April 30, 2009

ANNUAL REPORT OF CODERE, S.A.

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

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

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

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USE OF CERTAIN DEFINITIONS

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

- “AAMS” are to the *Amministrazione Automoma dei Monopoli di Stato*, the Italian gaming regulator;
- “Argentine peso” or “AR$” are to the lawful currency of the Republic of Argentina;
- “AWP machines” are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as “Type-B machines”) and in Italy (as “Comma 6 machines”) to be placed in bars, cafes, arcades and bingo halls;
- the “Codere Group”, “Group”, “Codere”, “we”, “us” or “our” are to Codere, S.A. and its subsidiaries;
- “Colombian peso” or “COP$” are to the lawful currency of Colombia;
- “Consolidated Financial Statements” mean the audited consolidated financial statements of Codere, S.A. as of and for the years ended December 31, 2007 and 2008 prepared in accordance with IFRS and included in this Report;
- “dollars”, “U.S. dollars”, “U.S.$” or “$” are to the lawful currency of the United States of America;
- “EBITDA” (earnings before interest, tax, depreciation and amortization) are to operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment test;
- “EBT” are to Electronic Bingo Terminals installed in Mexico which are similar to U.S. Class II machines;
- “EU” are to the European Union;
- “euro” or “€” are to the lawful currency of the member states of the European Monetary Union;
- “IFRS” are to International Financial Reporting Standards (formerly known as “International Accounting Standards”, or “IAS”) as adopted by the European Union;
- “Indenture” are to the indenture governing the Notes, as amended and supplemented from time to time, dated June 24, 2005 among the Issuer, the Guarantors and Deutsche Trustee Company Limited, as trustee;
- “IPLyC” are to the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, the gaming regulator of the Province of Buenos Aires;
- “Mexican peso” or “Mex. Ps.” are to the lawful currency of Mexico;
- “Notes” refer to the €660 million aggregate principal amount of 8¼% senior notes issued by Codere Finance (Luxembourg) S.A. on each of June 24, 2005, April 19, 2006 and November 7, 2006;
- “Senior Credit Facility” refer to the senior credit facility of an aggregate maximum amount of €100 million, pursuant to an agreement dated October 19, 2007, as amended from time to time, among Codere S.A., and Barclays Bank plc, as agent, Barclays Capital, Credit Suisse International and Banco Bilbao Vizcaya Argentaria, S.A., as mandated lead arrangers; and
- “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. In this Report, we use the term “slot machines” broadly to include traditional reel spinning slots, machines with video screens, progressive jackpot machines and video lottery terminals (VLTs), which would include the AWP machines operated in Spain, the Comma 6 machines operated in Italy and the slot machines

operated in Argentina, Chile, Colombia and Uruguay, which are similar to U.S. Class III Machines, which are electronic gaming machines that are specifically defined under U.S. federal law as a Class III gambling device, as typically permitted in U.S. casinos.

PRESENTATION OF FINANCIAL AND OTHER DATA

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

We define "EBITDA" as operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment test. EBITDA as presented in this Report is a supplemental measure of our performance and liquidity that is not required by, or presented in accordance with, IFRS. Furthermore, EBITDA should not be considered in isolation and is not a measurement of our financial performance or liquidity under IFRS and should not be considered as an alternative to profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. This non-GAAP financial measure does not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, such measure as we define it may not be comparable to other similarly titled measures used by other companies.

Unless otherwise indicated, references to the amount of total debt outstanding as of any particular date in this Report are references to the amount of such debt recorded on our consolidated balance sheet. Such amount will be less than the nominal amount of our consolidated debt prior to the maturity date because, under IFRS, consolidated long-term debt on the balance sheet is recorded as the nominal amount of such debt, less the fees and expenses incurred in connection with the issuance of such debt, plus the accrual of such fees and expenses over the life of such debt.

FORWARD-LOOKING STATEMENTS

This Report includes forward looking statements that reflect our intentions, beliefs or current expectations and projections about our future results of operations, financial condition, liquidity, operating performance for 2009 and thereafter, prospects, anticipated growth, strategies, opportunities and the industry in which we operate. Forward looking statements involve all matters that are not historical fact. Forward looking statements may be found in sections of this Report entitled ''Management's Discussion and Analysis of Financial Condition and Results of Operations'', ''Business'' and elsewhere.

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

SELECTED FINANCIAL INFORMATION AND OTHER DATA

Our Selected Consolidated Financial Information and Other Data

The selected audited consolidated financial information as of and for the years ended December 31, 2007 and 2008 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2007 and 2008 included elsewhere in this Report. The audited consolidated financial statements as of and for the years ended December 31, 2007 and 2008 have been prepared in accordance with IFRS and audited by Ernst & Young, S.L., our independent auditors.

	Year ended December 31,	
	2007(1)	**2008**
	(audited) (€ in millions)	
Income statement data:		
Operating revenue(2)	880.3	1,054.3
Operating expenses:		
Consumption and other external expenses(2)	100.1	92.1
Personnel expenses	138.1	175.7
Depreciation	48.1	70.5
Amortization of intangible assets	18.5	22.1
Variation in provisions for trade transactions	10.6	2.3
Impairment loss	11.3	32.7
Other operating expenses:	441.9	551.8
Gaming and other taxes	273.0	321.0
Machine rental costs	0.9	1.3
Other	168.0	229.5
Total operating expenses(2)	768.6	947.2
Operating profit	111.7	107.1
Financial items:		
Financial expenses	65.5	77.2
Financial revenues	10.4	10.8
Exchange gains (losses), net	(5.1)	11.4
Profit before tax of continuing activities	51.5	52.1
Corporate income tax	40.9	46.8
Profit after tax of continuing activities	10.6	5.3
Profit (loss) after tax of discontinued operations	(8.6)	(9.5)
Consolidated profit	2.0	(4.2)
Minority interests	11.9	6.4
Net income (loss)	(9.9)	(10.6)
Discontinued Operations: Italy AWP direct operations and Italy Sports Betting(3)		
Operating revenue	35.0	7.0
Operating expenses	42.8	16.5
Operating profit	(7.8)	(9.5)
Net financial result	(0.5)	-
Profit before tax	(8.3)	(9.5)
Corporate income tax	0.3	-
Net income (loss)	(8.6)	(9.5)

	Year ended December 31,	
	2007	2008
	(audited)	
	(€ in millions)	
Balance sheet data:		
Cash and cash equivalents(4)	94.1	83.3
Working capital(5)	(64.5)	(54.2)
Total assets	1,276.4	1,220.7
Total debt(6)	749.9	761.1
Shareholders' equity	132.0	54.3
Minority interests	25.5	20.6

	Year ended December 31,	
	2007[(7)]	2008
	(audited)	
	(€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities	183.6	190.1
Net cash flow used in investing activities	(345.7)	(141.3)
Net cash flow provided by financing activities	109.8	(56.8)
Net increase (decrease) in cash	(52.3)	(8.0)

	Year ended December 31,	
	2007	2008
	(unaudited)	
	(€ in millions)	
Other financial data:		
EBITDA(8)	200.2	234.7
EBITDA of discontinued operations	(3.5)	(1.9)

(1) As the results of Italy AWP direct operations and Italy Sports Betting are reflected as discontinued operations, results for the year ended December 31, 2007 differ from those previously reported.

(2) We have changed the revenue recognition for the racetrack business in Uruguay to conform it to our other businesses. This change affects both revenue and operating expenses (consumption and other external expenses). Beginning in 2008 revenues are recorded net of prizes, and therefore prizes are no longer included in expenses. Under the current methodology, for the year ended December 31, 2007, consolidated revenue would have been €871 million and operating expenses would have been €759.3 million.

(3) Includes the results of Italy AWP direct operations until the time of the sale of such operations on March 17, 2008, plus a €6.0 million charge related to the disposal and the restructuring of that business (in the quarter ended March 31, 2008) and the results of the Italian Sports Betting JV until the time of the sale of such JV on July 2, 2008, plus a €1.0 million charge related to the disposal of the business (in the quarter ended June 30, 2008). For more information regarding the disposals of the Italy AWP direct operations and Italian Sports Betting JV, see "Business—Other Operations—Italy AWP" and "Business—Other Operations—Sports Betting".

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

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

(6) We define total debt as long term debt, plus short term debt that includes the Notes, accrued and unpaid interest.

(7) As the results of Italy AWP direct operations and Italy Sports Betting are reflected as discounted operations, results for the year ended December 31, 2007 differ from those previously reported. Additionally, €10.2 million associated with the Operbingo AWP option included in Accounts Payable in the previously reported accounts for 2007 is now included in Net change in other debt and contingent payments for this period.

Cash flow from discontinued operations is as follows:

	Year ended December 31, 2007	2008
	(audited)	
	(€ in millions)	
Net cash from operating activities	6.5	1.3
Net cash used in investment activities	(4.2)	(1.3)
Net cash from financing activities	(1.2)	(1.2)
Net increase(decrease) in cash	1.1	(1.2)

(8) We define EBITDA as operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment test. 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, 2007	2008
	(unaudited)	
	(€ in millions)	
EBITDA	200.2	234.7
Depreciation and amortization	66.6	92.6
Impairment loss	11.3	32.7
Variation in provisions for trade transactions	10.6	2.3
Operating profit	111.7	107.1

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 (slots, AWPs and EBTs), bingo halls, horse racing tracks, casinos and off-track betting facilities in Spain, Latin America and Italy. As of December 31, 2008, we managed 54,818 slot machines and electronic bingo terminals, 137 bingo halls with an aggregate of 30,803 seats, 106 off-track betting facilities, three horse racing tracks and six casinos. In the year ended December 31, 2008, we generated operating revenue of €1,054.3 million and EBITDA of €234.7 million.

We are the second largest operator of AWP machines in Spain with 15,963 AWP machines in over 10,886 bars and restaurants as of December 31, 2008. We have over 25 years of experience in operating AWP machines in Spain, and have established a large portfolio of exclusive gaming sites for our AWP machines. In the year ended December 31, 2008, our Spain AWP business generated operating revenue of €208.6 million and EBITDA of €63.6 million.

Other than Spain, Argentina and Mexico are our most important markets. In the Province of Buenos Aires, as of December 31, 2008 we are the largest operator of bingo halls with 14 bingo venues in which we operate 4,485 slot machine seats. In the year ended December 31, 2008, our Argentina business generated operating revenue of €352.5 million and EBITDA of €110.0 million.

In Mexico, through ICELA (our joint venture with Corporación Interamericana de Entretenimiento, S.A.B. de C.V. ("CIE")), and our management services agreement with Hipódromo de Agua Caliente, S.A. de C.V. ("Caliente") and our participation in Promojuegos de México S.A. de C.V. ("Promojuegos") and Mio Games, S.A. de C.V. ("Mio" or "Mio Games"), as of December 31, 2008 we are the largest operator of gaming sites with 104 bingo halls in which we operate 20,351 EBTs. As of December 31, 2008 we also operate 47 off-track betting sites, and since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2008, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 68 bingo halls. In the year ended December 31, 2008, our Mexico business generated operating revenue of €232.8 million and EBITDA of €69.0 million.

Our other operations, which generated operating revenue of €258.7 million and EBITDA of €27.8 million for the year ended December 31, 2008, include (i) AWP machine and network operations and 12 bingo halls in Italy, (ii) a bingo hall in Spain, (iii) five casinos, one racetrack and OTBs in Panama, (iv) bingo halls, slot machines and a casino in Colombia, (v) a joint venture in horse racing, OTBs and slot machines in Uruguay, (vi) a joint venture in sports betting in Spain and (vii) a start-up OTB operation in Brazil.

Presentation of Financial Information

The financial statements contained in this Report include our audited consolidated financial statements as of and for the two years ended December 31, 2007 and 2008, prepared in accordance with IFRS.

Segment Reporting

In the discussion below we review our results of operations on a consolidated basis and on the basis of our three principal businesses, Spain AWP, Argentina and Mexico. We also have operations in Italy, Colombia, Uruguay, Panama and Brazil that are of a smaller scale or in initial stages of development, as well as bingo operations and sports betting in Spain. A limited discussion of these operations has been included below under the heading "Other Operations". In the year ended December 31, 2008, our three principal businesses comprised 19.8%, 33.5% and 22.1%, respectively, of our consolidated operating revenue and 23.5%, 40.7% and 25.5%, respectively, of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses). Our operations discussed under Other Operations comprised 24.6% of our consolidated operating revenue and 10.3% of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses) in the year ended December 31, 2008. The organization of our operations into our three principal businesses reflects the manner in which our management evaluates the performance of our various businesses and, on the basis of such information, makes financial and strategic decisions regarding our operations. We believe that the organization of our operations into the foregoing businesses also enhances our ability to adapt to the different market and regulatory environments of the countries in which we conduct our operations.

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

Factors Affecting the Comparability of Our Results of Operations

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

Latin American Currency Depreciation

We are exposed to foreign exchange rate risk in that our reporting currency is the euro, whereas the majority of our subsidiaries keep their accounts in other currencies, principally Argentine pesos and Mexican pesos and also Panamanian balboas (equivalent to the U.S. dollar), Colombian pesos, Uruguayan pesos and Brazilian reais. If we continue to expand our operations in Latin America, we will increase the proportion of our operating revenue that we generate in currencies other than the euro. For the year ended December 31, 2008, 33.5% and 22.1% of our operating revenue (excluding in each case headquarters revenues) was denominated in Argentine pesos and Mexican pesos, respectively, and a total of 64.2% of our operating revenue was in non-euro currencies.

