth the number of gaming machines (AWP, slot machines and VLTs), gaming halls and other gaming facilities we operated as of December 31, 2012 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (in each case, before corporate headquarters revenues and expenses) for 2012.

	Gaming machine seats	Gaming Halls	Betting Locations	Horse Race Tracks	Revenue	EBITDA	Percent of EBITDA
						(unaudited)	
					(€ in millions)		
Argentina	5,856	14	—	—	653.8	160.6	48.2%
Mexico	19,222	89	79	1	437.2	103.2	31.0%
Italy	8,064	13	—	—	261.0	35.0	10.5%
Spain	12,188	1	1,176	—	154.3	15.9	4.8%
Other Operations:							
Panama	3,275	12	73	1	92.5	14.2	4.3%
Colombia	6,044	52	—	—	35.7	5.4	1.6%
Uruguay	1,825	5	44	1	26.0	(0.4)	(0.1)%
Brazil	—	—	7	—	3.4	(0.7)	(0.2)%
Total	56,474	186	1,379	3	1,663.9⁽¹⁾	333.2⁽¹⁾	100.0%

(1) Revenue and EBITDA do not reflect revenues and expenses relating to corporate services provided to each of our four principal businesses and Other Operations by our Group headquarters (€00 million and (€ 28.0) million), respectively, for 2012.

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

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

In 2006, we separately issued €160.0 million and €65.0 million aggregate principal amount of Euro Notes and the Martínez Sampedro family entered into an agreement to purchase Jesús and Joaquín Franco's stake in Codere, S.A. In 2006 and 2007, we acquired two licensees in Mexico, Promojuegos and Mio Games respectively, and in 2007 acquired majority stakes in three AWP machine operators in Italy. Codere, S.A. priced its IPO on October 19, 2007. Proceeds from the IPO were used for the acquisition of a 49% interest in ICELA and the purchase of a 10% interest from a non-controlling interest in our Mexican business.

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

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

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

In 2012, we issued U.S.\$300 million aggregate principal amount of Dollar Notes, we completed the purchase of a 35.8% stake in ICELA, thereby increasing our stake to 84.8%. We also obtained a license for on-line gaming in Spain, launched sports betting operations in Valencia, Spain, acquired Dalla Pria, an AWP operator in Italy, and renewed five licenses in Argentina.

To date, in 2013, we launched sports betting operations in Galicia, Spain and we opened the Carrasco Hotel and Casino in Uruguay.

Recent Developments

Smoking Ban in Argentina

The Province of Buenos Aires passed a total smoking ban in 2009 but exempted venues larger than 400 square meters and, therefore, our halls were exempt. However, regional authorities have the right to implement stricter legislation than the provincial legislation. As such, the municipality of Mar del Plata, one of the municipalities in the Province of Buenos Aires where four of our halls are located, strengthened its partial smoking ban instituted in 2007 to a total smoking ban in April 2011. In July 2011, the National Congress of Argentina passed smoking legislation which bans smoking in all public areas. On October 1, 2012 the Province of Buenos Aires implemented a smoking ban which affected all of the halls which had been previously exempted from the total smoking ban implemented in the Province of Buenos Aires in 2009. The introduction of this smoking ban has negatively affected the net win per seat per day in the fourth quarter of 2012.

Changes in Taxes

As a result of the implementation of the 2013 Stability Law as published in the Official Bulletin on December 29, 2012, effective January 1, 2013, the gaming tax (PREU) on VLTs in Italy increased from 4% of amounts wagered in 2012 to 5% in 2013. In the case of the AWP, the PREU tax increased from 11.8% of amounts wagered in 2012 to 12.7% in 2013 pursuant to decree issued by AAMS in November 2011. See “—Litigation—Other Litigation and Disputes—Italy—AAMS Litigation”.

As part of the 2013 budget approved by the Province of Buenos Aires in the fall of 2012, the gross revenue tax applicable to our operations was increased from 8% to 12% effective January 1, 2013. In our operations, the gross revenue tax is applied to the net win less gaming tax and payment to the non-profit organizations.

Our Competitive Strengths

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

- ***Leading Positions in Major Markets.*** Most markets in which we operate have a limited number of gaming permits or licenses, limited desirable real estate locations and high levels of protective regulation, which could make it difficult for new players to enter these markets. We have been a first mover in targeting local resident populations in all of our major markets and now enjoy leading positions in most of these markets. We have been present in Argentina since licenses were originally awarded to operate bingo halls in the early 1990s in the Province of Buenos Aires, and we are currently the largest operator of gaming halls in that market. With 14 out of 46 gaming halls, we represent approximately 48% of the market in the Province of Buenos Aires in terms of net win. In Mexico, a market which we entered in 1998, we are the largest operator of gaming halls. In Italy, we operate 13 gaming halls and, with a market share of approximately 9% of bingo cards sold, we believe we are the market leader.

We believe we are the second largest operator of AWP machines in Spain, with 12,188 AWP machines in 8,464 bars, restaurants, machine halls and one gaming hall, as of December 31, 2012. In Panama, we operate 11 casinos, making us the leader in the casino market.

- **Large and Diversified Multinational Gaming Operator.** Given that most of the markets in which we operate are characterized by a small number of large operators and a large number of small operators with limited numbers of new entrants, our size affords us a competitive advantage with respect to resources and economies of scale, including in the procurement of gaming machines, which are sourced from many of the same suppliers across our operations. In addition, our geographic diversification allows us to share best practices among our operations and enables us to anticipate industry, regulatory and technology trends in one market enhanced by our experience in other markets. Geographic diversification also provides us with a balanced portfolio, reducing our dependence on any given market. For example, in the current economic downturn our Latin American and Italian operations have helped mitigate the weaker performance of our operations in Spain.
- **Significant Experience Operating Diverse Gaming Products.** We believe our long history of operating different gaming activities in a variety of markets provides us with a competitive advantage in the management of gaming venues with diversified product offerings, which is the increasing industry trend in the markets in which we operate. Since becoming one of the first companies to operate AWP machines in bars in Spain in the early 1980s through our present operation of gaming halls, racetracks and betting locations in eight countries in Latin America and Europe, we have evolved into one of the most diversified and experienced international gaming operators. During this time, we have developed significant expertise in managing a wide variety of products and have participated in the development of gaming markets in many countries. Industry trends indicate a move toward the concentration of different gaming activities, including gaming machines, paper based bingo, horse races, sports betting and table games on the same premises. We believe that our experience operating different gaming activities provides us with a significant advantage over our competitors because we are better placed to anticipate related regulatory changes and operate new products and technology. The following are examples of the industry trend toward concentration from which we have benefited or expect to benefit:
 - *Argentina.* The Province of Buenos Aires first allowed slot machines in bingo halls in 2003 and has since allowed for increases in the number of machines proportional to the number of bingo seats.
 - *Mexico.* The market in Mexico began with betting locations to which traditional bingo was soon added and allowed the installation of gaming machines in 2004.
 - *Italy.* Italy permitted the installation of gaming machines in its bingo halls in 2007 and of VLTs in 2010.
 - *Spain.* The Community of Madrid authorized the installation of sports betting and Class B3 machines in bingo halls in 2008 and 2009, respectively. The Basque region and Navarra allowed sports betting machines, alongside AWP machines in bars in 2007 and 2010, respectively, while Aragón Valencia and Galicia allowed sports betting machines in gaming halls in 2011, 2012 and 2013, respectively.
 - *Other.* At the racetracks which we operate in Latin America, in addition to taking bets on the races at the track, we are able to offer bets on other sporting events and operate gaming machines.
- **Robust Controls and Significant Experience Operating in Regulated Gaming Markets.** We have robust corporate governance policies and procedures, management capabilities, and effective internal controls that have been crucial to our growth, success and enhanced reputation in the gaming industry. As one of a limited number of companies in our industry that is publicly traded, we are subject to high standards of transparency and integrity in the markets in which we operate, including with respect to compliance, money laundering, the handling of cash, large prize payouts and transaction authorization. We voluntarily follow the compliance standards of the Nevada Gaming Commission and have undertaken various other “best practices” initiatives for Spanish publicly traded companies. We have also implemented compliance policies required by EU Directive 2005/60/EC on money laundering.

Having strong internal controls is particularly important in the gaming industry because it is heavily regulated and key players in the industry, such as regulators and machine suppliers, demand high standards and seek to limit the opportunities available to companies that do not comply with such standards. In addition, we have acquired valuable experience complying with regulatory requirements and tax regimes in a diverse range of countries and regional jurisdictions. In several cases, we have collaborated with gaming regulators in the development of new gaming regulations or markets. We believe that our strong market positions and close and cooperative relationships with gaming regulators and tax authorities provide us with a competitive advantage over most of our competitors and make us an attractive partner (for both regulators and competitors) with whom to develop new gaming businesses.