During the periods under review, Latin American currencies 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 Latin American currencies and the U.S. dollar depreciate against the euro, when the results of operations of our Latin American subsidiaries are included in our Consolidated Financial Statements, the euro value of their results declines, even if, in local currency terms, their results of operations and financial condition have remained the same 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 exchange rates of the euro relative to the Mexican peso and the Argentine peso during the periods under review:

	Year ended December 31,		
	2007	2008	2007/2008 % change
Mexican peso/Euro (€1.00 = Mex. Ps.)			
Period end	16.05	19.17	19.4%
Argentine peso/Euro (€1.00 = Arg. Ps)			
Period end	4.64	4.79	3.3%

Source: Mexican Central Bank and Argentine Central Bank.

At March 31, 2009 the exchange rate of the euro to the Mexican peso was €1.00 = Mex. Ps.19.14 and the exchange rate of the euro to the Argentine peso was €1.00 = AR$4.93.

In order to mitigate part of the foreign exchange risk to which we are subject, our policy is to hedge 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. At December 31, 2008, we had in place foreign exchange contracts to purchase a total of U.S.$ 71.1 million in exchange for Argentine pesos (U.S.$ 20.0 million, U.S.$ 20.0 million, U.S.$. 20.0 million and U.S.$ 11.1 million for the quarters ended March, June, September and December 2009, respectively), €22.4 million in exchange for Mexican pesos (€6.2 million, €6.2 million, €5.0 million and €5.0 million for the quarters ended March, June, September and December 2009, respectively) and €43.2 million in exchange for U.S. dollars (€14.4 million for each of the quarters ended March, June and September 2009). Our Argentine peso foreign exchange contract which matured during the year ended December 31, 2008 amounted to a net gain of nil in 2008. Realized gains on the Mexican pesos foreign exchange forward contract which matured during the year ended December 31, 2008 amounted to €2.2 million. The realized gains have been recorded as other operating revenue in our Argentine and Mexico business. Unrealized gains and losses on outstanding forward contracts are recognized as a hedging reserve in consolidated shareholder's equity.

Acquisition of CIE Las Américas

On November 9, 2007 we closed various agreements with CIE, our joint venture partner in Mexico since 1999, pursuant to which we acquired 49% ownership of Impulsora de Centros de Entretenimiento de las Americas ("ICELA") in exchange for our 50% interest in the joint venture with CIE and a cash payment of U.S.$173 million (financed in part by a dividend of Mex. Ps. 302 million, equal to approximately U.S.$28 million). The purchase consideration also included a deferred payment of U.S.$27 million, of which approximately U.S.$15.4 million was paid in 2008 (financed through a capital reduction of Mex. Ps. 400 million, of which Mex. Ps. 196 million corresponded to Codere). The purchase also included two contingent payments of up to U.S.$12.5 million each. Concurrent with the closing of the transaction, one of the contingent payment obligations was satisfied by a payment of U.S.$5.4 million. As of the date of this Report, only one contingent payment of up to U.S.$12.5 million remains outstanding. ICELA is a CIE subsidiary which 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. CIE Las Américas owns a 52 hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Mexico.

Prior to the acquisition, our joint venture with CIE was reflected in our accounts primarily through the revenue line in our Mexico revenues, where we recorded our approximately 50% participation in the net profit of the bingo halls operated under this joint venture. However, following the acquisition of ICELA in November 2007, we began proportionally consolidating ICELA's results in our accounts. As a result, the most significant effect on our income statement is an increase in revenues and expenses as a result of the change to proportional consolidation of the bingo and EBT hall business, as well as the incorporation of businesses which were not part of the previous joint venture with CIE (racetrack, convention center, EBT hall at racetrack, and others).

Italy AWP impairment charge and provision

In early 2008 prior to closing the 2007 accounts, we conducted a strategic review of the Italy AWP business, in the context of continuing losses in this segment, as well as continued substantial uncertainty with respect to the political and regulatory environment in Italy. At that time, the Italy AWP business included Codere Network, our direct AWP machine operations (in which Codere wholly owned and operated the machine operations), as well as indirect AWP machine operations (in which Codere has acquired controlling interests in established local operators, retaining our partners as operating management). The principal conclusion of this review was that we would focus exclusively on growth in our indirect AWP operations via acquisitions of controlling interests in partnership with established machine operators, supported by our network operation, and we would divest our direct operations, which was completed in March 2008. See "Business—Other Operations—Italy AWP".

This review also resulted in accounting measures which significantly impacted our 2007 results. While we expect that the Italian government will eventually develop a global, political settlement of these issues, given the promulgation of the new regulations implementing the 2007 Financial Law and the high degree of continuing political and regulatory uncertainty surrounding all of these potential regulatory contingencies at the time, we elected to charge additional provisions of €14.1 million against these potential liabilities, so that total provisions against potential fines, penalties and other potential charges totalled the €18.3 million guaranteed in respect of the performance bond issued in favour of the AAMS by Codere Network as network concessionaire (the "Codere Network AAMS Performance Bond") at the end of 2007.

Concurrently, as noted above we reviewed the outlook for Codere Network and the direct AWP machine operations in the context of these regulatory uncertainties, current profitability, and market conditions, and took a €11.3 million impairment charge against the carrying value of these units. The impairment charge is a non-cash charge to operating earnings, and does not affect the company's liquidity, operating cash flow, or debt service capacity.

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 AWP machine industry. We also believe that Codere Network is among the most compliant network concessionaires, and that the practical effect of the imposition of the foregoing potential fines and sanctions to any considerable degree would be to cause the immediate insolvency of all of the network concessionaires, and to make the provision of network services uneconomic. However, given that at the time of closing the 2007 accounts there remained considerable uncertainty as to how the sanctions under the 2007 Financial Law could be applied for 2007 and previous years, and under certain scenarios, Codere Network's potential liability could substantially exceed the €18.3 million Codere Network AAMS Performance Bond.

In March 2008, however, amended network concession agreements were signed between AAMS, the Italian gaming regulator, and Codere Network and other concessionaires. Among other modifications to the concession agreements, the amendment incorporated a revised formula for the determination of the concession performance bond, which is based principally on the number of machines connected to the network, and will be revised semi-annually. The bond required from Codere Network at that time was reduced from €18.3 million to €13.8 million. Accordingly, in the quarter ended June 30, 2008 we partially reversed the total provision of €18.3 million previously registered at Codere Network by €4.5 million, which was the difference between the original €18.3 million bond and the new €13.8 million bond.

For a discussion of certain litigation and disputes involving Codere Network and AAMS, see "Business—Litigation—Other Litigation and Disputes—Italy".

Italy Bingo impairment charge

In 2008, we recognized a goodwill impairment charge of €32.7 million in relation to our Italy Bingo operations following a test for impairment triggered by current market conditions, increased machine taxes and an increase in our cost of capital. 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.

Discontinued operations

Restructuring of Italy AWP direct machine activity. On March 17, 2008 we completed the disposal of our Italian direct AWP business by means of the sale of our Italian subsidiaries Gaming Services and Gaming Re to Mr. Giovanni Gargelli, the former chief operating officer of Codere Italia, for cash consideration of €10,000 plus the assumption of various debts and payables to Codere amounting to approximately €12.3 million. Of this amount, €3.5 million payable to Codere Network is cash collateralized; and €3.0 million has been fully provisioned and included as a loss on disposal, as it may be forgiven under certain circumstances, including where Mr. Gargelli retains 100% of his interest in the business, complies with all applicable labor legislation and meets certain conditions in respect of maintaining machine connections to Codere Network. The remaining exposure in the Codere consolidated accounts to debts and payables from Gaming Services and Gaming Re is approximately €5.8 million.

Simultaneously, we completed the restructuring of the related management and administrative functions in the remaining AWP machine segment (which now consists of Codere Network and the indirect AWP machine operations), resulting in costs of approximately €3.0 million which were reflected as restructuring charges in the quarter ended March 31, 2008.

In summary, the effect of these actions on our results for the quarter ended March 31, 2008, was a loss on disposal of €3.0 million, and a provision for restructuring charges of €3.0 million. The Italy direct AWP business is reflected in our income and cash flow statements as discontinued operation for 2008 and 2007 for comparative purposes.

Sale of Italian sports betting joint venture, William Hill Codere Italia Srl. (WHCI). On July 2, 2008, we and William Hill PLC closed the sale of WHCI to Intralot Italia SpA for €5.5 million. The sale followed a strategic review of WHCI within the Italian sports betting market. The sale resulted in a write off of €1.0 million in our results for the quarter ended June 30, 2008. Our 50% stake in the Italian Sports Betting joint venture is reflected in our income and cash flow statements as discontinued operation in the results for 2008 and 2007 for comparative purposes.

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. For example, the Italian Corte dei Conti (the "CdC"), the constitutional body charged with auditing the management and accounts of government departments, including AAMS, alleged in July 2006, that the 10 concessionaires for the provision of network services in Italy, including Codere Network, have not complied with certain of their obligations to provide minimum levels of service and as a result owe significant penalties and fines to the AAMS. See "Business—Litigation—Other Litigation and Disputes—Italy—CdC Allegation". In addition, on December 29, 2008, the IPLyC announced in its Resolution 1657/08 that it does not intend to renew Codere's license to operate La Plata, based on alleged failures to comply with various regulatory requirements. On March 26, 2009 the Judge of the *Juzgado Contencioso Administrativo N° 2 de La Plata* granted an injunction requested by Bingos Platenses S.A., in respect of Resolution 1657/08 issued by the IPLyC until the appeal filed by Bingos Platenses S.A. against Resolution 1657/08 is resolved. See "Business—Litigation—Other Litigation and Disputes—Argentina—License Renewal".

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".

Spain AWP

The key factors that affect the results of operations of our Spain AWP business are the number of our installed AWP machines and the average daily net win per AWP machine. The factors that most significantly affect the number of our installed machines are our ability to enter into new agreements, or renew existing agreements, with site owners and our ability to identify and undertake acquisitions. Beyond regulation, the average daily net win per AWP machine is most significantly affected by our ability to select high producing AWP machines and to efficiently rotate our AWP machine portfolio. In many cases, our success in entering into agreements with site owners depends on our making exclusivity payments or loans and advances to the site owners, which payments, loans and advances are customary in the market. The likelihood of such payments being required, and the magnitude of such payments, is generally a function of the competition for any given site, with centrally located, high traffic sites attracting the most interest from our competitors. In cases where there are a number of gaming operators bidding on a site, we will generally be required to make higher exclusivity payments or loans or advances to the site owner, increasing our operating costs. We capitalize exclusivity payments and amortize them over the length of the contract with the site owner, which averages five years.

Argentina

Our Argentina business principally operates bingo halls with slot machines. The operating results of the Argentina business's bingo operations are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales. In addition, certain features of the Argentine regulatory scheme give rise to different economic considerations for the Argentina business's bingo business. Argentine law requires that gaming licenses be nominally awarded to Argentine non-profit organizations which, in turn, enter into agreements with gaming operators such as us. Accordingly, we are required under law to pay a percentage of amounts wagered to the non-profit license holders and have negotiated with such entities a payment of approximately 1.8% of amounts wagered. With respect to prize payouts, Argentine law requires payment as prizes of at least 58% of amounts wagered, and gaming taxes on bingo of 21% of amounts wagered.

As in the case of the Spain AWP business, the key factors that affect the results of operations of our Argentina business's slot machine operations are the number of installed slot machines and the average daily net win per slot machine. The factors that most significantly affect the number of our installed slot machines are the number of bingo halls that we are able to open in Argentina or our ability to expand or relocate existing halls and Argentine regulation that limits the number of slot machines to one for every two bingo seats in any given bingo hall. The average daily net win per slot machine is most significantly affected by our ability to select high production slot machines and efficiently rotate our portfolio of slot machines. We believe our ability to select attractive, high production slot machines results from our experience in the slot machine business and our sufficient size that enables us to test numerous machines at one time. The Argentina business principally purchases its slot machines. The Argentina business's slot machine operations are also affected by the payment of an average of approximately 0.1% of amounts wagered (equivalent to approximately 1.7% of net win) to the non-profit organization. In addition, Argentine regulations require a higher minimum percentage of prize payouts of our slot machines —85% of amounts wagered, compared to 70-75% in Spain. Gaming taxes are 34% of net win.

The license renewals in Argentina resulted in additional up front payments which affected 2007 results and extraordinary canon taxes which have affected 2007 and 2008 results, and which we expect to affect results in the coming years. See "Business—Argentina" for additional detail regarding these license renewals.

Mexico

Our principal business in Mexico is the operation of bingo halls in which we operate traditional (paper based bingo) as well as electronic bingo terminals (EBTs) (See "Business—Mexico—Electronic Bingo"). We also operate sports books, and following our acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. The bingo hall 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 Mexico business's bingo hall operating revenue is also significantly affected by the locations of the halls. In general, the most desirable locations for bingo halls are in city shopping malls because of their accessibility by car or public transportation and their perception of security.