- ***Recession Resistant Gaming Model Catered to Local Populations.*** We believe that gaming products serving the local resident population have been more resilient, particularly in less mature markets, during global economic downturns, compared to the tourist oriented Las Vegas-style casinos and gaming facilities. We believe that our low wager, low prize gaming products, which are in locations near our customers' workplaces or homes, offer customers more cost-effective entertainment than the Las Vegas-style casinos, which have more expensive games and require additional expenses for travel, hotel, dining and entertainment.
- ***Favorable Demographics and Economic Conditions in Latin America.*** With the exception of Argentina whose economy has significantly deteriorated since the second quarter of 2012, Latin America presents very compelling growth prospects given their improving macroeconomic conditions and the expanding buying power of the consumer sector in general. There is significant potential for disposable income expansion as regional economies grow and consumer financing alternatives expand, which generally results in increased demand for entertainment products, such as gaming. The confluences of favorable factors throughout the region, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of clients.
- ***Strong Financial Performance.*** Even in the face of challenging macroeconomic environments, we have managed strong financial performance in recent years as set forth below.
 - ***Resilient EBITDA During Macroeconomic Downturn.*** Our EBITDA during the global macroeconomic crisis has been resilient, reflecting growth in our consolidated operations. Our EBITDA was €241.1 million in 2010, €289.7 million in 2011 and €305.2 million in 2012.
 - ***Flexibility of Investment Program.*** We benefit from the flexibility afforded by our investment program, which consists of a series of small discretionary investments with very short lead times, including the purchase of gaming machines in Mexico, the acquisition of small AWP machine operators in Italy and the expansion of gaming halls in Argentina.
- ***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 25 years. In addition, our key operations in Argentina, Mexico, Italy and Spain are managed by executives with extensive gaming industry experience and proven track records of success in related or complementary industries. Our Board of Directors includes José Ignacio Cases Mendez, who served as the head of the Spanish National Gaming Commission from 1994 to 1998, Joseph Zappala, who served as U.S. Ambassador to Spain from 1989 to 1992 and has interests in the gaming sector in the United States, and José Ramón Romero Rodríguez, who has been our outside legal counsel since July 2002 and has specialized in gaming legislation since 1978. Their government and gaming experience is important to our ability to establish and maintain good relationships with regulators in the markets in which we operate, which we believe serves to distinguish us from our competitors.

Our Strategy

Our goal is to continue to maximize the cash flow generation and profitability of our businesses by growing our existing businesses, participating in additional gaming activities in our existing markets, pursuing regulatory improvements in all of the markets in which we operate, and implementing cost reduction initiatives. 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 renewal of our slot machine portfolio and refurbishment of our halls in the Province of Buenos Aires as well as in the continued introduction of the latest technology in our gaming halls to maintain our leading market share.
 - *Mexico.* We continue to invest in the renewal of our slot machine portfolio to capitalize on and maintain our first mover advantage in this rapidly growing market. We will also continue to focus on improving the competitive position of the Legacy Caliente and ICELA operations, including through additional hall refurbishments. We believe that through Legacy Caliente and ICELA, we will be able to not only improve our Mexican business, but also to cooperate more closely with the authorities, alongside our Mexican partners and other large institutional operators in the country, to ensure this very attractive and underpenetrated market develops in an orderly manner, which will enable the provision of an attractive offer to the clients, transparency and controls to regulators and an attractive business for operators.
 - *Italy.* We plan to continue growing in the country primarily through developing the VLT rights to install machines that we have not yet installed (for which we expect to finalize installations in 2013), and through increasing the number of AWP's connected to our network. .
 - *Spain.* Our strategy is focused on enhancing the profitability of the AWP business and continuing to generate net wins and provide customer service superior to those of our competitors by leveraging our portfolio of attractive points of sale and AWP machines. Additionally, we expect to continue to expand the sports betting business in other regions, which will also enable us to leverage our AWP points of sale, upon the passage of enabling regulation.
 - *Other.* Following our success with the "racino" business model, which combines horse racing and slot machines in Uruguay, we have implemented a similar business model in Panama, where we acquired the Presidente Remón Racetrack, a horse racing track in Panama City, and in Mexico at the Las Americas racetrack. We are considering opportunities to develop similar operations in other Latin American markets, including Brazil, to the extent permitted by local regulations. Following our acquisition of Crown Casinos in Panama in 2005, we are now operating five casinos in Colombia, acquired a further six casinos in Panama) and recently opened the Carrasco Hotel and Casino in Uruguay.
- **Focus on Regulated Local Gaming Markets.** We will continue to focus on offering gaming activities oriented toward the local resident population rather than tourist-oriented gaming markets, which requires investment in capital intensive Las Vegas-style casinos and gaming facilities. We believe that this focus limits required capital investment, and that these local market-oriented gaming activities generate significant tax revenue for the jurisdictions in which we operate, ensuring transparent regulation and political support for these gaming activities.
- **Internet Activities.** Following the launch of the Internet gaming business in Italy in October 2010, we are exploring opportunities to expand this business to certain countries in which we already operate, such as Spain, Mexico and Uruguay as they adopt specific regulations governing the online gaming industry. We believe that technological advances and regulatory changes will result in increasing convergence between online and offline products which will offer us the opportunity to leverage the 30 years of experience we have garnered operating a variety of gaming products and our relationship with local regulators in eight countries into the online gaming business.

- **Cost cutting initiatives.** We expect to continue to reduce management compensation and discretionary expenses, including fees for advisors and consultants, as well as other overhead expenses.
- **Continue to Improve Fiscal Position.** We intend to continue introducing measures to improve our fiscal position and reduce our consolidated effective tax rate. Among the measures we are evaluating, or have taken, are improving pre-tax profits of business units in which we have net operating losses, decreasing corporate overhead expenses, increasing indebtedness in our subsidiaries which have high profit before tax such as Argentina and increasing intercompany charges as permitted by local regulation. We also expect that a sale of a portion of our direct and indirect interest in our Latin American businesses or in certain of the business units, to strategic or other investors would enable us to reduce our leverage and improve our fiscal position.
- **Sale of Stake in Latin American Operations.** We believe that a sale of a stake in our Latin American operations or in certain of the business units, would enable us to crystallize the value of Codere. Accordingly, we will continue to evaluate the opportunities for a sale of a stake in our Latin American operations to strategic or other investors.
- **Redenomination of Indebtedness to U.S. Dollars or Local Currency.** We will continue to pursue opportunities to redenominate the currency of our indebtedness from euro to local currency (which generally have a higher correlation to the U.S. dollar than to the euro) and to U.S. dollars, in order to better match the cash flows in which we generate the majority of our earnings. In 2012, we generated 15.3% of our consolidated EBITDA (before corporate headquarters revenues and expenses) in euros, while at December 31, 2012 66% of our debt was denominated in euro. The issuance of the Dollar Notes and local debt raised in Argentina, Uruguay and Colombia in 2012, resulted in a reduction of the percentage of euro denominated debt. Assuming favorable market conditions, we expect to continue to pursue opportunities to redenominate the currency of our indebtedness into local currency and U.S. dollars in the public debt markets as well as in the bank market.

Argentina

In Argentina, we are focused on the development and management of gaming halls, in which the majority of the profitability is generated by the machines, but we also have a bingo business. As of December 31, 2012, our Argentina business owned and operated 14 gaming halls with a total of 5,856 slot and other gaming machine seats and 10,533 bingo seats. In 2012, our Argentine business generated operating revenue of €653.8 million and EBITDA of €160.6 million, representing 39.3% of our total consolidated revenues and 48.2% 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 2012.

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

	Year ended December 31,				
	2008	2009	2010	2011	2012
Number of gaming halls (at period end).....	14	14	14	14	14
Number of slot machine seats (at period end)	4,485	4,679	5,043	5,279	5,856
Net win per slot seat per day (in Argentine peso).....	868.2	989.5	1,223.4	1,559.4	1,717.9
Net win per slot seat per day (in euro).....	187.5	189.8	236.2	270.2	293.5
Number of bingo hall seats (at period end).....	7,981	8,308	8,991	9,517	10,533
Net win per bingo hall seat per day (in Argentine peso)	52.4	53.3	58.4	61.2	55.0
Net win per bingo hall seat per day (in euro).....	11.3	10.3	11.3	10.6	9.4

The following table sets forth certain information regarding our Argentina business's gaming halls as of December 31, 2012.

<u>Name</u>	<u>Opening Date</u>	<u>Concession Expiration Date</u>	<u>Number of Bingo Seats</u>	<u>Slot Machine Seats</u>	<u>Revenues for 2012 (€ in millions)⁽¹⁾</u>
Bingo San Martín.....	Oct. 1994	June 2021	1,608	861	94,3
Bingo Lomas del Mirador.....	July 2006	Sep. 2029	1,194	662	79,7
Bingo Lanús.....	Apr. 1992	June 2021	882	512	74,0
Bingo Platense.....	June 1992	June 2021	1,048	598	78,6
Bingo Morón.....	June 1998	June 2028	846	483	68,9
Bingo San Justo.....	Oct. 1999	Oct. 2029	864	474	58,1
Bingo San Miguel.....	May 1999	May 2029	894	489	57,6
Bingo Lomas de Zamora.....	July 1991	June 2021	586	326	42,1
Bingo Sol.....	Feb. 1991	June 2021	528	316	27,9
Bingo Ramos Mejía.....	Apr. 1999	Apr. 2029	596	334	42,8
Bingo del Mar.....	Sep. 1991	June 2021	830	433	21,6
Bingo Peatonal.....	Jan. 1991	June 2021	244	121	6,3
Bingo Temperley.....	Aug. 2001	Aug. 2016	214	129	5,6
Bingo Puerto.....	Jan. 1994	June 2021	199	118	5,9
Total.....			10,533	5,856	663.2

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

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

On November 29, 2012 the five gaming licenses for the halls that we operate in the Province of Buenos Aires, the original terms of which would have expired in 2013 and 2015, were renewed for 15 years from their original expiry date following the signing of individual agreements for each of these halls with the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, or "IPLyC" (the gaming regulator of the Province of Buenos Aires).

The table below provides for each hall, the Resolution pursuant to which the relevant gaming license was granted and its expiry date:

<u>Hall</u>	<u>Individual Resolution</u>	<u>Expiry Date</u>
Moron	1788/12	June 11, 2028
Ramos Mejia	1789/12	April 9, 2029
San Miguel	1787/12	May 1, 2029
Lomas del Mirador	1785/12	September 30, 2029
San Justo	1786/12	October 14, 2029

As stipulated under Resolution 1078/12 and Decree 569/12 published in July 2012, the renewal of the five gaming licenses was subject to a fixed renewal fee of AR\$614 million (equivalent to approximately €107million as of August 29, 2012), which we began paying in August 2012 and finished paying in January 2013, and an AR\$232 million (equivalent to approximately €40 million as of August 29, 2012) canon tax surcharge payable monthly over five years, beginning in September 2012.

Following these renewals, out of the 14 halls we operate in the Province of Buenos Aires, eight have licenses which expire in 2021, one has a license which expires in 2028, four have licenses which expire in 2029 and one has a license which expires in 2016. The latter refers to Temperley, the smallest of our halls in the Province.

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

Hall	Original expiration	Renovation date	Renewal through	Up-front fee (in millions) ⁽¹⁾		Canon tax surcharge (in millions) ⁽¹⁾	
				Ar\$	EURO	Ar\$	EURO
Mar	Sep. 2006	Mar. 2007	June 2021	14.3	2.2	33.4	5.1
Lomas de Zamora	July 2006	June 2007	June 2021	16.6	2.6	38.6	5.9
Sol.....	June 2006	Mar. 2007	June 2021	15.7	2.4	36.5	5.6
Peatonal	June 2006	May 2007	June 2021	5.7	0.9	13.4	2.1
Lanus.	Apr. 2007	Apr. 2007	June 2021	38.2	5.9	89.0	13.7
Platense.....	June 2007	Oct. 2009	June 2021	28.4	4.4	137.8	21.2
San Martín	Oct. 2009	June 2010	June 2021	55.5	8.5	72.3	11.1
Puerto.....	Jan. 2009	July 2010	June 2021	5.5	0.8	7.3	1.1
Morón	June 2013	June 2012	May 2028	137.6	21.2	52.0	8.0
Ramos Mejía.....	Apr. 2014	June 2012	Mar. 2029	83.4	12.8	31.6	4.9
San Miguel.....	May 2014	June 2012	Apr. 2029	116.1	17.9	43.9	6.8
Lomas del Mirador	Sep. 2014	June 2012	Aug. 2029	161.6	24.9	61.1	9.4
San Justo.....	Oct. 2014	June 2012	Sep. 2029	115.6	17.8	43.7	6.7
Temperley.....	Aug. 2016						

(1) Data is calculated based on the exchange rate as of December 31, 2012.

Slot machines that are installed in gaming halls are similar to the Class III machines present in the United States. In addition, the Argentine gaming halls contain a limited number of non-slot gaming machines, such as a simulated roulette-type machine. These machines are regulated in the same manner as slot machines. In 2012, operating revenue generated from slot machines accounted for approximately 89.0% of our consolidated operating revenue in Argentina.

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

The following chart sets forth the business model economics for our Argentine slot machine operations. This example is based on our 2012 accounts and for illustrative purposes only:

Net Box (Net Win) (100%)	Net box represents amounts wagered less prize payouts
Less	
Gaming Taxes ⁽¹⁾ (34%)	Gaming tax on slots
Less	
Nonprofit Organizations ⁽¹⁾ (1.7%)	Nonprofit organizations represent the amount paid to such organizations that nominally hold the licenses
Less	
Gross revenue tax ⁽¹⁾ (5.1%)	Calculated based on net win less gaming taxes and fees to nonprofit organizations
Equals	
Operator Revenues After Taxes and Nonprofit Organizations (59.2%)	Operator revenues after taxes and nonprofit organizations represent the percentage of amounts net win that we retain as the operator

(1) Included under *Gaming and other taxes* in our income statement.

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

Operational Systems

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

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

Main Operating Projects

Our Argentine operations' principal operating project in the near term is the continued general refurbishment and updating of our gaming halls, and renewal of our slot machine portfolio to ensure that we have an attractive offer for our clients and to meet unmet demand in the geographical areas where we operate.

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, 2012, we operated 14 gaming halls in the Province of Buenos Aires and estimate that 47.57% 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, Grupo Midas and Casino Club which have between three and four halls each.

The rest of the private gaming market in the Province of Buenos Aires is limited to government-owned casinos and racetracks. Casinos in the Province of Buenos Aires are generally restricted to tourist areas (with the exception of Casino del Tigre, which is located 50 kilometers from the City of Buenos Aires), and they have approximately 4,170 machines in aggregate. There are two racetracks in the Province of Buenos Aires, where slot machines are currently not allowed. In the City of Buenos Aires there are two casinos operated by Cirsa and local partner, Casino Club and a racetrack with slot machines in the City of Buenos Aires, which is also operated by Casino Club.

Sales and Marketing

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

Mexico

Until June 30, 2010, we conducted our operations in Mexico through a management services agreement with Grupo Caliente, a joint venture with CIE (currently ICELA) as well as through the licensees Promojuegos and Mio Games. On July 1, 2010, the terms of the original management services agreement with Grupo Caliente were changed and we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Grupo Caliente at cost. After COFECO approved the Caliente Restructuring, we began consolidating the operations

acquired from Grupo Caliente and the Joint Opcos under the global method and since April 1, 2011, we have conducted our operations in Mexico through ICELA (until 2011, our joint venture with CIE in which we now hold a stake of 84.8%) and Legacy Caliente. In 2012, our Mexican operations generated operating revenue of €437.2 million and EBITDA of €103.2 million, representing 26.3% of our total consolidated revenues and 31.0% of our consolidated EBITDA (both before corporate headquarters revenues and expenses). The development and management of gaming halls, in which we manage or operate slot machines, and in certain cases, bingo and sports betting, is our most significant activity. As of December 31, 2012, our Mexico business operated 89 gaming halls in which we operated 19,222 slot machine seats and 79 betting locations. We also 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, 2012, we held licenses to build and operate an additional 46 gaming halls (22 in Legacy Caliente, 12 in ICELA and 12 in Recreativos Marina).

Mexico CIE—Background and Operations

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

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

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

In November 2007, we changed the nature of our relationship with CIE through the purchase of 49% of ICELA which resulted in a new joint venture. ICELA includes CIE's Las Américas division and holds certain gaming related assets previously held directly by CIE, including an exclusivity contract with IGT, which were contributed to ICELA in connection with the transaction. ICELA and its subsidiaries are the concessionaire of a 52-hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Mexico.

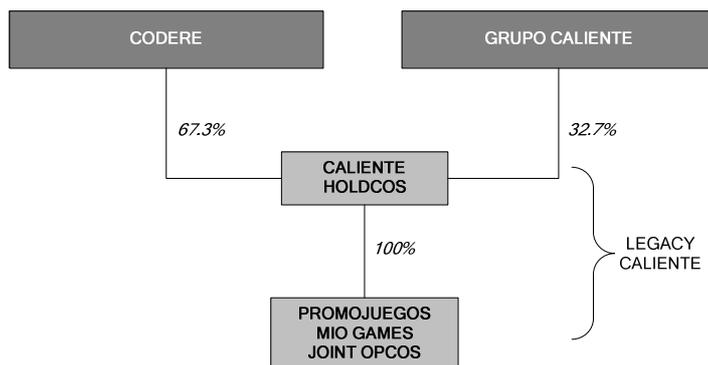
On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE (the "ICELA Acquisition") for a purchase price of Mex. Ps. 2,653 million (equivalent to approximately U.S.\$209.0 million and €158.0 million as of the date of closing of the acquisition) pursuant to a sale and purchase agreement with CIE (the "ICELA Acquisition Agreement"). The acquisition of the 35.8% stake was in addition to Codere México's already existing 49% stake in ICELA. Pursuant to the ICELA Acquisition Agreement, we also acquired an option to purchase all of the remaining shares in ICELA from CIE at a price per share substantially similar to that for which we agreed to purchase the 35.8% stake in ICELA, subject to certain adjustments. We may exercise this option on or prior to June 30, 2014. In addition, as long as CIE maintains a stake of at least 5% in ICELA, for a period of one year beginning June 2014, CIE has the right to force an IPO of ICELA and to grant ICELA the right to purchase Codere México's shares in the Caliente business.

Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements. Since the ICELA Acquisition we have been actively working to achieve synergies between our ICELA and Caliente businesses to reduce corporate overheads and expenses. As of December 31, 2012, our Mexico business through ICELA operated 53 gaming halls.

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

Mexico Caliente—Background and Operations

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



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

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

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

Following the consummation of the Caliente Restructuring, Codere México holds indirectly through the Caliente Holdcos a 67.3% stake in each of the Joint Opcos, Promojuegos and Mio Games with Grupo Caliente holding the remaining 32.7%. As of December 31, 2012, the Joint Opcos held an aggregate of 46 gaming permits and operated 28 halls in Mexico. As of December 31, 2012, Promojuegos and Mio Games each had a license and they held an aggregate of 12 gaming permits, out of which eight were in operation.

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

In addition, Codere México entered into management services agreements with Promojuegos and Mio Games pursuant to which these companies pay Codere México an aggregate maximum annual fee of U.S.\$7.6 million through the end of 2014. The management services fees are payable on a monthly basis and account as intercompany transactions. In addition, pursuant to the Caliente Restructuring, Codere México extended a revolving credit facility to the Joint Opcos to finance the payment of certain liabilities to third parties. As of December 31, 2012, the total amount due from Legacy Caliente under the management services agreements and the revolving credit facility granted by Codere México was approximately U.S.\$269 million (equivalent to approximately €203.8 million as of December 31, 2012).