As in the case of the Spain AWP and the Argentine slot business, beyond regulatory changes, the key factors that affect the results of operations of our Mexican EBT operations are the number of installed terminals and the average daily net win per terminal. The factors that most significantly affect the number of our installed terminals are the number of halls that we are able to open, or our ability to expand or relocate existing halls. The average daily net win per EBT is most significantly affected by our ability to select high production EBTs and efficiently rotate our portfolio of terminals. We believe our ability to select attractive, high production EBTs results from our experience in the EBT and other gaming machine businesses and our sufficient size that enables us to test numerous machines at one time. The Mexican business has purchase as well as lease arrangements for its EBTs.

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

The sports books which we operate in Mexico do not assume any financial risk for the bets placed at our sites. The financial risk is assumed by Caliente; we are the only agent for Caliente and receive a commission on all betting regardless of the outcome. Therefore the key factor affecting the sports books operating revenue is the volume of betting by visitors to its off-track betting sites. Betting volume is principally affected by traffic at the bingo halls and the ability of the sports books operations 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.

Critical Accounting Policies

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

Consolidation principles

We consolidate subsidiaries from the date on which control is transferred to the Group and cease to consolidate subsidiaries from the date on which control is transferred out of the Group. We consider as subsidiaries and consolidate by the global consolidation method (i) companies in which we have a direct or indirect holding of over 50% and in which we hold a majority of the voting rights or (ii) other companies in which we have a holding of 50% or less, but where pursuant to shareholders agreements we are entitled to exercise control over the direct management of such companies.

The multigroup companies in which we have joint control of the company's activities pursuant to a contractual agreement are consolidated by the proportional consolidation method, which involves recognizing a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in our consolidated financial statements on a line-by-line basis. In 2007 and 2008, the companies we consolidated by the proportional consolidation method are listed in Note 2(b)(3)(3) to our Consolidated Financial Statements.

Companies in which we have a direct and/or indirect ownership interest of less than 50% and more than 20% and in which we do not hold a majority of the voting rights or exercise effective control over such companies' management but over which we have significant influence are carried by the equity method. The investments in such companies would be recorded on our consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of such companies, less any impairment in value. Our consolidated income statement would reflect the share of the results of operations of such companies. As of December 31, 2008 and 2007, there were no companies consolidated into the Group using this method.

Transactions and balances eliminated in consolidation of the financial statements of foreign companies

The reporting currency of the Codere Group is the euro. The financial statements of consolidated companies of which the functional currency is not the euro are translated to euro at the year-end exchange rates in the case of assets and liabilities, at the average exchange rates for the year in the case of revenues and expenses, and at the historical exchange rates in the case of equity items. The conversion differences under this criteria and the translation at year end are included in the caption "Translation differences" of the equity section of our consolidated balance sheet.

Our intercompany purchases, sales and service transactions have eliminated in consolidation and our Consolidated Financial Statements do not include any results related to these transactions. The balances of intercompany accounts have duly eliminated in consolidation so as not to distort the figures in 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. The principal intangible assets that the Group has with indefinite useful lives are our brands, which are not amortized.

For those intangible assets having finite useful lives, amortization is charged to the consolidated income statement on a straight-line basis over the relevant estimated useful life. Intangible assets are amortized from the date they are available for use. The amortization rates applied are as follows:

	Annual Depreciation Rate
Computer software	20%
Installation rights	10% - 33%
Gaming licenses	2.5%-6.6%
Leasehold assignment rights	10% - 20%

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

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

	Annual Depreciation Rate
Buildings	2% - 3%
Technical installations and machinery	7% - 30%
Leasehold improvements and other tangible fixed assets	10% - 30%
Slot machines	10% - 40%

Borrowing costs are recorded as expenses when incurred in accordance with the benchmark accounting treatment under IAS 23, but they are not capitalized.

Goodwill

All business combinations are accounted for by applying the purchase method of accounting. Goodwill represents the difference between the acquisition cost and the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment. The goodwill is assigned to the Group’s cash generating units which coincide, in general, with the operating segments, which correspond to geographical areas (except the division for activities in Spain), 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, slot machines may be installed in bingo halls and casinos (Note 3 to our Consolidated Financial Statements).

Nevertheless, and given the market characteristics of the Codere Group in Italy (Note 10 to our Consolidated Financial Statements), Codere's management has opted to modify in the 2007 financial year its system of management for operations in that country, and will now assign goodwill to the following groups of cash generating units: directly operated slot machines (which are those operated directly by Codere), indirectly operated slot machines (slot machine business in which Codere does not directly operate the slot machines), bingo and betting halls.

Financial investments

Financial investments classified as held for trading are stated at fair value, with any resultant gain or loss recognized in the consolidated income statement. The fair value is their quoted price at the consolidated balance sheet date. Loans and receivables and financial investments where the Group has the positive intent and ability to hold to maturity, are stated at amortized cost less impairment losses. Other financial investments held by the Group are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity. When these investments are sold, the cumulative gain or loss previously recognized directly in equity is then recognized in the income statement. If an available-for-sale investment does not have a quoted market price in an active market and other methods of determining fair value do not result in a reasonable estimate, the investment is measured at cost less impairment losses. In the consolidated balance sheet, loans and accounts receivable maturing in under 12 months from the balance sheet date are classified as current and those maturing over 12 months from the balance sheet date as non-current. The Group records provisions for impairment on loans and accounts receivable when there are circumstances that reasonably permit them to be classified as doubtful.

Inventories

Inventories are stated at the lower of acquisition cost or net realizable value. Acquisition cost includes the cost of the acquisition and other related expenses. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Impairment

See Note 2(b)(9) to our Consolidated Financial Statements for a discussion of our accounting policies relating to impairment.

Cash and Cash equivalents

Cash and cash equivalents comprises 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.

Capital issuance cost

Expenses incurred in connection with increases in capital are applied as a reduction to the proceeds received in the additional paid-in capital caption, net of any tax effect.

Treasury shares

Under IFRS, treasury shares held by the Group would be reported at cost as a reduction in Shareholders' equity, under Own shares. The gain or loss on disposal of these shares would be recorded in equity.

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. The criteria used to estimate these provisions are consistent with those used by management in previous periods.

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; the details thereof are set forth in Note 2(b)(1) to our Consolidated Financial Statements.

Financial liabilities

Financial liabilities are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, financial liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowing based on an effective interest rate. Contracts that create an obligation to purchase own equity instruments for cash or another financial asset give rise to a financial liability equal to the present value of the redemption amount. The financial liability is recognized initially under IAS 39, at fair value (the present value of the redemption amount) against equity. Subsequently, the financial liability is measured in accordance with current rules and movements in fair value are accounted for as gain or loss in the consolidated income statement. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. Debts maturing less than 12 months from the consolidated balance sheet date are classified as current and those maturing at over 12 months, as non-current.

Foreign currency transactions

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

The monetary items denominated in foreign currency are converted into the corresponding operative currency at the rate of exchange at the end of the year. All the positive and negative differences of exchange, whether realized or not, are recorded in the profit and loss account, except the differences of exchange generated by intra-group monetary items which are considered to form part of the investment in a foreign subsidiary, included in the section of differences of conversion of the Shareholder's equity.

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. 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 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)(16) to our Consolidated Financial Statements for additional details.

Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. 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:

- Slots: Revenues from slot machines are recorded as the net amount collected by the operator (net of prizes).
- Bingo: Revenues from bingo halls are recorded as the total amount of bingo cards sold, according to their face value, less bingo prizes, which are deducted from the gross revenue.
- Casinos and others: Revenues are recorded at 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). Uruguay was recorded as amounts wagered in 2007 but was changed to net of prizes in 2008.
- Sports Betting: Revenues are recorded at the net amount collected by the operator (net of prizes).

Assets held for sale

Immediately before classification as assets held for sale, all assets and liabilities in a disposal group should be measured in accordance with applicable IFRS. Then, on initial classification as assets held for sale, long-lived assets in the disposal group are recognized at the lower of carrying amount and fair value, less cost to sell.

Related parties

We consider our direct and indirect shareholders, affiliates, associates and key directors to be related parties.

Foreign exchange hedges

The Group enters into hedge contracts to hedge foreign exchange rate changes affecting the operations of Mexico and Argentina, which account for a significant percentage of the Group's total revenues. See Note 2(b)(23) to our Consolidated Financial Statement.

Additional Critical Accounting Policies

See Note 2 to our Consolidated Financial Statements for additional critical accounting policies including in particular Notes 2(b)(20) ("Business Combinations") and 2(b)(23) ("Hedge Contracts").

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, including revenue from bingo cards sold at bingo halls less bingo prizes paid. We recognize revenue on an accrual basis, i.e., 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:

- Slots: Revenues from slot machines are recorded as the net amount collected by the operator (net of prizes).
- Bingo: Revenues from bingo halls are recorded as the total amount of bingo cards sold, according to their face value, less bingo prizes, which are recorded as a deduction from gross receipts.
- Casinos and others: Revenues are recorded as the net amount collected by the operator (net of prizes).

- Racetracks: Revenues are recorded as the net amount collected by the operator (net of prizes). In Uruguay, the racetrack revenues were recorded as amounts wagered in 2007 but was changed to net of prizes in 2008.
- 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:

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

Argentina. The Argentina business's operating revenue is principally derived from the sale of bingo cards and from the amount wagered on slot machines located in the Argentina business's bingo halls. Operating revenue from bingo hall operations in Argentina is recorded as the net amount played, such as the total amount of bingo cards sold, according to their face value, less bingo prizes. Operating revenue from our slot machine operations in Argentina is recorded as the total amount wagered, net of prizes paid. Revenues also include gains from the forward foreign exchange contract in Argentine pesos which matured 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 (our joint venture with CIE), and the new licensees (Promojuegos and Mio Games), as well as revenue from our bingo hall management services agreement with Caliente. We have proportionally consolidated ICELA since November 2007, following the purchase of a 49% stake. Prior to this purchase, our revenues reflected our approximately 50% participation in the net profit of bingo halls under our previous joint venture with CIE. In the case of Caliente we record operating revenue equal to 50% of the profit before tax of the bingo halls we manage. The Mexico business's operating revenue also includes sales to Caliente of bingo halls, improvements, and equipment including EBTs, as well as reimbursement of costs incurred on Caliente's behalf, such as bingo hall managers' salaries and fees paid in connection with the use of EBTs. In 2007 we changed the revenue recognition policy for sales of bingo halls to Caliente. Since January 1, 2007, revenue recognized in connection with these sales is the net present value of the five-year receivable from Caliente. The costs associated with these sales are recorded at nominal value in Consumption and Other External Expenses, and the difference between the present value and the nominal value is reflected as interest income over the five-year period. In 2006, and in previous years, the receivables were recorded at nominal value in both revenues and expenses. Revenues also include gains from the forward foreign exchange contract in Mexican pesos which matured during the period. See "—Market and Credit Risks—Foreign Currency Risks".

The following table summarizes the manner in which revenue is recognized in 2008 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	Spain Bingo, Argentina Slots and Bingo, Italy
Net Box (Net Win)	Bingo, Brazil, Panama Casinos and racetrack, Colombia casino, Mexico CIE, Uruguay racetrack
Less	
Site Owner(1)	
Equals	
Operator Revenues	Spain AWP, Colombia, Italy AWP
Less	
Gaming Taxes	
Equals	
Operator Revenues After Gaming Taxes	Uruguay slots
Less	
Operator Expenses	
Less	
Financial Expenses	
Equals	
Profit Before Tax	Mexico Caliente
Less	
Income Tax	
Equals	
Net Profit	

(1) Share of net box to site owners.

Operating Expenses

Operating expenses comprise:

Consumption and other external expenses. Under IFRS, consumption and other external expenses principally comprises payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and machines purchased for resale for Spain AWP. Additionally, consumption and other external expenses also include increases and decreases in inventory. In Argentina it principally comprises food and beverage cost of sales and in Mexico it includes the cost of building out and equipping the bingo halls sold to Caliente, fees paid in connection with the use of electronic bingo terminals, expenses primarily in connection with the roll-out of electronic bingo terminals, and personnel costs related to the salaries of bingo hall managers whom we provide for Caliente's bingo halls.

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

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

Tangible	Annual Depreciation Rate
Buildings	2%–3%
Technical installations and machinery	7%–30%
Leasehold improvements and other tangible fixed assets	10%–30%
Slot machines	10%–40%

Intangible	Annual Depreciation Rate
Computer software	20%
Installation rights	10%–33%
Gaming licenses	2.5%–6.6%
Leasehold assignment rights	10%–20%

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

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

Impairment test. Impairment test includes the amount by which asset values have been reduced at period end. See Note 2(b)(9).

Operating profit

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

Financial items

Financial revenues. Financial revenues principally comprise other interests, revenues from marketable securities and non current loans. It also includes the accrual of the difference between the present value and the nominal value of the accounts receivable from Caliente.

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

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

Corporate income tax

As a result of our history of acquisitions and disposals and internal corporate reorganizations and our significant international operations, our tax position is complex. We are endeavoring to achieve a more tax efficient structure for the Group by merging certain subsidiaries in Spain out of existence and seeking to increase the number of subsidiaries that are more than 75% owned and, therefore, members of our consolidated tax group.

For Spanish tax purposes, 28 Spanish companies in our consolidated group file their tax returns as a consolidated tax group. Under Spanish tax legislation, we must have owned more than 75% 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). Our non-Spanish subsidiaries are not included in our consolidated tax group and pay taxes in their local jurisdiction.

The statutory corporate income tax rate in Spain was 32.5% during the year ended December 31, 2007 and 30.0% during the year ended December 31, 2008.

There are 16 Italian companies which are included in the consolidated tax regime applicable in Italy. This consolidated regime is applied from January 1, 2005 for companies included in the tax group headed by Codere Italia, S.p.A, and since January 1, 2006 for companies included in the tax group headed by Operbingo Italia, S.p.A. The remainder of the companies file individual tax returns.

Minority interest

Minority interest comprises the portion of the net income or loss of companies we consolidate that is attributable to such companies' other shareholders. During the periods under review, minority interest was principally attributable to our subsidiaries in Spain, Mexico and Argentina.

Results of Operations

The following table sets forth, by business and for our Other Operations, operating revenue, operating expenses, operating profit and EBITDA for the years ended December 31, 2007 and 2008 prepared in accordance with IFRS:

	Year ended December 31,		
	2007(1)	2008	% change
	(€ in millions, except percentages)		
Operating Revenue:			
Spain AWP	204.2	208.6	2.2%
Argentina	299.0	352.5	17.9%
Mexico	145.0	232.8	60.6%
Other Operations:			
Spain Bingo	22.0	26.3	19.5%
Spain Sports Betting	0.2	0.7	n.a.
Italy AWP	16.5	46.0	n.a.
Italy Bingo	91.6	95.4	4.1%
Brazil	1.5	2.2	46.7%
Colombia	34.2	30.0	(12.3)%
Panama	43.7	45.3	3.7%
Uruguay(2)	21.3	12.8	(39.9)%
Corporate Overhead	1.1	1.7	54.5%
Total(2)	880.3	1,054.3	19.8%

	Year ended December 31,		
	2007(1)	2008	% change
	(€ in millions, except percentages)		
Operating Expenses:			
Spain AWP	159.5	178.6	12.0%
Argentina	212.2	255.7	20.5%
Mexico	94.4	187.0	98.1%
Other Operations:			
Spain Bingo	21.5	26.2	21.9%
Spain Sports Betting	2.7	6.0	122.2%
Italy AWP	55.7	43.1	(22.6)%
Italy Bingo	88.2	126.1	43.0%
Brazil	8.3	5.5	(33.7)%
Colombia	40.4	26.9	(33.4)%
Panama	36.8	41.9	13.9%
Uruguay	20.8	12.0	(42.3)%
Corporate Overhead	28.0	38.2	36.4%
Total	768.6	947.2	23.2%

	Year ended December 31,		
	2007(1)	2008	% change
	(€ in millions, except percentages)		
Operating Profit (Loss):			
Spain AWP	44.7	30.0	(32.9)%

	Year ended December 31,		
	2007[(1)]	2008	% change
	(€ in millions, except percentages)		
Argentina	86.8	96.8	11.5%
Mexico	50.6	45.8	(9.5)%
Other Operations:			
Spain Bingo	0.5	0.1	(80.0)%
Spain Sports Betting	(2.5)	(5.3)	(112.0)%
Italy AWP	(39.2)	2.9	107.4%
Italy Bingo	3.4	(30.7)	n.a.
Brazil	(6.8)	(3.3)	51.5%
Colombia	(6.2)	3.1	n.a.
Panama	6.9	3.4	(50.7)%
Uruguay	0.5	0.8	60.0%
Corporate Overhead	(26.9)	(36.5)	(35.7)%
Total	111.7	107.1	(4.1)%

	Year ended December 31,		
	2007[(1)]	2008	% change
		(unaudited)	
	(€ in millions, except percentages)		
EBITDA:			
Spain AWP	72.9	63.6	(12.8)%
Argentina	98.5	110.0	11.7%
Mexico	57.9	69.0	19.2%
Other Operations:			
Spain Bingo	0.9	1.2	33.3%
Spain Sports Betting	(2.5)	(5.0)	n.a.
Italy AWP	(19.1)	5.4	n.a.
Italy Bingo	8.4	6.6	(21.4)%
Brazil	(6.2)	(2.3)	n.a.
Colombia	(0.1)	8.9	n.a.
Panama	11.7	9.7	(17.1)%
Uruguay	2.8	3.3	17.9%
Corporate Overhead	(25.0)	(35.7)	n.a.
Total	200.2	234.7	17.2%

(1) As the results of Italy AWP direct operations and Italy Sports Betting are reflected as discontinued operations, results for the year ended December 31, 2007 differ from those previously reported.

(2) In 2008 we changed our revenue recognition for the racetrack business in Uruguay to conform it to our other businesses. Beginning in 2008, revenues are recorded net of prizes. Under the current methodology, 2007 consolidated revenue would have been €871.0 million and operating expenses €759.3 million.

Group Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Operating revenue

Operating revenue increased by €174.0 million, or 19.8%, to €1,054.3 million in 2008 from €880.3 million in 2007. The increase was principally attributable to the increase in Mexico revenues (€87.8 million) reflecting growth in the number of EBTs and the consolidation of ICELA which has a significant impact on revenues as a result of the change in the accounting for the bingo and EBT halls (for a discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Our Results of Operations—Acquisition of CIE Las Américas"), as well as:

- the addition of other businesses such as the racetrack and the convention center;
- an increase in the net win per slot seat per day in Argentina primarily as a result of the installation of TITO (Ticket-In-Ticket-Out) and other coinless systems in halls representing approximately 61% of our machine portfolio in that country at December 31, 2008 (€53.5 million);
- in Italy AWP (€29.5 million) as a result of the consolidation of indirect AWP operators purchased in 2007 and the greater contribution of Codere Network primarily related to the provision reversal recorded in the quarter ended June 30, 2008; and
- in Spain AWP (€4.4 million) as a result of an increase in AWP portfolio installed in Spain.

This increase is partly offset by the decrease of €8.5 million in Uruguay compared to 2007 mainly as a result of the revenue recognition change, and a €4.2 million net decrease in Colombia resulting from a decrease in the number of machines in operation, partly compensated by a €3.2 million gain recorded on the sale of the headquarters building.

Operating expenses

Operating expenses increased by €178.6 million, or 23.2%, to €947.2 million in 2008 from €768.6 million in 2007. The increase was principally attributable to: the increase in costs in Mexico (€92.6 million) as a result of the growth in the number of EBTs installed, the consolidation of ICELA which has a significant impact on expenses as a result of the change in the accounting for the bingo and EBT halls (for a discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Comparability of Our Results of Operations—Acquisition of CIE Las Américas"), the addition of other businesses, and the introduction of the new gaming tax beginning January 1, 2008; the increase in costs (gaming and other taxes and personnel) in Argentina (€43.5 million) reflecting increased taxes, increased commercial activity and inflation; an increase in Italy Bingo (€37.9 million) driven by the €32.7 million impairment loss registered in the quarter ended December 31, 2008; and the increase in certain costs in Spain AWP (€19.1 million) primarily related to the increase in the number of machines, to a restructuring conducted in the quarter ended December 31, 2008 and to inflation. This increase is partly offset by a €13.5 million decrease in Colombia due primarily to the absence of non-recurring provisions recorded in 2007 and a decrease in the number of machines in operation; the decrease in costs in Italy AWP (€12.6 million) due to the absence of non-recurring charges recorded in 2007; and the decrease of €8.8 million in Uruguay compared to 2007, mainly as a result of the revenue change.

Operating profit

Operating profit decreased by €4.6 million, or 4.1% to €107.1 million in 2008 from €111.7 million in 2007. Operating margin decreased to 10.2% in 2008 from 12.7% in 2007.

EBITDA

EBITDA increased by €34.5 million, or 17.2%, to €234.7 million in 2008 from €200.2 million in 2007. The increase in EBITDA was principally attributable to: Italy AWP (€24.5 million) reflecting the consolidation of indirect AWP operators purchased in 2007, the provision reversal in Codere Network in the quarter ended June 30, 2008 and the absence of the non-recurring charges recorded in 2007; Argentina (€11.5 million) as a result of the increase in the net win per slot seat per day; Mexico (€11.1 million) due to the increase in the number of EBTs installed and the consolidation of ICELA; and Colombia (€9.0 million) primarily due to the €3.2 million gain recorded on the sale of the headquarters building and the absence of non-recurring provisions recorded in 2007. This increase is partially offset by a decrease in EBITDA in corporate overhead (€10.7 million) associated primarily with personnel increases, and the decrease in Spain AWP (€9.3 million) associated with the decrease in the net win per day and the increased costs. EBITDA margin decreased to 22.3% in 2008 compared to 22.7% in 2007.

Financial revenues

Financial revenues increased in 2008 by €0.4 million, or 3.8%, to €10.8 million from €10.4 million in 2007, reflecting principally the proportional consolidation of ICELA in our income statement, which was offset in part by lower cash levels.

Financial expenses

Financial expenses increased by €11.7 million, or 17.9%, to €77.2 million in 2008 from €65.5 million in 2007. The increase was principally attributable to the consolidation of ICELA (reflecting interest on bank debt as well as the financial leases of the IGT EBTs) and higher aggregate debt levels outstanding under our Senior Credit Facility.

Corporate income tax

Corporate income tax increased by €5.9 million, or 14.4%, to €46.8 million in 2008, from €40.9 million in 2007 due primarily to higher taxable income in Argentina and Mexico.

Minority interest

Minority interest decreased by €5.5 million, or 46.2%, to €6.4 million in 2008 from €11.9 million in 2007 primarily attributable to the absence of minority interests in Mexico following their acquisition in October 2007, and to the decrease in Argentina following the acquisition of the interests of our principal minority shareholder in July 2008.

Net income

As a result of the foregoing, net income decreased by €0.7 million to a net loss of €10.6 million in 2008 from a loss of €9.9 million in 2007. Excluding the discontinued operations and the impairment loss, net income would have been €31.6 million in 2008.

Results of Operations by Business

Spain AWP

	Year ended December 31,		
	2007	**2008**	**% change**
	(unaudited)		
	(€ in millions, except percentages)		
Operating revenue	204.2	208.6	2.2%
Operating expenses:			
Consumption and other external expenses	14.3	16.6	16.1%
Personnel expenses	35.6	39.4	10.7%
Depreciation	13.7	15.4	12.4%
Amortization of intangible assets	12.0	14.1	17.5%
Variation in provisions for trade transactions	2.5	4.1	64.0%
Other operating expenses	81.4	89.0	9.3%
Gaming and other taxes	60.3	62.9	4.3%
Rental of machines	0.1	0.1	0.0%
Others	21.0	26.0	23.8%
Total operating expenses	159.5	178.6	12.0%
Operating profit	44.7	30.0	(32.9)%
EBITDA	72.9	63.6	(12.8)%

Operating Revenue. Spain AWP's operating revenue increased by €4.4 million, or 2.2%, to €208.6 million in 2008 from €204.2 million in 2007, which was principally attributable to an increase in the number of AWP machines installed and to the sale of machines. We had 15,963 AWP machines in operation in Spain in 2008, compared to 15,431 in 2007. In 2008, we entered into new contracts for the placement of 1,810 machines in bars, restaurants and other establishments and acquired AWP machine operators with a total of 166 machines. In 2008 contracts related to 1,738 machines expired or were otherwise terminated. The average daily net box per AWP machine was €55.7 in 2008, compared to €59.3 in 2007. We believe that the decrease, while partly compensated by the continuous renewal and rotation of the machine portfolio and the positive effect from regulatory changes in small markets such as Castilla y León, Cantabria, and Asturias, resulted primarily from the macroeconomic slowdown in Spain, the lower net win of operators acquired in late 2007, and by the absence of the positive effects of regulatory changes implemented in 2006 and early 2007 in markets where we have a strong presence (e.g. Andalucía, Valencia, and the Balearic Islands).

Operating Expenses. Operating expenses increased by €19.1 million, or 12.0%, to €178.6 million in 2008 from €159.5 million in 2007. 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 machines purchased for resale. Consumption and other external expenses increased by €2.3 million, or 16.1%, to €16.6 million in 2008 from €14.3 million 2007 principally attributable to an increase in the number of machines purchased for resale.

- *Personnel Expenses*. Personnel expenses increased by €3.8 million, or 10.7%, to €39.4 million in 2008 from €35.6 million 2007 due to payroll increases for 2008, personnel increases partially attributable to the increased number of machines operated, and the restructuring implemented in the quarter ended December 31, 2008.

- *Depreciation*. Depreciation increased by €1.7 million, or 12.4%, to €15.4 million in 2008 from €13.7 million in 2007 reflecting the increase in the number of machines operated and the renewal of the portfolio.