Pursuant to the Caliente Restructuring, Codere is entitled to receive 100% of the dividends from Legacy Caliente until all the obligations that were owed to Codere at the time of the restructuring are repaid in full. In the second quarter of 2012, €29.7 million remained on our balance sheet as debt from Grupo Caliente, which was to be repaid from dividends from Legacy Caliente. In the second quarter of 2012 we wrote-off this €29.7 million because the assessed net present value of the dividends is very low compared to the amount of the outstanding debt, principally due to the fact that the Joint Opcos must first satisfy the payments due under the management services agreement and service the credit facility loan granted by Codere México (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Comparability of our Results of Operations—Write offs in Legacy Caliente Business”). As of December 31, 2012, the total amount outstanding of such obligations owed to Codere was approximately U.S.\$40 million (equivalent to approximately €30.3 million as of December 31, 2012).

Recreativos Marina—Background and Operations

Recreativos Marina S.A. de C.V. (“Recreativos Marina”) is a company we established in 2006, which submitted an application for a gaming license from the Secretaría de Gobernación, the Mexican gaming authority, in the same year. The application went through a protracted legal process, including litigation, which ultimately resulted in Recreativos Marina being awarded 14 permits to establish gaming halls, plus an authorization to install gaming terminals in other locations. Following the granting of the permits, and mainly resulting from the redefinition of the geographic reach of these permits, the number of permits was changed from 14 to 12. Through March 31, 2013, we paid U.S.\$2.9 million in connection with the proceedings and related legal fees, and we expect to pay a further U.S.\$2.9 million over the next 18 months.

Operations

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

	Year ended December 31,				
	2008	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽¹⁾	2012
Number of gaming halls (at period end)	104	94	96	94	89
Number of slot machines seats (at period end)	20,351	17,421	19,299	19,571	19,222
Net win per machine per day (in Mexican peso)	889	883	881	842	877
Net win per machine per day (in euro)	54.5	47.0	52.9	49.0	51.8
Number of bingo hall seats (at period end)	15,460	13,266	12,574	13,430	12,825
Net win per bingo hall seat per day (in Mexican peso)	164	141	114	99	107
Net win per bingo hall seat per day (in euro)	10.1	7.5	6.8	5.8	6.3

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

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

Business Unit	Permission	Date of Extension of Permits	Number of Permits	Geographic Restrictions	Term (date of expiry)
ICELA	AMH	September 1997	65	x	September 2022
Legacy Caliente	Promojuegos	May 2005	10	✓ ⁽¹⁾	May 2030
Legacy Caliente	Mío Games	May 2005	2	✓ ⁽¹⁾	May 2030
Legacy Caliente	Libros Foráneos	May 1990	18	✓ ⁽¹⁾	May 2015
Legacy Caliente		Several dates between October 1993 and			October to
	Operadora Catabria	December 1993	25	✓ ⁽¹⁾	November 2018
Legacy Caliente	Operadora de Espectáculos Deportivos	June 1992	3	✓ ⁽¹⁾	June 2017
Recreativos Marina	Recreativos Marina	July 2012	12	✓ ⁽¹⁾	July 2037
Total.....	n.a	n.a	135	n.a	n.a

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

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

The following chart sets forth the business model economics for our Mexican slot machine operations. This example is based on our 2012 accounts and for illustrative purposes only:

Net Box (Net Win) (100%)	Net box represents amounts wagered less prize payouts
Less	
Gaming Taxes (30%)	Gaming tax on slots levied by Federal government ⁽¹⁾
Equals	
Operator Revenues After Gaming Taxes (70%)	Operator revenues after gaming taxes

- (1) At the state and local level, gaming taxes range from 0% to 12% of the value of net win. These state and local taxes, can be credited against the federal gaming tax up to an amount representing 6% of the federal gaming tax. Currently, there are disputes regarding the applicability of several of these state taxes (see "Litigation—Tax Contingencies—Mexican Tax Disputes").

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

We and our partners have entered into agreements with leading suppliers of slot machines, including Bally Technology, Inc. and IGT. As of December 31, 2012, we had 19,222 gaming machines installed. In 2012, we estimate that operating revenue generated from gaming machines accounted for approximately 70% of the total operating revenue of all the Mexican businesses.

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

Competition

We began our operations in Mexico in 1988 through our management services agreement with Grupo Caliente and expanded our operations in 1999 through ICELA. In both cases, we participated in the development of the halls where we offered traditional bingo products pursuant to licenses that these parties owned. Until 2004, when the Mexican government enacted regulation granting additional licenses to operate gaming facilities throughout the country, we estimate that halls operated under Grupo Caliente and CIE's licenses constituted the majority of private gaming offered in Mexico. Beginning in 2005, the Mexican government granted additional licenses to operate gaming facilities throughout the country. We estimate that approximately 28 licenses to operate a total of 633 gaming facilities have been granted by the Mexican government as of December 31, 2012. Of these, 7 licenses for 137 gaming permits were associated with Codere and an additional 21 for approximately 496 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, 2012, Codere, through ICELA and Legacy Caliente managed or operated 89 halls, and we estimate that there were approximately 189 halls in Mexico opened and operated by third parties at that date.

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

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

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

Sales and Marketing

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

Italy

We have been present in the Italian gaming industry since 2001, when we entered the bingo market. Initially, our activities were focused on providing management services to bingo halls owned by Operbingo. Currently, we are focused on the development and management of our 13 gaming halls, the AWP machines placed in bars and gaming halls, the development of our AWP network and the 1,359 VLT rights to install an equivalent number of machines granted therein. In 2012, our Italian business generated operating revenues of €261.0 million and EBITDA of €35.0 million, representing 15.7% of our consolidated revenues and 10.5% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Operations

AWP

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

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

	Year ended December 31,				
	2008	2009	2010	2011	2012
Number of AWP machines operated (at period end).....	2,383	2,181	2,178	5,138	6,907
Net win per AWP per day (in euro).....	70.3	74.8	86.0	74.1	65.2
Number of VLT machines operated (at period end).....	—	—	402	962	1,157
Net win per VLT per day (in euro).....	—	—	176.2	264.1	216.2

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

The following chart sets forth the business model economics for our Italian AWP machine operations. This example is based on our 2012 accounts and for illustrative purposes only:

<p>Amounts Wagered (100%)</p> <p>Less</p> <p>Prizes Payout (75.0%)</p> <p>Equals</p> <p>Net Box (Net Win) (25.0%)</p> <p>Less</p> <p>Site Owner (5.5%)</p> <p>Equals</p> <p>Operator Revenues (19.5%)</p> <p>Less</p> <p>Gaming Taxes (12.6%)</p> <p>Less</p> <p>Interconnection Fee (1.9%)</p> <p>Equals</p> <p>Operator Revenues after Gaming Taxes and Interconnection Fee (5.0%)</p>	<p>Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers.</p> <p>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.</p> <p>Net box represents amounts wagered less prize payouts.</p> <p>Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located.</p> <p>Operator revenues represent the percentage of amounts wagered that we retain as AWP machine operator, prior to payment of applicable gaming taxes and the interconnection fee. We recognize this amount as operating revenue.</p> <p>Gaming taxes represents the amount paid to the state and is the sum of 11.8% of PREU payments and 0.8% of the canon.</p> <p>Interconnection fee represents the amount paid to the network by each of the machines connected to it.</p> <p>Operator revenues after gaming taxes and interconnection fee represents the percentage of amounts wagered that we retain as AWP operator.</p>
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The Italian regulator has approved certain changes in the regulation which affect gaming taxes. In the case of the AWP's, gaming taxes increased from 11.8% of amounts wagered in 2012 to 12.7% in 2013. The minimum prize pay-out decreased from 75% to 74% in 2013. In addition gaming taxes for VLTs increased from 4% of amounts wagered in 2012 to 5.0% in 2013.

On April 28, 2006 we purchased Codere Network (previously Rete Franco), which is one of ten government concessionaires for the provision of AWP network services. At December 31, 2012 Codere Network had 14,923 machines connected to its network.

In August 2009, in order to finance the reconstruction works after the damages caused in Abruzzo by an earthquake in April 2009, the Italian Parliament authorized the granting of rights for the introduction of VLTs to the AWP network concessionaires, in proportion to the number of machines connected to their respective networks. Following such decision, we began installing 1,359 VLT machines during the second half of 2010. Compared to AWP machines which are stand-alone machines that give prizes depending on a pre-determined cycle of games, VLTs are more attractive as the machines are connected to a central system that provides the machine with a winning number based on a lottery system that makes the machine more random.

VLTs have a higher prize payout than AWP (85% vs. 75% of amounts wagered in 2012) and higher prizes, which could be as high as €500,000 per gaming system for VLTs compared to a maximum prize of €100 for AWP. In addition, VLTs have significantly lower taxes than AWP (4.8% vs. 12.6% of amounts wagered in 2012) and can be placed only in gaming halls, bingo halls and betting shops. In December 2010, we acquired a majority stake in FG Slot Services S.r.l., which is a leading AWP machine operator in the area of Verona with approximately 620 AWP machines. In 2011, we purchased two other Italian operators; Gap Games in May and Gaming Re in July, which together operate approximately 2,560 AWP machines. In June 2012, we acquired a majority stake in Dalla Pria which operated approximately 2,000 AWP machines at the time of the acquisition. These acquisitions are a reflection of the increased attractiveness of the gaming market in Italy due to recent regulatory changes benefitting gaming operators, particularly the introduction of VLTs.

Gaming Halls

We have owned bingo halls since December 15, 2005, when we acquired Operbingo, and have since acquired Bingo Palace, Mortara, Maxibingo and Royal (Caserta), each with one hall, and opened a greenfield bingo hall in Bologna. Following the enactment of enabling legislation, in 2007 and 2010 we began installing AWP and VLTs, respectively at our halls so that today the bingo halls have been transformed into gaming halls in which we offer a variety of gaming products. Today we own and operate 13 gaming halls in Italy, of which 12 halls with bingo and one hall with only machines.

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

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

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
Number of gaming halls (at period end).....	12	12	12	13	14	13
Number of bingo hall seats (at period end).....	6,447	5,930	5,817	6,071	5,950	5,775
Net win per bingo hall seat per day (in euro)....	36.6	33.0	30.0	27.1	24.3	20.4
Number of AWP machines	480	601	493	480	322	325
Number of VLTs				402	769	808

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2012:

Name of Bingo Hall	City/Region	Concession		Number of Seats	Revenues for 2012 (in millions of €) ⁽¹⁾
		Concession Date	Expiration Date		
Palace.....	Turin, Piemonte	Jan. 2002	Jan. 2014	755	17.5
Re.....	Rome, Lazio	Feb. 2002	Feb. 2014	750	25.1
Modernissimo	Salerno, Campania	Mar. 2002	Mar. 2014	401	7.2
Living	Bologna, Emilia Romagna	Apr. 2002	Apr. 2014	330	3.7
Marconi.....	Vigevano, Lombardia	Apr. 2002	Apr. 2014	303	3.3
Garbini.....	Viterbo, Lazio	Aug. 2002	Aug. 2014	374	7.1
Ariston.....	Lecce, Puglia	Sep. 2002	Sep. 2014	422	10.5
Vittoria.....	Parma, Emilia Romagna	Jan. 2002	Jan. 2014	418	11.7
Cola di Rienzo	Rome, Lazio	Dec. 2004	Dec. 2016	310	12.1
Regina.....	Bologna, Emilia Romagna	Sep. 2002	Sep. 2014	336	5.7
Mortara	Mortara, Lombardia	Mar. 2002	Mar. 2014	306	3.5

Maxibingo.....	Salerno, Campania	Mar. 2002	Mar. 2014	440	6.2
Royal	Caserta, Campania	Feb. 2002	Jan. 2014	<u>630</u>	<u>16.5</u>
Total.....				5,775	130.1

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

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

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

Competition

Competition in the Italian AWP machine operation market is highly fragmented. The VLT market is more concentrated as there are only ten networks that have the rights to install VLTs. There are three further networks that have recently received a provisional license but they have not yet been granted VLT rights. The largest networks are Bplus and Lottomatica with approximately 40% of the VLT rights issued. The competition in the bingo gaming market, as in the case of Spain, is also highly fragmented and comprises a number of small operations. Our market share is 9%, which makes Codere one of the market leaders in the sector.

Sales and Marketing

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

Spain

Our Spanish business comprises AWP machines, a sports betting business, including self-service terminals as well as our Canoe gaming hall in Madrid in which we operate machines and bingo. As of December 31, 2012, we install, maintain, service and collect cash from over 12,188 AWP machines compared to 14,677 as of December 31, 2011, throughout Spain in over 8,454 bars, restaurants machine and gaming halls. The average daily net box per AWP machine was €44.9 in 2012 and €42.3 in 2011. As of December 31, 2012, we had 1,176 sports betting locations in Madrid, Navarra, the Basque region, Aragón and Valencia compared to 600 in December 31, 2011. Codere also owns and operates the Canoe gaming hall. In 2012, our Spanish business generated operating revenue of €154.3 million and EBITDA of €15.9 million, representing 9.3% of our consolidated operating revenues and 4.8% of our consolidated EBITDA (both before corporate headquarters revenues and expenses), respectively.

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

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

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

Operations

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

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

	Year ended December 31,				
	2008	2009	2010	2011	2012
Number of AWP machines (at period end)	15,963	15,587	15,399	14,677	12,188
Average daily net win per AWP machine (in euro) ⁽¹⁾	55.7	49.2	49.2	42.3	44.9
Spanish market average daily net win ⁽²⁾	39.3	36.4	37.6	36.2	n.a.

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

(2) Source: *Spanish National Gaming Commission Annual Reports (2006–2010)*, and *Dirección Nacional de Ordenación del Juego 2011 Annual Report*.

The most important asset in the AWP business is the relationship with the bar and restaurant owners. We have established relationships with over 8,454 bars and restaurants through installation agreements.

These agreements generally give us the exclusive right to place one or more of our AWP machines in the owner's establishment for a period of up to ten years. In return, we share the revenues obtained. The following chart sets forth the business model economics for our Spanish AWP machine operations. This example is based on our 2012 accounts and for illustrative purposes only:

Net Box (Net Win) (100%)

Net box represents amounts wagered less prize payouts.

Less

Site Owner (39%)

Site owner represents the percentage of amounts net win that is paid to the owner of the site in which the AWP machine is located.

Equals

Operator Revenues (61%)

Operator revenues represent the percentage of net win 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 (22%)

Gaming taxes represents our estimate, based on historical experience, of the percentage of net win 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 (39%)

Operator revenues after gaming taxes represents the percentage of net win that we retain as AWP operator.

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

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

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

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

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

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

Regarding the sports betting business, in July 2006, we signed a memorandum of understanding with William Hill to participate in the sports betting market in Spain following the adoption of enabling legislation. In light of the publication in Madrid and the Basque region of such legislation, the parties to the memorandum of understanding created Codere Apuestas España, S.A.U., and Garaipen Victoria Apustuak, S.A.L., joint ventures to develop sports betting in Madrid and the Basque region, respectively, each of which applied for the necessary licenses to operate in these regions.

Madrid issued five-year administrative authorizations to conduct sports betting businesses to companies that meet certain financial, technical and other requirements. The Basque region awarded three licenses for the operation of 25 locations and 500 machines for each license holder. Sports betting is allowed in dedicated betting locations, existing gaming establishments, sports premises and remotely. The joint venture obtained the necessary authorizations in both regions and began sports betting businesses in Madrid in April 2008 and in the Basque region in November 2008. In addition to offering sports betting in our locations, we are able to offer sports betting at casino gaming halls, bingo halls and sports venues. Nevertheless, following a strategic review by William Hill and Codere of our joint venture in Spain, the parties agreed to William Hill's withdrawal from the joint venture due to William Hill's decision to focus its international sports betting strategy on the Internet via William Hill Online. Pursuant to the terms of the agreement, on January 20, 2010, Codere completed the purchase of William Hill's 50% stake in the company for a symbolic amount of €1.0.

On October 18, 2010, we launched sports betting businesses in the region of Navarra. As in the Basque region, sports betting in Navarra is allowed at dedicated sports betting shops, existing gaming establishments and bars. In 2011 and 2012, we launched operations in Aragon and Valencia. In Valencia sports betting is permitted in bars. In 2013, we launched operations in Galicia, where sports betting is also permitted in bars. We expect to expand the business upon the passage of enabling regulation, including regulation related to online gaming.

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

We made progress in the establishment of the sports betting business in Spain over the course of 2011 and 2012, with 600 sports betting locations in use as of December 31, 2011 and 1,176 as of December 31, 2012, the majority of these being self-service terminals installed in bars.

We also operate the Canoe gaming hall, which has a number of different gaming devices offering various types of games, including traditional bingo, (similar to the game played in other countries as Mexico, Italy or Argentina) and sports betting. The estimated number of visits to the gaming hall was 386,000 as of December 31, 2012.

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

Competition

Competition in the AWP machine operation market in Spain is highly fragmented. Regionally, our competitors are local operators, while, our primary competitor nationally is Cirsa, which we estimate had approximately 20,813 AWP machines throughout Spain as of December 31, 2012. We believe that the AWP machine market in Spain remains highly fragmented and offers considerable possibilities for further consolidation. In the case of the sports betting business, the competition depends on the number of licenses issued in each region. In the case of the Basque region there are only three players as the licenses are limited, while in the case of Madrid the numbers of competitors is higher due to the fact that there is no limit upon the number of licensees. In the bingo business, there are 47 halls in the Madrid region.

Sales and Marketing

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

Other Operations

Panama

In October 2005, we purchased a 90% interest in the Presidente Remón Racetrack in Panama City, which is the only racetrack in Central America. We acquired the remaining 10% held by the Motta family in 2010. We currently hold licenses to open betting locations and are permitted to install up to 500 slot machines and a bingo hall at the racetrack. As of December 31, 2012, the racetrack had 398 machines and we were operating 73 sports betting locations in Panama.

On January 24, 2006, we completed the purchase of Crown Casinos in Panama. The acquisition was part of the sale exchange agreement signed on July 28, 2005 between the Antonio Martínez Group and us, pursuant to which we agreed to exchange our non-controlling interests in four Chilean casinos for 100% of Crown Casinos. On December 6, 2008, we opened our fifth casino in Panama, located at the Radisson Hotel, in the second largest Panamanian city of Colón. On August 19, 2010, following receipt of regulatory approvals, we completed the purchase of Thunderbird Resorts Inc.'s (NYSE Euronext Amsterdam: TBIRD) 63.6% stake in six casinos in Panama for approximately U.S.\$38.0 million. As of the date of the acquisition, International Thunderbird Gaming (Panama) Corp. ("Thunderbird"), 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 has been consolidated in our financial statements from September 1, 2010.

At December 31, 2012, Codere operated 12 casinos in Panama, including the machine hall at the racetrack, through its two brands, Crown and Fiesta, with a total of 3,275 gaming machines seats and 122 tables. Six out of these 12 casinos in Panama, including the hall at the racetrack, are located in Panama City. Two of the remaining casinos are located in Colón, Panama's second largest city, a further two in David, one in Chitré and one in a

touristic area in the Province of Coclé. With 11 out of the 15 casinos operating in the country, we are the leader in the Panamanian casino market.