- *Amortization*. Amortization increased by €2.1 million, or 17.5%, to €14.1 million in 2008 from €12.0 million in 2007 reflecting principally increases in exclusivity rights payments to site owners associated with an increase in the portfolio of machines installed, including particularly renovations and extensions of exclusivity contracts in Madrid undertaken at the end of 2007 in anticipation of new regulation expected to be implemented in 2009.

- *Other Operating Expenses*. Spain AWP's other operating expenses increased by €7.6 million, or 9.3%, to €89.0 million in 2008 from €81.4 million in 2007 principally due to an increase in gaming taxes and other expenses derived from an increase in the number of machines in operation.

Operating Profit. The unit's operating profit decreased by €14.7 million, or 32.9%, to €30.0 million in 2008 from €44.7 million in 2007. Operating margin was 14.4% in 2008 compared to 21.9% in 2007.

EBITDA. Spain AWP's EBITDA decreased by €9.3 million, or 12.8%, to €63.6 million in 2008 from €72.9 million in 2007. EBITDA margin decreased to 30.5% in 2008 from 35.7% in 2007.

Argentina

	Year ended December 31,		
	2007	**2008**	**% change**
	(unaudited)		
	(€ in millions, except percentages)		
Operating revenue	299.0	352.5	17.9%
Operating expenses:			
Consumption and other external expenses	4.9	7.3	49.0%
Personnel expenses	35.3	47.0	33.1%
Depreciation	9.7	11.4	17.5%

Amortization of intangible assets	2.0	1.8	(10.0)%
Other operating expenses	160.3	188.2	17.4%
Gaming and other taxes	128.4	148.3	15.5%
Rental of machines	0.1	0.1	0.0%
Others	31.8	39.8	25.2%
Total operating expenses	212.2	255.7	20.5%
Operating profit	86.8	96.8	11.5%
EBITDA	98.5	110.0	11.7%

Operating Revenue. Operating revenue in Argentina principally comprises revenue collected from slot machines located in our bingo halls after prize payouts and from sales of bingo cards after prize payouts. It also reflects gains from Argentine peso forward foreign exchange contracts which mature during the period. Operating revenue increased by €53.5 million, or 17.9%, to €352.5 million in 2008 from €299.0 million in 2007, which was principally attributable to an increase in the net win per slot seat per day, primarily as a result of the installation of TITO and other coinless systems in halls representing approximately 61% of our machine portfolio in that country as of December 31, 2008. Revenues were nonetheless affected by the appreciation of the euro against the Argentine peso in the period. Although we recorded a gain of €1.3 million on the foreign exchange contract which matured the in quarter ended March 31, 2008, at a constant exchange rate (and adjusted to eliminate the gain on the contract), revenues would have been €380.6 million in 2008, which would have represented an increase of 27.3% compared to 2007.

Operating Expenses. Operating expenses increased by €43.5 million, or 20.5%, to €255.7 million in 2008 from €212.2 million in 2007. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other expenses, which principally include food and beverage cost of sales, increased by €2.4 million, or 49.0%, to €7.3 million in 2008 from €4.9 million in 2007 resulting from an increase in food and beverage sales, as well as in the prices of goods sold, that were affected by inflation.

- *Personnel Expenses*. Personnel expenses increased by €11.7 million, or 33.1%, to €47.0 million in 2008 from €35.3 million in 2007 due to increases in payroll, resulting from inflation, as well as personnel increases.

- *Depreciation*. Depreciation increased by €1.7 million, or 17.5%, to €11.4 in 2008 from €9.7 million in 2007 due to investment in halls and the implementation of TITO and other coinless systems.

- *Amortization.* Amortization decreased by €0.2 million, or 10.0% to €1.8 million in 2008 from €2.0 million in 2007.

- *Other Operating Expenses*. Other operating expenses, which include gaming and other taxes, marketing expenses, payments to the non-profit organizations that nominally hold the licenses to operate the bingo halls, and losses on the foreign exchange contracts which mature in the period, increased by €27.9 million, or 17.4%, to €188.2 million in 2008 from €160.3 million in 2007. The increase is attributable to higher gaming and other taxes, costs associated with the increase of commercial activity and includes a loss of €1.3 million on the foreign exchange contracts which matured in the quarters ended June 30, September 30 and December 31, 2008.

Operating Profit. Argentina's operating profit increased by €10.0 million, or 11.5% to €96.8 million in 2008 from €86.8 million in 2007. Operating margin decreased to 27.5% in 2008, from 29.0% in 2007.

EBITDA. EBITDA increased by €11.5 million, or 11.7%, to €110.0 million in 2008 from €98.5 million in 2007. The increase, however, was partially offset by the appreciation of the euro against the Argentine peso. At a constant exchange rate (and adjusted for the foreign exchange contracts which matured in the period) EBITDA would have been €119.5 million in 2008, an increase of 21.3% compared to 2007. EBITDA margin decreased to 31.2% in 2008 from 32.9% in 2007.

Mexico

	Year ended December 31,		
	2007	2008	% change
	(unaudited)		
	(€ in millions, except percentages)		
Operating revenue	145.0	232.8	60.6%
Of which sales to Caliente	*21.3*	*20.3*	*(4.5)%*
Operating expenses:			
Consumption and other external expenses	57.3	62.9	9.8%
Of which sales to Caliente	*25.5*	*24.3*	*(4.9)%*
Personnel expenses	3.6	20.2	n.a.
Depreciation	6.3	19.2	n.a.
Amortization of intangible assets	1.0	3.7	n.a.
Variation in provisions for trade transactions	—	0.3	100.0%
Other operating expenses	26.2	80.7	n.a.
Gaming and other taxes	(0.5)	13.5	n.a.
Rental of machines	0.3	0.9	n.a.
Others	26.4	66.3	n.a.
Total operating expenses	94.4	187.0	98.1%
Operating profit	50.6	45.8	(9.5)%
EBITDA	57.9	69.0	19.2%

Operating Revenue. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA (our joint venture with CIE), and the new licensees (Promojuegos and Mio Games), as well as revenue from our bingo hall management services agreement with Caliente. As mentioned earlier, we have proportionally consolidated ICELA since November 2007, following the purchase of a 49% stake. Prior to this purchase, our revenues reflected our approximately 50% participation in the net profit of bingo halls under our previous joint venture with CIE. In the case of Caliente our operating revenue under the management services agreement is 50% of the profit before tax of the bingo halls we manage. The Mexico business's operating revenue also includes sales to Caliente of bingo and EBT halls, improvements, and equipment including EBTs, as well as reimbursement of costs incurred on Caliente's behalf, such as bingo hall managers' salaries and fees paid in connection with the use of EBTs. It also includes gains from the Mexican peso forward exchange contracts which mature during the period.

Operating revenue increased by €87.8 million, or 60.6%, to €232.8 million in 2008 from €145.0 million in 2007 reflecting principally: an increase in the number of EBTs, the consolidation of the new licensees and ICELA, the latter which has a particularly significant impact in revenues as a result of the increase of terminals during the period and the change in the accounting for the bingo and EBT hall business, as well as the addition of other businesses such as the racetrack and the convention center.

Revenues were also affected by the appreciation of the euro against the Mexican peso. Although revenues for 2008 include gains of €2.2 million on the foreign exchange contracts which matured in the quarters ended March 30, September 30 and December 31, 2008, at a constant exchange rate (and adjusted to eliminate the effect of these gains) revenues would have been €251.5 million in 2008, representing an increase of 73.4% compared to 2007.

Operating Expenses. Mexico operating expenses increased by €92.6 million, or 98.1%, to €187.0 million in 2008 from €94.4 million in 2007. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses, which include the cost of building out and equipping the bingo halls sold to Caliente, fees paid in connection with the use of EBTs, expenses primarily in connection with the roll-out of electronic bingo terminals, and personnel costs related to the salaries of bingo hall managers whom we provide for Caliente's bingo halls, and food and beverages cost of sales for ICELA and the new licensees, increased by €5.6 million, or 9.8% to €62.9 million in 2008 from €57.3 million in 2007, reflecting primarily the consolidation of ICELA.

- *Personnel Expenses*. Personnel expenses increased by €16.6 million to €20.2 million in 2008 from €3.6 million in 2007 mainly driven by the consolidation of ICELA.

- *Depreciation*. Depreciation increased by €12.9 million to €19.2 million in 2008 from €6.3 million in 2007, primarily associated with the consolidation of ICELA reflecting the depreciation of the investments in halls and the inclusion of other businesses such as the racetrack and the convention center, and the IGT EBTs.

- *Amortization*. Amortization increased €2.7 million to €3.7 million in 2008 compared to €1.0 million in 2007, primarily associated with the consolidation of ICELA, specifically the amortization of gaming licenses.

- *Other Operating Expenses*. Other operating expenses increased by €54.5 million to €80.7 million in 2008 from €26.2 million in 2007 principally due to the consolidation of ICELA and the increase in the gaming tax beginning January 1, 2008. This item includes a loss of €0.3 million on the foreign exchange contract which matured in the quarter ended September 30, 2008.

Operating Profit. Mexico's operating profit decreased by €4.8 million, or 9.5%, to €45.8 million in 2008 from €50.6 million in 2007. Operating margin decreased to 19.7% in 2008 from 34.9% in 2007 principally associated with the consolidation of ICELA and the increase in the gaming tax.

EBITDA. Mexico's EBITDA increased €11.1 million, or 19.2%, to €69.0 million in 2008 from €57.9 million in 2007. At a constant exchange rate, EBITDA would have been €73.2 million in 2008, which would have resulted in an increase of 26.4% compared to 2007. EBITDA margin was 29.6% in 2008 compared to 39.9% in 2007.

Other Operations

Other operations includes the results of our operations in Panama, Uruguay, Italy AWP (indirect and network), Italy Bingo, Colombia, Brazil, Spain Bingo and Spain Sports Betting, but excludes corporate overhead.

Operating Revenue. Operating revenue of our Other Operations increased by €27.7 million, or 12.0%, to €258.7 million in 2008 from €231.0 million in 2007. This was principally attributable to an increase in the Italy AWP business (€29.5 million) due to the consolidation of the indirect AWP operators acquired in 2007 and the greater contribution of Codere Network primarily related to the provision reversal recorded in the quarter ended June 30, 2008; an increase in Spain Bingo (€4.3 million) due to the reopening of the Canoe bingo hall which was closed for refurbishment from July to October 2007; an increase in Italy Bingo (€3.8 million) primarily as a result of the consolidation of the bingo halls purchased in 2007 and the increase of AWP machines installed in the halls; and Panama (€1.6 million) due to the increase of our portfolio compared to 2007 (including the opening of Casino Colón in early December 2008). This increase is partially offset by a €4.2 million net decrease in Colombia resulting from a decrease in the number of machines in operation, partly compensated by a €3.2 million gain recorded on the sale of the headquarters building, as well as a decrease of €8.5 million in Uruguay compared to 2007 as a result of the revenue recognition change. Assuming we had applied the same criterion in 2007, revenues of Other Operations would have been €221.7 million, which would have resulted in an increase of €37.0 million, or 16.7% in 2008 compared to 2007.

Operating Expenses. Other Operations' operating expenses increased by €13.2 million, or 4.8%, to €287.7 million in 2008 from €274.5 million in 2007. This is mainly attributable to increased expenses in: Italy Bingo (€37.9 million) driven by the impairment loss recorded in the quarter ended December 31, 2008; Panama (€5.1 million) mainly as a result of an increase in our portfolio (including the opening of Casino Colón in early December 2008) ; Spain Bingo (€4.7 million) associated to the reopening of the Canoe bingo hall (which was closed for refurbishment from July to October 2007); and Sports Betting Spain (€3.3 million) associated with the start-up of the operations in Madrid and the Basque Region. This increase is partly offset by decreased costs in: Colombia (€13.5 million) due primarily to the absence of non-recurring provisions recorded in 2007 and to the decrease in the number of machines in operation; Italy AWP (€12.6 million) resulting primarily from the absence of non-recurring charges recorded in 2007; and Uruguay (€8.8 million) as a result of the revenue recognition change. This change in Uruguay had the same impact on operating expenses as it had on revenues. Assuming we had applied the same criterion in

2007, operating expenses of Other Operations would have been €265.2 million, which would have resulted in an increase of €22.5 million, or 8.5% in 2008 compared to 2007.

Operating profit. Losses from Other Operations decreased by €14.5 million, achieving a loss of €29.0 million in 2008 from a loss of €43.5 million in 2007.

EBITDA. EBITDA increased by €31.9 million, to €27.8 million in 2008 from a loss of €4.1 million in 2007.

Liquidity and Capital Resources

Liquidity

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

The following table provides a profile of our liabilities under IFRS at December 31, 2007 and 2008.

	At December 31,	
	2007	2008
	(audited)	(unaudited)
	(€ in millions)	
Short term debt payable to credit institutions	48.7	57.0
Other current liabilities(1)	245.2	248.3
Total current liabilities	293.9	305.3
Long term debt payable to credit institutions	44.4	47.4
Other long term liabilities(2)	806.1	813.7
Total long term liabilities	850.5	861.1
Total liabilities	1,144.4	1,166.4

(1) Other current liabilities consist of commercial creditors, other non-commercial obligations and accrual accounts and others.
(2) Other long-term liabilities consist of the Notes, deferred tax liabilities, other payables, deferred income, provisions and financial liabilities and minority interests.

Historical Cash Flows

The following is our consolidated cash flow statement under IFRS for the years ended December 31, 2007 and 2008.

	Year ended December 31,	
	2007(1)	2008
	(audited)	
Cash flow from continuing operations:	(€ in millions)	
Operating profit	111.7	107.1
Expenses that do not represent cash movements:		
Depreciation and amortization	66.6	92.6
Impairment loss	11.3	32.7
Other operating expenses	33.5	26.3
Income that does not represent cash movements	(2.4)	(17.2)
Changes in working capital from operating activities:	6.7	3.4
Inventories	(0.2)	(2.9)
Receivables	17.9	(5.5)
Prepaid expenses	(0.3)	0.2
Accounts payable	(10.2)	8.9
Deferred income	0.2	(0.3)
Deferred expenses	1.1	0.9
Others	(1.8)	2.1

Corporate income tax	(43.8)	(54.8)
Net Cash from Operating Activities	183.6	190.1
Capital expenditures(2)	(112.8)	(120.3)
Long term loans and receivables(3)	(31.1)	4.3
Investments(4)	(201.8)	(25.3)
Net Cash Used in Investing Activities	(345.7)	(141.3)
Net change in financial debt(5)	35.7	18.5
Net change in other bank loans	(6.9)	(9.3)
Dividends (net)	(6.5)	(5.3)
Net change in other debt and contingent payments(6)	6.2	6.4
Increase of share capital	140.6	0.0
Interest income	8.8	13.6
Interest expense	(68.1)	(80.7)
Net Cash from Financing Activities	109.8	(56.8)
Net Change in Cash Position	(52.3)	(8.0)
Reconciliation		
Cash at beginning of period	143.6	91.3
Cash at end of period	91.3	83.3
Change in cash position	(52.3)	(8.0)
Cash flow from discontinued operations:		
Net cash from operating activities	6.5	1.3
Net cash used in investment activities	(4.2)	(1.3)
Net cash from financing activities	(1.2)	(1.2)
Net change in cash position	1.1	(1.2)
Reconciliation		
Cash at beginning of period	1.7	2.8
Cash at end of period	2.8	1.6
Change in cash position	1.1	(1.2)

(1) As the results of Italy AWP direct operations and Italy Sports Betting are reflected as discontinued operations, results for the year ended December 31, 2007 differ from those previously reported. Additionally, €10.2 million associated with the Operbingo AWP option included in Accounts Payable in the previously reported accounts for 2007 is now included in Net change in other debt and contingent payments for such period.

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

(3) Long-term loans and receivables include amounts related to building out and equipping bingo halls that are sold to Caliente, which pays for such bingo halls over a five-year period. Loans to site owners and other loans are also included.

(4) Investments include expenditures relating to acquisitions.

(5) Net change in financial debt includes our Senior Credit Facility, and 50% of notes issued by Hipica Rioplatense Uruguay ("HRU Bonds"), our JV in Uruguay.

(6) Net change in other debt and contingent payments reflects movements in temporary financial investments as vendor financing and contingent payments.

Cash Flow for the year ended 2008

Net cash from operating activities in 2008 was €190.1 million, an increase of 3.5% from €183.6 million in 2007.

Net cash used in financing activities was €56.8 million, the principal drivers of which were as follows:

- Positive variation in other financial debt and contingent payments of €6.4 million, which consists of a net increase in vendor financing of €8.5 million, €0.8 million in funds received from loan repayments, and an increase in financial assets of €2.9 million which include mainly debts and payables associated with the sale of the Italian direct AWP operations. The €8.5 million net increase in vendor financing consists of a positive variation of €30.8 million (principally reflecting the €21.3 million deferred portion of the acquisition of the minorities in Argentina and capital expenditures in Panama and Argentina) and a negative variation of €22.3 million (principally reflecting €11.9 million related to the contingent payment for the ICELA acquisition, the variation in Mexico associated with acquisition of machines and hall refurbishments; and the reversal of contingent payments associated with the acquisition of indirect AWP operators in Italy).

- A net increase of €18.5 million in financial debt resulting from €18.9 million drawn down under the Senior Credit Facility, partly offset by a €0.4 million amortization of the HRU Bonds.

- A net decrease of €9.3 million in other bank loans due primarily to repayments in Colombia and Italy Bingo, partly offset by increased bank loans in Panama.

- Dividends paid to minorities of €5.3 million, financial expenses of €80.7 million and financial income of €13.6 million.

We used cash for capital expenditures for intangible and fixed assets (€120.3 million), net of €4.9 million received for the sale of the headquarters building in Colombia; received a net of €4.3 million in long term loans and receivables consisting of: €4.8 million received from Caliente (repayments of €19.1 million, net of receivables generated of €14.3 million), €0.4 million received from Spain AWP site owners (loans of €12.7 million, net of repayments of €13.1 million), €0.7 million used for long term loans provided to Italy AWP site owners (loans of €5.6 million, net of €4.9 million in repayments), and €0.2 million used for other loans granted. We used €25.3 million in investments, the net result of €25.1 million used in the acquisition of the minorities in Argentina, €4.3 million used in the acquisition of AWP operators in Spain, and €2.8 million generated by the sale of our 50% stake in WHCI and a further €1.3 million generated by the reversal of contingent payment accruals associated with the acquisition of indirect AWP operators in Italy.

During 2008 we had a net decrease in cash of €8.0 million.

Cash Flow for the year ended 2007

Net cash from operating activities for the twelve months ended December 31, 2007 was €200.3 million, up 56.2% from €128.2 million for the same period the prior year.

In 2007, we raised €98.4 million in cash from financing activities, the principal drivers of which were as follows:

- Net cash proceeds of the IPO of €140.6 million.

- Net change in other debt and contingent payments of €5.2 million (used funds), which consists of a decrease in vendor financing of €1.6 million related primarily to the payment of the upfront renewal fee for the Argentine licenses which have been renewed (€23.1 million), the deferred payment for the purchase of minority shareholders in Italy and (€6.5 million) and for the Sports Betting licenses in Italy (€2.4 million), the 2008 contingent payment related to the ICELA acquisition (€17.5 million) and an increase of €10.2 million related to the Operbingo AWP machine option; a decrease in temporary investment of €6.2 million, payment of costs related with the IPO and Senior Credit Facility processes of €11.3 million and €3.0 million, respectively, payment of a consent fee of €2.3 million to amend the Indenture governing the Senior Notes, and funds received from the repayment of loans of €6.8 million.

- Net change in financial debt (raised funds) of €35.7 million, related to a drawdown under the Senior Credit Facility of €30.0 million and the issuance of U.S.$15.0 million (approximately €5.7 million which corresponds to Codere) in notes by Hipica Rioplatense Uruguay (“HRU”), our Uruguay joint venture.

- Net change in other bank loans (used funds) related to debt repayments, including those repaid with the proceeds of the notes issued by HRU.

- Dividends paid to minorities of €6.5 million, financial expenses of €68.1 million and financial income of €8.8 million.

We used cash for capital expenditures relating to intangible and fixed assets (€117.0 million); to fund receivables from Caliente (€27.4 million, receivables generated of €46.1 million, net of repayments of €18.7

million), for long-term loans provided to Spain AWP site owners (€3.7 million, net of repayments); and for investments totaling €201.8 million which consist principally of the acquisition of 49% of Icela Group (€143.6 million), the acquisition of minority interests in Mexico (€21.0 million), capitalization of the Operbingo AWP machine option (€11.0 million) acquisition of AWP operators in Spain (€12.9 million) and payments related to the acquisitions of Maxibingo, Italian AWP operators (Cristaltec Service srl, Vasa e Azzena Services srl and Seven Cora Services srl), and Mio Games in Mexico (€13.3 million).

During the year 2007 we had a net decrease in cash of €51.2 million.

Working Capital Requirements

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

	Year ended December 31,	
	2007(1)	**2008**
	(unaudited) (€ in millions)	
Variations in:		
Receivables	17.9	(5.5)
Inventories	(0.2)	(2.9)
Payables	(10.2)	8.9
Accruals, net	1.3	0.6
Other	(2.1)	2.3
Total	6.7	3.4

(1) As the results of Italy AWP direct operations and Italy Sports Betting are reflected as discontinued operations, results for the year ended December 31, 2007 differ from those previously reported. Additionally, €10.2 million associated with the Operbingo AWP option included in Accounts Payable in the previously reported accounts for 2007 is now included in Net change in other debt and contingent payments for such period.

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

During the periods under review, our working capital needs have been principally driven by receivables and inventories in our Mexico business as well as receivables from clients of Codere Network. During 2008 we recorded €5.6 million in payables related to our request for deferral of gaming taxes in Spain.

We anticipate that our working capital requirements in the foreseeable future will generally be stable. However, these requirements can fluctuate for a variety of factors, including movements in receivables from the development and sale of bingo halls we build out and equip for Caliente, movements in receivables from clients of Codere Network, corporate income tax receivables relating to tax payments to the Mexican government and exchange rate fluctuations.

Capital Expenditures and Investments

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

	Year ended December 31(1),	
	2007	2008
	(unaudited)	
	(€ in millions)	
Spain AWP	59.4	42.9
Maintenance	39.7	35.6
Growth	19.7	7.3
Argentina	21.3	51.7
Maintenance	9.2	17.5
Growth	12.1	34.2
Mexico	203.1	12.6
Maintenance	0.5	7.0
Growth	202.6	5.6
Holding Company	3.9	4.7
Maintenance	3.9	4.5
Growth	—	0.2
Italy	26.6	3.9
Maintenance	3.5	7.2
Growth	23.1	(3.3)
Spain Bingo	6.2	2.9
Maintenance	6.2	2.9
Growth	—	—
Spain Sports Betting	1.7	4.6
Maintenance	—	—
Growth	1.7	4.6
Panama	12.7	13.4
Maintenance	2.5	1.2
Growth	10.2	12.2
Colombia	6.2	3.6
Maintenance	5.7	3.5
Growth	0.5	0.1
Uruguay	3.1	0.8
Maintenance	1.9	0.5
Growth	1.2	0.3
Brazil	1.5	0.2
Maintenance	0.9	0.1
Growth	0.6	0.1
Total Maintenance	74.0	80.0
Total Growth	271.7	61.3
Total Capex	345.7	141.3

(1) Excludes the investments made in discontinued operations for the year ended December 31, 2007 and 2008.

We invested an aggregate amount of €487.0 million, excluding capitalized expenses, during 2007 and 2008. Our investing activities during the periods under review included the following capital expenditures, long-term loans and receivables and investments:

	Year ended December 31(1),	
	2007	2008
	(unaudited)	
	(€ in millions)	
Spain AWP	59.4	42.9

	Year ended December 31(1),	
	2007	**2008**
	(unaudited)	
	(€ in millions)	
Capital expenditures	42.8	39.0
Long term loans and receivables	3.6	(0.4)
Investments	13.0	4.3
Argentina	21.3	51.7
Capital expenditures	21.3	26.6
Long term loans and receivables	—	—
Investments	—	25.1
Mexico	203.1	12.6
Capital expenditures	9.5	17.4
Long term loans and receivables	27.4	(4.8)
Investments	166.2	—
Holding Company	3.9	4.7
Capital expenditures	3.9	4.5
Long term loans and receivables	—	0.2
Investments	—	—
Italy	26.6	3.9
Capital expenditures	4.0	7.3
Long term loans and receivables	—	0.7
Investments	22.6	(4.1)
Other	31.4	25.5
Capital expenditures	31.3	25.5
Long term loans and receivables	0.1	—
Investments	—	—
Total capital expenditures	112.8	120.3
Total long term loans and receivables	31.1	(4.3)
Total investments	201.8	25.3
Total cash invested excluding capitalized expenses	345.7	141.3

(1) Excludes the investments made in discontinued operations for the year ended December 31, 2007 and 2008.

We expect to invest approximately € 83.0 million in our existing businesses during the course of 2009, including approximately €27.0 million in Spain AWP, € 27.0 million in Argentina, €1.0 million in Mexico (gross investments of €25.0 million net of recoveries from Caliente of €24.0 million) and €27.0 million in our other operations including Italy AWP machines, Italy Bingo, Colombia, Uruguay, Spain Bingo, Sports Betting and corporate headquarters. We expect these investments will help us to achieve at the end of 2009 a portfolio of approximately 15,165 to 15,963 AWP machines in Spain, 4,485 to 4,709 slot machines in Argentina and up to 114 bingo and EBT halls and 21,979 to 22,386 electronic bingo terminals in Mexico.

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

Contractual Obligations

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

Our consolidated contractual obligations as of December 31, 2008 were as follows:

	Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**After 4 years**
		(unaudited) (€ in millions)		
Long term debt(1)	753.0	—	88.5	664.5
Other long term debt(2)	63.8	—	29.5	34.3
Short term debt(3)	8.1	8.1	—	—
Capital lease agreements (short term)(4)	10.4	10.4	—	—
Other obligations (short term)(5)	53.2	53.2	—	—
Purchase obligations (trade account payable) (6)	89.3	89.3	—	—
Total contractual obligations	977.8	161.0	118.0	698.8

(1) Includes the Notes and the HRU Bonds (€652.4 million and €4.3 million), long term payable to credit entities (€47.3 million) and the Senior Credit Facility (€48.9 million).