In 2012, our Panama business generated operating revenue of €92.5 million and EBITDA of € 14.2 million representing 5.6% of our consolidated revenues and 4.3% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

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

Casino Name	Location	Opening Date	Size (m ²)	Slots Machine Seats	Tables	License expiration date
Crown Casinos						
Sheraton	Panama City	Sep. 1998	1,280	328	24	Mar. 2018
Continental.....	Panama City	Oct. 1998	900	384	16	Mar. 2018
David.....	Chiquiri	Feb. 2004	565	271	10	Mar. 2018
Granada.....	Panama City	May 1998	205	45	5	Mar. 2018
Colón.....	Colón	Sep. 2010	507	211	13	Oct. 2030
HPR	Panama City	Apr. 2007	991	398	—	Dec. 2017
Fiesta Casinos						
El Panamá	Panama City	Jul. 1998	1,778	404	16	Mar. 2018
Soloy	Panama City	Aug. 1998	1,105	443	10	Mar. 2018
Nacional.....	Chiriqui	Dec. 1998	911	288	10	Mar. 2018
Washington	Colón	Oct. 1998	860	242	5	Mar. 2018
Guayacanes	Chitré	Oct. 2002	549	160	6	Oct. 2022
Decameron.....	Coclé	Mar. 2003	229	101	7	Mar. 2023
Total		—	9,880	3,275	122	

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

Our competitors in the casino segment include Veneto Hotel & Casino S.A., Majestic Casino, which is operated by Cirsa, the Royal Casino at the Marriott Hotel and Princess Entertainment Panama, Inc. (Casino Princess) located at the Sheraton, each of which operate one casino. In addition, Cirsa operates a number of gaming halls throughout the country which compete with our casinos. As of December 31, 2012, Cirsa operated a total of 7,409 slot machines and 29 tables in operation in Panama.

Colombia

Our Colombia business focuses on the ownership and operation of gaming machines. As of December 31, 2012, we operated 6,044 gaming machines located in 52 gaming halls, including five casinos operated under the Crown Casino brand as well as in bars and restaurants in major cities throughout Colombia. In addition, as of December 31, 2012, we operated four bingo venues with an aggregate of 850 seats. Through our four gaming hall brands (Crown Casinos, Mundo Fortuna, Fantasía Royal and Stars Casino), Codere is present in over 80 municipalities, including large cities such as Bogota, Cartagena, Barranquilla, Medellín, Pasto, Cali, Ibagué, and Bucaramanga. In 2012, our operations in Colombia generated operating revenue of €35.7 million and EBITDA of €5.4 million, representing 2.1% of our consolidated revenues and 1.6% of our consolidated EBITDA (both before corporate headquarters revenues and expenses).

Codere entered the Colombian market in 1984 and rapidly became a relevant slot machine player. The Colombian business was originally a replica of the Spanish slot route model of slot machines in bars and other small third-party outlets. In 1998, we inaugurated the Cali Gran Casino, effectively entering the business of managing gaming halls in addition to its original slot routes. In 2005, Codere moved further into gaming halls by means of acquiring Intergames, the largest bingo operator in the country with four bingo halls and approximately 1,200 slot machines. As the legacy slot route business came under increasing pressure from illegal operators and new formats, Codere started to rationalize the slot estate located in unbranded third-party facilities. In 2007, it began to focus increasingly on strengthening its top brand, Mundo Fortuna, and its basic brand, Fantasía Royal. A new format and design for the Fantasía Royal venues was also launched in 2007. In 2009, a new premium brand, 'Crown Casinos' was launched, targeted at high-income customers.

The first two Crown Casinos were the result of the remodeling and reopening of the old Cali Gran Casino in Cali, which was turned into Crown Casinos Cali, and the old Mundo Fortuna Palatino, which was turned into Crown Casinos Palatino in Bogota in 2009. In 2011, we inaugurated two new Crown Casinos in Bogota, one located at the Unicentro shopping mall and one in the San Rafael area. In the summer of 2012 we opened our fifth Crown Casino, located in the Zona T area of Bogota.

In completing the renovation Fantasia Royal and Crown Casinos and converting them to the new format, Codere implemented a complete turnaround strategy focused on developing new value offers for each brand.

As of 2009, the Colombian Government increasingly focused on cracking down on illegal operators and changed the regulation to eliminate gaming in non-dedicated venues. This has resulted in much needed support for legal operators.

The average Mundo Fortuna halls have approximately 75 slot machines in an area of approximately 585 square meters. The five Crown Casinos in operation at December 31, 2012, have approximately 748 slot machines and 43 tables (in four of them) in an area of approximately 2,083 square meters per casino. The halls we operate in Colombia normally open 16 hours per day.

In addition, we have installed player tracking and loyalty programs in our casinos.

We estimate that the total number of licensed gaming machines in Colombia, as of December 31, 2011, was approximately 60,453. In addition, we estimate that, as of December 31, 2012, 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 300 legal operators, is highly fragmented. Currently, our main competitors in the licensed market are Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 6,052 gaming machines and 216 tables at December 31, 2012, and Mundo Slot with approximately 1,773 machines.

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

	Year ended December 31,				
	2008	2009	2010	2011	2012
Number of AWP machines (at period end)	8,502	6,556	6,179	6,224	6,044
Net win per gaming machine per day (in Colombian peso).....	32,747	33,257	39,938	44,890	49,488

Uruguay

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

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

On July 27, 2012 HRU was granted a 30 year concession to refurbish and operate the Las Piedras racetrack. Pursuant to this concession, the fee HRU receives from the local gaming authority for the gaming machines it

operates under the Maroñas concession increased in the three months ended December 31, 2012. We expect the Las Piedras racetrack to begin operations in 2013.

As of December 31, 2012, our Uruguay business operated the Maroñas horse racetrack, five machine halls with a total of 1,825 slot machines seats and 44 horse betting locations. Out of the 44 horse betting locations, three were fully owned by HRU and operated under our Turff Bet & Sport Bar brand, while the others are third-party locations which take bets on races at Maroñas horse racetrack and to which we offer international simulcast. In 2012, our Uruguay business generated operating revenue of €260 million and EBITDA of (€0.4) million, representing 1.6% of our consolidated revenues (before corporate headquarters revenues and expenses).

On November 9, 2009, the Intendencia Municipal de Montevideo awarded the Carrasco Nobile consortium (a 51%/49% partnership between Codere and Sikeston S.A., an international investor group) a 30-year concession for the reconstruction and management of the iconic Carrasco Hotel and Casino in Montevideo built in 1912. 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*. The consortium partnered with the French hotel group, Accor, to operate the hotel under the Sofitel luxury brand. The complex, which opened on March 7, 2013 as “Sofitel Montevideo Casino Carrasco and Spa”, has approximately 115 rooms, 400 gaming machines and 23 tables. The total investment was approximately U.S.\$75 million. The number of machines and tables is not limited by the concession contract and we expect to increase the number of machines in the future.

Brazil

At December 31, 2012 we operated seven horse betting locations in Brazil under our Turff Bet & Sport Bar brand. Codere went into business in Brazil in 2006 when it commenced the development of a network of on-track and off-track high profile betting offices that operate under horse betting licenses held by the Jockey Clubs (“JCs”) with a presence in the states of Rio de Janeiro (Jockey Club Brasileiro or JCB), Rio Grande do Sul (Jockey Club do Rio Grande do Sul or JCRGS), and Paraná (Jockey Club do Paraná or JCPR). Under the JCs’ licenses, our betting locations are permitted to distribute (i) pooled betting products on local horse races and (ii) fixed-odds betting products on international simulcast horse races.

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

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

In 2012, our Brazil business generated operating revenue of €3.4 million and EBITDA of €(0.7) million, representing 0.2% 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 2011 and 2012 and the breakdown of those employees by activity and geographically.

Category of Activity	2011		2012	
	Men	Women	Men	Women
Managers and supervisors.....	775	200	816	251
Specialists.....	236	110	444	189
Sales personnel.....	2,156	1,681	2,625	2,067
Collectors.....	735	225	829	444
Mechanics.....	528	39	560	46
Clerical staff.....	823	710	1,187	938
Assistants.....	412	292	819	530
Other personnel.....	5,155	3,017	5,857	3,580
Total ⁽¹⁾	<u>10,820</u>	<u>6,274</u>	<u>13,137</u>	<u>8,045</u>

Geographic Area	2011		2012	
	Men	Women	Men	Women
Argentina.....	2,832	2,028	3,142	2,225
Mexico.....	4,060	1,870	6,033	3,381
Italy.....	654	483	634	433
Spain.....	952	325	890	336
Panama.....	1,582	1,037	1,507	996
Colombia.....	453	268	533	318
Uruguay.....	248	222	367	326
Brazil.....	39	41	31	30
Total ⁽¹⁾	<u>10,820</u>	<u>6,274</u>	<u>13,137</u>	<u>8,045</u>

(1) Percentage of the staff has been considered dependently of the method of consolidation used for these companies. ICELA percentage of the staff in 2011 was 49 %.

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 effect on us if not resolved in our favor.

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

Licenses and Trademarks

Licenses

We hold gaming licenses or government authorizations in each jurisdiction in which we operate, directly or indirectly through our partners or clients. We expect to obtain additional permissions to operate off-line and on-line gambling, and betting operations in the future.

In addition, in some countries we hold licenses or authorizations permitting us to import gaming machines.

Trademarks:

We have no material patents as of the date of this Report.

We operate three trademarks worldwide: Codere (gambling and bingo), Victoria (gambling, bingo and betting) and Turff (betting). We also have 196 local trademarks used for local operations and 582 Internet domains for our on-line business.