(2) Includes the deferred portion of the purchase price of AWP Spain operators (€16.6 million), the purchase of the minority stake in the Argentina business (€13.7 million), long term financial leasing in Mexico (€15.7 million), Colombia (0.8 million), obligations to suboperators (€10.3 million), guarantees (€3.6 million) and other long term debt in Panama (€2.0 million), Spain (€0.6 million) and Argentina (€0.5 million).

(3) Includes Notes and HRU Bonds, accrued and unpaid interest of €3.3 million, plus bank loans, excluding the Senior Credit Facility.

(4) Includes short term capital lease agreements.

(5) Other short term obligations excluding taxes payable and short-term capital lease agreements.

(6) Includes trade account payable.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet entities and do not, except for hedging purposes, utilize off-balance sheet arrangements.

Effects of Inflation

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

Market and Credit Risks

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

Interest Rate Risks

We are subject to interest rate risks related to our borrowings. Borrowings under the Senior Credit Facility are principally in euro with floating interest rates based on EURIBOR or LIBOR. We do not currently hedge our interest rate exposure and do not expect to do so in the future.

Foreign Currency Risks

Our principal exchange rate exposures relate to the euro-Mexican peso and euro-Argentine peso exchange rates for translation related exposure. We also have translation related exposures arising from our operating revenue generated in the local currencies of Colombia and Brazil, and to the U.S. dollar in Panama where the dollar is the functional currency, and Uruguay where the revenues are referenced to the dollar. In addition we also have dollar-local currency exposure, particularly in Mexico where the receivables from Caliente, and most of the EBT rental costs are dollar-denominated.

In order to mitigate part of the foreign exchange risk, our policy is to hedge 50% of projected EBITDA from our Argentine and Mexican operations on a rolling four-quarter basis. At December 31, 2008, we had in place foreign exchange contracts to purchase a total of U.S.$ 71.1 million in exchange for Argentine pesos (U.S.$ 20.0 million, U.S.$ 20.0 million, U.S.$. 20.0 million and U.S.$ 11.1 million for the quarters ended March, June, September and December 2009, respectively), €22.4 million in exchange for Mexican pesos (€6.2 million, €6.2 million, €5.0 million and €5.0 million for the quarters ended March, June, September and December 2009, respectively) and €43.2 million in exchange for U.S. dollars (€14.4 million for each of the quarters ended March, June and September 2009). Our Argentine peso foreign exchange contract which matured during the year ended December 31, 2008 amounted to a net gain of nil in 2008. Realized gains on the Mexican pesos foreign exchange forward contract which matured during the year ended December 31, 2008 amounted to €2.2 million. The realized gains have been recorded as other operating revenue in our Argentine and Mexico business. Unrealized gains and losses on outstanding forward contracts are recognized as a hedging reserve in consolidated shareholder’s equity.

BUSINESS

Overview

We are a leading gaming company engaged in the management of gaming machines (slots, AWPs and EBTs), bingo halls, horse racing tracks, casinos and off-track betting facilities in Spain, Latin America and Italy. As of December 31, 2008, we managed 54,818 slot machines and electronic bingo terminals, 137 bingo halls with an aggregate of 30,803 seats, 106 off-track betting facilities, three horse racing tracks and six casinos. In the year ended December 31, 2008, we generated operating revenue of €1,054.3 million and EBITDA of €234.7 million.

We are the second largest operator of AWP machines in Spain with 15,963 AWP machines in over 10,886 bars and restaurants as of December 31, 2008. We have over 25 years of experience in operating AWP machines in Spain, and have established a large portfolio of exclusive gaming sites for our AWP machines. In the year ended December 31, 2008, our Spain AWP business generated operating revenue of €208.6 million and EBITDA of €63.6 million.

Other than Spain, Argentina and Mexico are our most important markets. In the Province of Buenos Aires, as of December 31, 2008 we are the largest operator of bingo halls with 14 bingo venues in which we operate 4,485 slot machines. In the year ended December 31, 2008, our Argentina business generated operating revenue of €352.5 million and EBITDA of €110.0 million.

In Mexico, through ICELA (our joint venture with CIE), and our management services agreement with Caliente and our participation in Promojuegos and Mio, as of December 31, 2008 we are the largest operator of gaming sites with 104 bingo halls in which we operate 20,351 EBTs. As of December 31, 2008 we also operate 47 off-track betting sites, and since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2008, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 68 bingo halls. In the year ended December 31, 2008, our Mexico business generated operating revenue of €232.8 million and EBITDA of €69.0 million.

Our other operations, which generated operating revenue of €258.7 million and EBITDA of €27.8 million for the year ended December 31, 2008, include (i) AWP machine and network operations and 12 bingo halls in Italy, (ii) a bingo hall in Spain, (iii) five casinos, one racetrack and OTBs in Panama, (iv) bingo halls, slot machines and a casino in Colombia, (v) a joint venture in horse racing, OTBs and slot machines in Uruguay, (vi) a joint venture in sports betting in Spain and (vii) a start-up OTB operation in Brazil.

The following table sets forth the number of gaming machines (AWP, EBTs and slots), bingo halls and other gaming facilities we operated as of December 31, 2008 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (before corporate headquarters revenues and expenses) for the year ended December 31, 2008.

	AWP/Slot Machines/EBTs	Bingo halls/ Off track Betting Facilities	Casinos	Horse Racing Tracks	Revenue(1)	EBITDA(1)	Percent of EBITDA
			(€ in millions)				
Spain AWP	15,963	—	—	—	208.6	63.6	23.5%
Argentina	4,485	14/0	—	—	352.5	110.0	40.7%
Mexico	20,351	104/47	—	1	232.8	69.0	25.5%
Other Operations:							
Italy AWP	1,782	—	—	—	46.0	5.4	2.0%
Italy Bingo	601	12/0	—	—	95.4	6.6	2.4%
Spain Bingo	—	1/0	—	—	26.3	1.2	0.4%
Sports Betting	—	0/44	—	—	0.7	(5.0)	(1.8)%
Panama	1,606	0/6	5	1	45.3	9.7	3.6%
Colombia	8,502	6/0	1	—	30.0	8.9	3.3%

Uruguay	1,528	0/6	—	1	12.8	3.3	1.2%
Brazil	—	0/3	—	—	2.2	(2.3)	(0.9)%
Total	54,818	137/106	6	3	1,052.6	270.4	100%

(1) Revenue and EBITDA do not reflect revenues and expenses relating to corporate services provided to each of our three principal businesses and Other Operations by our Group headquarters (€1.7 million and €(35.7) million, respectively, in the year ended December 31, 2008).

History

Codere, S.A. was founded in December 1980 by the Martínez Sampedro family, Jesús Franco and Joaquín Franco. Jesús Franco and Joaquín Franco own Recreativos Franco, S.A. ("Recreativos Franco"), one of the largest gaming machine manufacturers in Spain. At that time, Jesús Franco, Joaquín Franco and the Martínez Sampedro family had established businesses in the operation and distribution of non-prize entertainment games, such as flipper and pinball. These businesses formed the basis of what is now the Codere Group. Codere, S.A. began AWP operations in 1981, mainly in Madrid, and grew rapidly. In 1983, we began our expansion outside Madrid by adding operations in the Spanish provinces of Catalonia and Valencia and in the following year, we commenced AWP machine operations in Colombia. As the Spanish AWP market began to mature, we continued our strategy of expansion in Latin America, diversifying into bingo, sports betting and casinos. We added bingo halls to our operations in the early 1990s by opening several bingo halls in Argentina, primarily 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 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, from Jesús Franco and Joaquín Franco, and we have acquired many additional smaller AWP machine operators since then. We also acquired Bingo Canoe in Madrid in 2000 which is the largest bingo hall in Spain and added casinos in Chile. In 2002, our Uruguayan joint venture obtained a license to reopen the historic Hipódromo de Maroñas horse racing track in Uruguay and operate off-track betting agencies and slot machines and we entered the Italian bingo market through a management contract.

In September 2002, Monitor Clipper Equity Partners L.P. ("MCP") purchased a €40 million investment instrument issued by Codere, S.A. convertible into Codere, S.A. shares (the "MCP Instrument"). In 2003, we reorganized our business along geographic lines by establishing new intermediate holding companies for our Spanish operations and our international operations. Codere España, S.L.U., the intermediate holding company for our Spanish operations, entered into a €135 million mezzanine loan facility, €45 million of senior credit facilities and a €15 million senior guarantee facility with several financial institutions in 2003. Also in 2003, in connection with our entering into the mezzanine loan facility, Intermediate Capital Investment Ltd. ("ICIL"), a private equity firm, purchased 1,104,361 Codere, S.A. shares from Jesús Franco for €10 million. 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. On June 24, 2005, our wholly owned subsidiary Codere Finance (Luxembourg) S.A. issued €335 million principal amount of $8^{1}/_{4}$% Notes to institutional investors. We used the proceeds from the Notes offering to fund our acquisition of Grupo Royal in Argentina and Operbingo in Italy and to pay off the then existing senior credit facilities and the senior guarantee facility. Contemporaneous with the issuance of the notes in June 2005 we entered into a new €45 million senior credit facility and a new €30 million senior performance bond facility. In 2005 we acquired the Grupo Royal bingo halls in Argentina, Operbingo in Italy and entered the Panamanian market through the acquisition of a horse racing track. In January 2006 we exchanged our minority interest in four casinos in Chile for full ownership of four casinos in Panama. In April 2006 we acquired Rete Franco, one of the 10 government licensees for the provision of AWP network services in Italy and in August 2006 opened the first of the five off track betting facilities we currently operate in Brazil in conjunction with the major jockey clubs.

In addition, in March and April 2006, Masampe Holding B.V., a Dutch special purpose vehicle (the "SPV") that is controlled by José Antonio Martínez Sampedro, borrowed €135.0 million from Credit Suisse, London Branch (the "2006 SPV Financing") to finance a series of transactions in our shares, including the purchase of approximately 46.1% of our shares from Jesús Franco, Joaquín Franco and ICIL. On April 19, 2006 and November 7, 2006, Codere Finance (Luxembourg) S.A. issued €165 million and €160 million principal amount of additional $8^{1}/_{4}$% Notes to institutional investors, respectively, the proceeds of which were used, among other uses, to redeem the MCP

Instrument and to acquire Recreativos MAE. On June 29, 2007, Masampe Holding B.V. borrowed €340.0 million from Credit Suisse, London Branch (the "2007 SPV Financing") and used the proceeds to repay the 2006 SPV Financing and to finance the payment of the second installment payment to Jesús Franco, Joaquin Franco and ICIL in connection with the purchase of our shares described above.

The Company priced its Initial Public Offering (the "Offering") on October 17, 2007. Proceeds from the IPO were used for the acquisition of ICELA and the purchase of a 10% interest from a minority shareholder in our Mexican business. Also, in October 2007, we entered into a new €100 million Senior Credit Facility.

In 2008, the Company launched sports betting operations in Madrid and the Basque Region.

Recent Developments

Argentine license renewals

On July 7, 2006, the *Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires*, or "IPLyC" (the gaming regulator of the Province of Buenos Aires), published its Resolution 456/06, dated June 30, 2006, which established the renewal process for bingo licenses operated in the Province. Resolution 456/06 provided to existing operators the option to extend their licenses through June 30, 2021, subject to a fixed renewal fee based on the average monthly canon tax paid under the relevant license in 2005, multiplied by the number of years for which the license was to be extended. The renewals were to be implemented through individual adhesion agreements in respect of each license. Operators electing to renew or extend licenses were required to confirm their intention to adhere to the terms of Resolution 456/06 in writing to the IPLyC prior to July 15, 2006. We accordingly applied to renew or extend all of the 14 licenses we operate in Buenos Aires and complied in all respects with the requirements established by the resolution.

On December 1, 2006 the Province of Buenos Aires published its Decree 3198, which ratified the application of Resolution 456/06 to those bingo licenses which expired in 2006 and 2007. Among the fourteen halls which we operate, six were eligible for renewal at that time and we applied, in 2006, to extend those licenses in accordance with Decree 3198 and Resolution 456/06. As of the date of this Report, five of the licenses have been renewed until 2021. The remaining license (La Plata, which originally expired in June 2007) had been operated under a series of temporary extensions, the last one of which expired on December 28, 2008. Prior to the change in administration following the Provincial elections in October 2007, the IPLyC had informed us that we were in compliance with all requirements for the renewal of our license as operator of La Plata, and the temporary extensions until then were provided to enable the non-profit organizations to bring their documentation into compliance with the renewal requirements.

On December 29, 2008 the IPLyC announced in its Resolution 1657/08, that it does not intend to renew Codere's license to operate La Plata, based on alleged failures to comply with various regulatory requirements. The resolution provides for Codere to operate the hall through June 2009 pending the transfer of the license to a new operator.