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

Litigation

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

Tax Contingencies

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

Argentine Income Tax Dispute

We are involved in a dispute with the Argentine federal tax authorities regarding the application of Section 73 of the Argentine Income Tax law to certain inter-company loans with our Argentine affiliates. Section 73 also generally applies to loans to third parties and we have argued that the Argentine companies involved in the questioned loans are part of a single economic group. If this dispute is determined adversely to us, we estimate that we would be required to pay AR\$11.68 million (equivalent to approximately €1.8 million as of March 31, 2013).

Bingos del Oeste S.A. is also involved in a dispute with the Argentine federal tax authorities concerning the application of the credit debit tax to the amounts of money we periodically pay to the Buenos Aires province gaming authorities (34% of the net win in the case of slot machines, and 21% of the total amounts wagered in the case of bingo gaming). We have argued that these amounts are not subject to the credit debit tax, as they are owed to the Province of Buenos Aires and are therefore not subject to the federal credit debit tax law. If this dispute is determined adversely to us, Bingos del Oeste S.A. would be required to pay AR\$9.43 million (equivalent to approximately €1.4 million as of March 31, 2013).

Mexican Tax Disputes

In Mexico, we are involved in several ongoing disputes with state tax authorities concerning the application of state lottery taxes to our bingo hall operations. These disputes arose following the enactment of regulations under the Mexican Federal Law of Games and Lotteries on September 17, 2004, which specify bingo as a form of lottery, technically empowering the Mexican states to tax bingo activity. Certain of our Mexican subsidiaries disputed the Mexican state governments' right to impose taxes on bingo activity, claiming that only the federal government has authority to tax such activities. These subsidiaries obtained injunctions absolving them of the obligation to pay such taxes in several states, but certain of the injunctions have expired and the relevant states have claimed the taxes in 2011 and 2012. Consequently, we began paying taxes in these states in 2011 and 2012 and will start paying taxes in other states in 2013.

If the tax related disputes that are ongoing in other states are determined adversely to us, we could be required to pay Mex. Ps. 2,877.9 million (equivalent to approximately €181.9 million as of March 31, 2013), which would include taxes applied to the operations of ICELA and the Joint Opcos. Prior to completing the consolidation of the Joint Opcos, a provision of Mex. Ps. 95.0 million (equivalent to approximately €6.0 million as of March 31, 2013) was recorded in the financial statements of the Joint Opcos to cover the risk which was considered probable.

In addition, three of our Mexican subsidiaries are currently the subject of five tax claims from Federal and State Tax authorities. During the course of 2012 we took provisions against these claims for a total of Mex. Ps. 75.6 million (equivalent to approximately €4.8 million as of March 31, 2013).

The claimant in the first case is the State of Mexico, claiming Mex. Ps. 38.3 million (equivalent to approximately €2.4 million as of March 31, 2013) from our subsidiary Promojuegos for state gaming taxes corresponding to the years 2008 and 2009. We have taken the case to the State of Mexico Tax and Administrative Court of Justice. A legal opinion from our legal advisers in Mexico states that the claim is illegal largely for formal reasons and that we are likely to win the case. However, and given the uncertainty manifested by such legal advisers, during the course of 2012 we took a provision against this claim in an amount of Mex. P.s. 38.3 million (equivalent to approximately €2.4 million as of March 31, 2013). This provision is reflected in other expenses.

The second claim is made against our Mexican holding company Codere México by the Federal Tax Administration Service (the Servicio de Administracion Tributaria or “SAT”) and relates to certain gaming machine import duties in 2009 and 2010. The amount claimed is Mex. Ps. 147 million (equivalent to approximately €9.3 million as of March 31, 2013) which we first contested before the SAT’s Administrative Supervisory Body (the “SATASB”) and, after having failed, we took to the Federal Tax and Administrative Court. A legal opinion from our legal advisers in Mexico states that the claim has significant flaws both in substance and form, but also indicates that, as is the case for any legal process, the outcome is by no means certain. During 2011 we took a provision of Mex. Ps. 22 million (equivalent to approximately €14 million as of March 31, 2013), which reflects the assessed value of the imported gaming machines at the time of the tax audit. In 2012 we took an additional charge to the provision of Mex. Ps. 1.5 million (equivalent to approximately €0.09 million as of March 31, 2013). This provision is reflected in other expenses.

The subject of the third claim is our subsidiary Operadora de Espectáculos Deportivos, S.A. de C.V (“Operadora de Espectáculos Deportivos”) and the claimant is the SAT. The Mex. Ps. 298 million (equivalent to approximately €18.8 million as of March 31, 2013) claim relates to our alleged inability to provide sufficient evidence to SAT’s satisfaction that, for cash management convenience, certain amounts deposited at Operadora de Espectáculos Deportivos by Operadora de Espectáculos Deportivos’ sister companies during the course of 2010, prior to the July 2011 transaction with Caliente, were deposits and not taxable income under the Federal Gaming Tax (IEPS). We believe that we have provided sufficient evidence that the amounts were not taxable income, except where it relates to some relatively small transactions. We initially appealed to the SATASB, which recently turned down our arguments and we now intend to further appeal the case before the Federal Tax and Administrative Court of Justice in early May 2013. We have obtained a legal opinion from our legal advisers in Mexico to the effect that the SAT’s claim is unjustified and without technical merit. While we believe that a relatively small provision would be warranted (Mex. Ps. 8.7 million, equivalent to approximately €0.5 million as of March 31, 2013), we have not taken such provision as we benefit from existing reserves for gaming tax liabilities booked at the time of the acquisition of the Joint Opcos.

The fourth claim in the amount of Mex. Ps. 207 million (equivalent to approximately €13.1 million as of March 31, 2013) is also made against Operadora de Espectáculos Deportivos. This claim is similar to the third claim in that it relates to the same deposits and an allegation from SAT that these are subject to VAT as well as IEPS. Our initial appeal to the SATASB was partially accepted and the SATASB declared the nullity of the claim subject to the outcome of a request to the local tax audit office to justify its arguments for the claim turned down by the SATASB. The opinion from our legal advisers referred to in the previous paragraph also relates to this case.

A final claim in the amount of Mex. Ps. 560 million (equivalent to approximately €35.4 million as of March 31, 2013) is the result of the reassessment by the SAT of Codere México’s 2008 income tax return. In 2008, Complejos Turísticos de Huatulco (“CTH”) and other subsidiaries of Codere México merged into Codere México. Prior to the merger, Codere México had large US\$-denominated credits payable to it by CTH as this was the entity we used to fund the Legacy Caliente operations. These credits generated a significant exchange rate gain for Codere México during the course of 2008 and a corresponding exchange rate loss at CTH. When we submitted the 2008 accounts to the SAT, following the merger, the corresponding amounts were not offset and the accounts continued to show the gains and losses. The claim presented by the SAT questions the validity of the losses for tax relief purposes whilst not accepting our defense that those losses are offset by an equivalent gain. We appealed before the SATASB in December, 2012 and we are currently awaiting a ruling. We have obtained a legal opinion from our legal advisers in Mexico to the effect that the SAT’s claim is unjustified and without technical merit. However, during the course of 2012 we took a provision for Mex. Ps. 33.8 million (equivalent to approximately €2.1 million as of March 31, 2013), which was reflected in corporate income tax.

Italian Tax Disputes

In Italy, we are involved in a tax dispute regarding gaming taxes. On January 5, 2009, Codere Network received a notice from the AAMS Lazio claiming that certain amounts were due for 2004 and 2005 in connection with the “liquidazione PREU”, which is an estimate of gaming taxes owed by concessionaires based on the amounts spent by customers on slot machines (“AAMS PREU payments”). The amounts claimed were approximately: (i) €21.7 million as AAMS PREU payments; (ii) €2.0 million as penalties (which would be reduced if paid without dispute); and (iii) €2.8 million as interest. Codere Network subsequently received additional notices from the AAMS Lazio claiming AAMS PREU payments for 2006, 2007 and 2008. After Codere Network made various requests for recalculation of the AAMS PREU payments for the years 2004 through 2009, the AAMS Lazio concluded that Codere Network does not owe any AAMS PREU payments for the years 2004 through 2007. The AAMS PREU

payments for the year 2008 were settled in favor of Codere Network and it received a credit of €2.1 million. Codere Network believed that a larger credit should have been recognized and submitted an application for review. On August 1, 2011, the AAMS Lazio responded to that application with a final settlement in respect of the AAMS PREU payment for 2008, recognizing a credit of €3.6million.

On December 28, 2011, Codere Network received a notice from the AAMS Lazio about the AAMS PREU payments for 2009, which stated that Codere Network does not owe any AAMS PREU payments for that year. Codere Network claimed a credit of approximately €39 million from the AAMS Lazio and submitted an application for review.

On January 27, 2012, Codere Network sent a notice to the AAMS Lazio restating the amount of credit claimed to €393,322 as a result of having offset part of the credit against periodic PREU payments (in consultation with the AAMS Lazio). As of the date of this Report, the AAMS Lazio has not issued its settlement with regard to the AAMS PREU payments for 2009.

On January, 3, 2013, Codere Network received a notice from the AAMS Lazio stating that Codere Network does not owe any AAMS PREU payments for the year 2010, and recognizing a credit of approximately €4.0million in favor of Codere Network. On January 29, 2013, Codere Network sent a notice to the AAMS Lazio restating the amount of credit claimed to approximately €480,000million as a result of having offset part of the credit against periodic PREU payments (in consultation with AAMS Lazio). As of the date of this Report, the AAMS Lazio has not issued its settlement with regard to the AAMS PREU payments for 2010.

Other Tax Disputes

In Bogota, Colombia, we resolved a dispute with local tax authorities regarding certain gaming taxes on slot machines operated by us at locations owned by third parties in the second half of 2009. Codere Colombia S.A. paid approximately COP\$1,675.7 million (equivalent to approximately €0.7 million as of March 31, 2012 in resolution of that dispute. The tax authorities have since ceased the related judicial process and confirmed that Codere has complied with applicable regulations. On May 12, 2010, the Constitutional Court of Colombia declared that the law under which that dispute was resolved and by which the Congress authorized the resolution of tax disputes by way of payment of agreed amounts with local tax authorities was unconstitutional. Unexpectedly, and without notification to Codere Colombia S.A., the Colombia's Council of State decided to reopen the judicial process. The maximum amount we could be required to pay if this process is decided adversely to us, is COP\$10,000.0 million (approximately €4.2 million as of March 31, 2013), including the COP\$1,675.7 million that has already been paid.

In Panama, on November 9, 2009, our subsidiary Thunderbird applied for administrative process against Resolution No. 213-7351, defending a claim for coercive collection issued against it by the Provincial Revenue Administration of the Province of Panama, which also includes an order to seize any movable and immovable property, bank savings accounts, time deposits and safe deposit boxes registered to it. The claim of the Provincial Revenue Administration amounts to approximately U.S.\$4.0 million (approximately €3.1 million as of March 31, 2013). In March 2011, we filed a notice of withdrawal of the application for administrative process against Resolution No. 213-7351. We are currently waiting for the decision of the Attorney General of Panama to accept the withdrawal and to close the case.

Other Litigation and Disputes

Argentina

Criminal Investigation

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

BCRA Litigation

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

Italy

AAMS Litigation

On October 12, 2011, the AAMS, which is empowered with the authority to tax gaming operations, issued a decree, which contained changes to the machine gaming taxes (PREU) in Italy. Pursuant to this decree, effective January 1, 2012, the PREU tax on VLTs in Italy increased from 2% of amounts wagered in 2011 to 4% in 2012 and to 4.5% thereafter (this percentage was further increased to 5% in December 2012). In the case of the AWP, the PREU tax decreased from 12.6% of amounts wagered in 2011 to 11.8% in 2012, but increased to 12.7% in 2013 and will further increase to 13% in 2015. The AAMS decree also introduced an additional tax of 6% (in addition to the PREU tax) to be paid on the portion of any winnings distributed by the VLTs in excess of €500. The AAMS indicated that it would issue another decree establishing from which date this additional tax needs to be paid. In addition, the AAMS decree established that the minimum percentage of winnings distributed by AWP will decrease from the current 75% of amounts played to 74% of amounts played in 2013.

Codere Network and other concessionaires filed a petition before the TAR Lazio challenging the additional tax of 6% introduced by the AAMS decree of October 12, 2011. In January 2012, the TAR Lazio suspended the effects of the AAMS decree with regard to the additional tax of 6%. On March 2, 2012, the government issued a law decree establishing that the additional tax of 6% introduced by the AAMS decree of October 12, 2011 would become effective on September 1, 2012. However, because the TAR Lazio had suspended the effect from the AAMS decree and referred the case to the Constitutional Court to determine the constitutionality of such additional tax, the additional tax of 6% did not become effective. As a result of the referral to the Constitutional Court, the hearing on the merits of the case before the TAR Lazio, which was scheduled for April 4, 2012, was not held. The TAR Lazio informed the concessionaires that a new hearing will be scheduled promptly after the concessionaires file a new petition. We are currently awaiting the ruling of the Constitutional Court.

Codere Network is currently a party to various proceedings pursuant to which it is claiming an aggregate of €1.7 million (as of the date of this Report) from various gaming operators relating to unpaid network interconnection fees and gaming taxes which Codere Network collects on behalf of the AAMS. Codere Network interconnects the machines for such operators.

CdC Allegation

On May 29, 2007, the Italian *Corte dei Conti* (the “CdC”), the constitutional body charged with auditing the management and accounts of governmental departments, including the AAMS, claimed that the AAMS had failed to seek €3.0 billion in penalties from Codere Network for the alleged noncompliance with certain obligations, such as the terms for the activation and management of the AWP network and minimum levels of service (the “CdC Letter”). The CdC Letter was addressed to official representatives of the AAMS and to Codere Network as an AWP network concessionaire, which the CdC considered to be jointly responsible. The CdC Letter was also sent to nine other concessionaires, which had provided AWP network services in Italy and claimed an aggregate amount of €98.0 billion in penalties and fines, of which €3.0 billion was allegedly attributable to Codere Network. On June 26, 2007, the AAMS requested that Codere Network pay the penalties and fines per the CdC Letter (the “AAMS Letter”).

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

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

On February 18, 2011, the AAMS claimed from Codere Network a further €2.7 million in penalties relating to Codere Network's alleged failure to provide minimum service levels, specifically with respect to interconnection issues (the "fourth AAMS penalty"). On June 9 and October 28, 2011, Codere Network and the other concessionaires challenged the fourth AAMS penalty before the AAMS. On February 29, 2012, Codere Network was notified that the AAMS had rejected the challenge and decided to impose the fourth penalty. On April 29, 2012, Codere Network and the other concessionaires challenged the fourth AAMS penalty in the first instance before the TAR Lazio. On May 23, 2012, the TAR Lazio suspended the effects of the fourth AAMS penalty and scheduled the date of the ruling on February 20, 2013. As of the date of this Report, the TAR Lazio has not yet published the ruling.

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

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

This appeal by Codere Network and the other concessionaires was notified on May 12, 2012 and suspends *ex lege* the execution of the ruling of the Regional Section of the CdC from February 17, 2012 until the appeal is resolved. We expect that the trial on the appeal will be held in 2014 with judgment to follow in 2015. Codere, S.A. has provided a guarantee of Codere Network's performance in favor of the AAMS in the amount of €16 million, of which €12 million is provisioned. As of the date of this Report, the Central Section of the CdC has not yet published the date for the hearing of the appeal.

Request for “resa del conto”

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

Codere Network has taken part in the legal proceeding and challenged the penalties, contesting its designation as “accounting agent” and the corresponding obligation to submit the “resa del conto”. On November 5, 2010, the CdC held that the prosecutor’s request for the “resa del conto” was invalid and upheld Codere Network’s challenges. On March 10, 2011, the prosecutor submitted an appeal against such decision. The prosecutor’s appeal was examined by the CdC during a trial held on March 20, 2013. As of the date of this Report, the CdC has not yet published the ruling.

Spain

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

Panama

Pardini & Asociados, a civil association organized under the laws of Panama, filed a lawsuit of U.S.\$150,000 against Thunderbird in the Thirteenth Circuit Civil Court in 2001 and a lawsuit of U.S.\$5.0 million in the Eleventh Circuit Civil Court in 2011. Both claims relate to payment of fees in the form of a bonus (the “Success Fees”) pursuant to a letter agreement between Juan Raúl de la Guardia and Thunderbird dated August 8, 1997 (the “Letter Agreement”). Juan Raúl de la Guardia is requested to join the procedure as a third party.

Thunderbird has filed a separate lawsuit in which it seeks a statement that Pardini & Asociados is not a party to the Letter Agreement. The lawsuit asks that Pardini & Asociados pay Thunderbird U.S.\$2.0 million in respect of damages for recklessness and bad faith, and also pay costs, expenses and interest earned on account of the process.

On May 16, 2011, Pardini & Asociados was granted an injunction of U.S.\$2.2 million against bank accounts, properties and money owned by Thunderbird. In June 2011, Thunderbird appealed the injunction and provided a bond to lift the injunction. The Court permitted the appeal in favor of Thunderbird and has sent the case to the First Superior Court for resolution. The parties presented evidence and are waiting to be admitted by the Court. We believe that Thunderbird will be successful in its appeal of the injunction.

In 2012, the case initiated before the Thirteenth Circuit Civil Court and the case initiated before the Eleventh Circuit Civil Court were joined in the Thirteenth Circuit Civil Court and the judicial process started from the beginning. Pardini & Associates requested the court to include as defendants Thunderbird, Juan Raul de la Guardia and another company in the Thunderbird Resort Inc Group. The request was accepted by the Court, and we are currently waiting to be notified as defendants.

Uruguay

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

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

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

Real Property

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

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

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of December 31, 2012, the authorized share capital of Codere, S.A. was €11,007,294, consisting of 55,036,470 fully paid-up ordinary shares, forming part of the same series, each with a par value of €020. The following table sets forth information regarding the beneficial ownership of Codere, S.A. shares as of December 31, 2012.

<u>Owner</u>	<u>As of December 31, 2012</u>	
	<u>Number of shares beneficially owned</u>	<u>Percent</u>
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.....	<u>55,036,470</u>	<u>100.0%</u>

- (1) The controlling shareholder of Masampe Holding B.V., a Dutch special purpose vehicle, is José Antonio Martínez Sampedro, holding, indirectly, 75% of the shares. The remaining shares are held, indirectly, by Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro.
- (2) José Antonio Martínez Sampedro is the Chairman of our Board of Directors, our Chief Executive Officer, and the brother of Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro, both of whom are members of our Board of Directors.
- (3) Luis Javier Martínez Sampedro is the Executive Director of Codere América and a member of our Board of Directors.
- (4) Encarnación Martínez Sampedro is the Executive Director of Codere and a member of our Board of Directors.

SPV Financings

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

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

As of December 31, 2012, the outstanding principal amount under the PIK Term Loan Facility was €577.6 million. Amounts outstanding under the PIK Term Loan Facility accrue interest at a rate per annum equal to EURIBOR for debt with a 3-month maturity plus 750 basis points. The maturity date of the PIK Term Loan Facility is December 15, 2015.