Codere believes it has complied with all applicable legislative and regulatory requirements for the renewal and continued operation of the license, and intend to pursue aggressively both administrative and judicial avenues to defend our right to operate La Plata. During January we filed and subsequently supplemented an administrative appeal of Resolution 1657/08. In addition, on February 4, 2008 we filed suit in the Administrative Courts in La Plata requesting, *inter alia*, an injunction against the application of the measures contemplated in Resolution 1657/08. On March 26, 2009, the Judge of the *Juzgado Contencioso Administrativo N° 2 de La Plata* granted the injunction requested by Bingos Platenses S.A., in respect of Resolution 1657/08 issued by the IPLyC. The Judge ordered that the IPLyC suspend the execution of Resolution 1657/08 until the appeal against such Resolution that was filed by Bingos Platenses S.A. is resolved. Consequently, the Bingo Platense hall will remain in operation until the fundamental issues are resolved. Additionally, the representatives of the workers of La Plata Hall obtained an injunction in the Buenos Aires province for the protection of their jobs.

The La Plata hall generated approximately 11% of revenues and 14% of EBITDA of our Argentine operations in 2008. The upfront payment relating to the license renewal, (AR$28.4 million, equivalent to €5.8 million as of April 15, 2009) has been amortized since July 1, 2006 over the anticipated 15-year life of the license. In addition, we have accrued but not paid the extraordinary canon tax payable in connection with the renewal, AR$26.4 million (equivalent to €5.4 million as of April 15, 2009) through December 31, 2008, since January 1, 2007. As stipulated in Resolution Nº 456/06, both amounts were calculated on the basis of 2005 gaming taxes paid under the license.

We also applied to renew our Puerto license, which expired on January 16, 2009 (and have complied in all respects with the requirements for the renewal). On December 29, 2008, we initiated administrative and judicial actions against the IPLyC requesting confirmation of our right to obtain the renewal under the terms of Resolution 456/06, after having complied with all the requirements stipulated therein. The Puerto hall represented approximately 1% of revenues and 2% of EBITDA of our Argentine operations in 2008. As of the date of this Report the hall continues to operate in the ordinary course and we have not received a reply from the IPLyC in respect of this renewal.

Purchase of minority stakes in Argentine business.

On July 23, 2008, Codere closed the purchase of direct and indirect holdings in certain Argentine subsidiaries for approximately U.S.$36.3 million. Of this, U.S.$5.9 million was paid at closing, with the balance to be paid in eight semi-annual installments (beginning in January 2009) and to accrue interest at 8.25% per annum. Of the total purchase price, U.S.$10.0 million (€6.4 million as of the closing date) is allocated to the La Plata bingo hall and is contingent on the renewal of the license for this hall during 2008. Should the license be renewed after December 31, 2008, the U.S.$10.0 million will be subject to adjustments reflecting the timing and terms and conditions of the renewal. Following this transaction, minority shareholdings in Codere Argentina are limited to 20% in four halls (Sol, Mar, Puerto, and Peatonal) for which EBITDA in 2008 totaled approximately €10.1 million, resulting in EBITDA attributable to the remaining minority shareholders of approximately €2.0 million of total 2008 EBITDA of the Argentine business.

Codere Network Concession service fee refund

On January 27, 2009 Codere Network and the AAMS signed the "Atto aggiuntivo ed integrativo alla Convenzione di concessione" which amended the concession canon of 0.8% of amounts wagered which Codere Network has paid since January 1, 2007. The amendment specifies that 0.3% corresponds to the concession canon and 0.5% corresponds to a service fee which has been held as a temporary deposit and which will be returned to the concessionaires based on a series of guidelines relating to investments in the network and service levels, among others, which have yet to be defined. Related to this refund, we registered a deposit of €6.0 million under short term credits and a provision for the same amount in our balance sheet for the year ended December 31, 2008.

Sports Betting

We made progress in the establishment of the joint venture business in Spain with William Hill over the course of 2008 with 127 locations secured across Madrid and the Basque region, with 44 locations trading at the end of the year. Rollout has continued in 2009 and we are conducting sports betting activities in 88 locations as of April 15, 2009. Following the investment of amounts originally committed, the parties are in discussions as to the future strategic direction of the joint venture and the levels of future investment expected to be required to develop the business in Spain.

Sale of Italian sports betting joint venture, William Hill Codere Italia Srl. (WHCI).

On July 2, 2008 we and William Hill PLC closed the sale of WHCI to Intralot Italia SpA for €5.5 million. The sale followed a strategic review of WHCI within the Italian sports betting market. The sale resulted in a write-off of €1.0 million in our results for the quarter ended June 30, 2008. Our 50% stake in the Italian Sports Betting joint venture is reflected as discontinued operation in our results for 2008 and 2007 for comparative purposes.

Argentine coinless systems update

At December 31, 2008 we had completed the installation of TITO or other coinless systems in the majority of the machines in five halls (Lomas del Mirador, San Martín, Lanús, Morón and San Justo), as well as half of the machines in San Miguel. These halls represent approximately 61% of the machine seats in our Argentine portfolio. We are currently working on the installation of the remaining machines in San Miguel, and our objective is to install the systems in Lomas de Zamora and Ramos Mejía in the coming months so as to have coinless systems installed in halls representing approximately 70% of the seats by June 2009, assuming receipt of the necessary approvals on a timely basis.

Opening of new casino in Panama

On December 6, 2008 we opened our fifth casino in Panama, located in Colon, the second largest city in the country. The casino, which operates under our Crown Casino brand, has 14 tables and 200 slots and is located at the Radisson Hotel.

Hotel Carrasco bid

On January 15, 2009, the *Comisión Asesora de Adjudicaciones de la Intendencia de Montevideo (IMM)* announced that the Codere-Sofitel partnership received the highest point total awarded in the Hotel Casino Carrasco project. We view this as an exciting opportunity to reform to a world-class standard, and operate the well-known Hotel Carrasco in Montevideo (Uruguay), together with Sofitel, under a 30 year concession. The formal granting of the concession is subject to the review of the *Tribunal de Cuentas* and the concession will formally be awarded subsequently by the *Junta Departamental de Montevideo.*

Liquidity contract

On January 28, 2009 we signed a liquidity contract with Crédit Agricole Cheuvreux ("Cheuvreux") to improve the liquidity and regular trading of the Company's shares. This contract, which is effective as of February 18, 2009, has an initial duration of 12 months. To enable Cheuvreux to conduct the transactions contemplated in the contract, Codere initially deposited **€**500,000 (which can be extended by a further €500,000). The shares purchased under this agreement will appear on Codere's balance sheet for 2009.

Shareholder obligations

In March 2006 Masampe Holding B.V. ("Masampe Holding"), a company controlled by José Antonio, Luis Javier, and Encarnación Martínez Sampedro (the "Martínez Sampedros") acquired from Jesús and Joaquín Franco Muñoz (the "Francos") and Intermediate Capital Investment Ltd. ("ICIL") a total of approximately 19 million Codere shares (of which 17.9 million were sold by the Francos and 1.1 million were sold by ICIL) for approximately €391 million, payable as follows: €41 million in cash, a second installment deferred until April 30, 2007 of €162 million, and a third installment deferred until April 30, 2008 of €187 million, pursuant to Sale and Purchase Agreements (the "SPA"). The second and third installments were subject to six-month cure periods, and to the alternative of a sale process, as described below. The Martínez Sampedros assumed the deferred installment obligations, releasing Masampe Holding. The second installment was paid on July 2, 2007 with the proceeds of the increased PIK term loan facility issued by Masampe Holding in June 2007. On April 29, 2008, the Martínez Sampedros paid to ICIL the approximately €10.9 million third installment relating to the ICIL shares, so that only the third installment relating to the Francos shares (approximately €176 million, plus accrued interest) remained outstanding.

Following the passage of the payment deadline for the third installment, on November 13, 2008 the Francos informed the Martínez Sampedros that they required the initiation of the sale process, which requires the sale of all the shares held directly or indirectly by the Martínez Sampedros, which as of the date of this Report total approximately 71% of Codere's total shares outstanding. The sale process is the sole recourse of the Francos under the SPA, and it replaces the Martínez Sampedros' obligations in respect of the third installment. The Francos may not require a sale if the proceeds from the sale of the Codere shares held by Masampe Holding B.V. would not be sufficient to satisfy its obligations under the June 2007 PIK financing (unless the PIK lenders agree otherwise).

The SPA provides that sale proceeds would be divided among the Francos and the Martínez Sampedros in proportion to the percentage ownership of Codere shares held by the Francos in March 2006 (approximately 41%), taking into account credit for the first and second installment payments made to the Francos totaling approximately €191.0 million, and subject to certain adjustments such as for Codere share issuance since the initial agreement. The agreement does not restrict either the Martínez Sampedros or the Francos from participating as buyers in the sale process.

Our Competitive Strengths

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

- *Leadership Positions in Major Markets with Significant Barriers to Entry*. We were one of the first companies to operate AWP machines when the Spanish market was opened to licensed operators in the early 1980s. We have grown rapidly and have become a market leader in several of the most populous and affluent regions of Spain, including Madrid, Catalonia and Valencia, in terms of the number of AWP machines as of December 31, 2008. We are now the second largest operator of AWP machines in Spain, with 15,963 AWP machines in over 10,886 points of sale as of December 31, 2008. As a market leader in Spain, we are often given the opportunity to test the most attractive AWP machines produced each year, which permits us to select the highest producing AWP machines for our portfolio. Our access to high producing AWP machines enhances our ability to obtain the most attractive points of sale. In addition, our size allows us to spread many of our required costs and investments, such as those relating to designing and building information systems, cash collection controls and hiring and training personnel, across our operations, which results in lower costs for each of our businesses. In Argentina we are the largest operator of bingo halls in the Province of Buenos Aires with 14 bingo halls in operation as of December 31, 2008. We are the largest operator of gaming sites in Mexico through our joint venture with CIE, our management services agreement with Caliente and the licenses we own directly from our purchase of Promojuegos and Mio. In Italy we now own and operate 12 bingo halls and we believe we are the leader in the Rome (Lazio) and Piamonte markets in terms of bingo cards sold. Our presence in the markets in which we operate creates a barrier to entry for other operators that lack the resources or know-how to compete. 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 successful expansion has been achieved through partnerships with strong local players and a close and cooperative relationship with gaming regulators.

- *Proven and Attractive AWP Business Model*. Our Spanish AWP machines produce average daily net box revenues that are substantially higher than the industry average according to the Spanish National Gaming Commission. Our strong net box performance is principally attributable to our business model, which is focused on obtaining the most attractive points of sale and the highest producing AWP machines, which in turn increases the likelihood that site owners will renew their contracts with us. We are able to obtain the highest producing AWP machines by leveraging our position as a leader in the Spanish AWP machine market, which permits us to test a significant percentage of new AWP machine models produced each year. We also optimize the performance of our AWP machine portfolio by rotating AWP machines among numerous locations and by replacing poorly performing AWP machines with new models. This is facilitated by our agreements with Recreativos Franco and other manufacturers, pursuant to which we may return the AWP machines to the manufacturer after one year. In addition, we maintain a low average age of our AWP machines. As of December 31, 2008, the average age of our AWP machine portfolio was approximately 30 months, compared to our estimate of the market average of approximately 35 months. We believe that we will be able to continue to apply our Spain AWP business model successfully to other markets in which we have highly dispersed operations, such as Colombia and Italy, and thereby strengthen our competitive position in such markets.

- *Significant Experience Interacting With Gaming Regulators*. We are a diversified international gaming company with established operations in eight countries throughout the world and a gaming portfolio that includes gaming machines, bingo halls, off-track betting, horse racetracks and casinos. The breadth and longevity of our operations has enabled us to acquire valuable experience in working with gaming regulators 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 provide us with a competitive advantage over most of our competitors and make us an attractive partner with whom to develop new gaming businesses.

- *Sophisticated Information Systems and Cash Collection Controls*. We believe that our proprietary information systems and cash collection controls, particularly in respect of our Spain AWP business, help us maximize revenues and minimize losses due to fraud or theft. Our information systems assist us in making operating decisions, such as when to rotate an AWP or slot machine to a different location or to retire it. Such data also provides information on player tendencies, which assists us in selecting new AWP or slot machines. We believe that our information systems generate better operating information, such as identifying poorly performing AWP machines, than is available to many of our smaller competitors, thereby significantly contributing to our achievement of average daily net box per AWP machine that substantially exceeds the industry average in Spain over the last eight years. Our cash collection controls track the cash we receive from AWP or slot machines at our points of sale to the counting and matching of amounts at our regional offices and finally to the delivery of cash to our bank accounts. These controls have been effective at providing us with accurate and timely operating information while minimizing both fraud and theft. We continue to apply our experience in information systems and cash collection controls in our Spain AWP business to our other businesses which have, or will have, highly dispersed operations, such as our Italy AWP and Colombia businesses.

- *Experienced Management Team*. Our senior management team has an average of nine years of industry experience. Our Chief Executive Officer, José Antonio Martínez Sampedro, was a co-founder of the company 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 over 18 years. In addition, our key operations in Spain, Mexico and Argentina are managed by executives with extensive gaming industry experience. We have further strengthened our senior management team in the past several years by bringing in talented executives with proven track records of success in related or complementary industries.

- *Strong and Active Board of Directors with Extensive Gaming and Related Experience*. Our Board of Directors includes prominent individuals with extensive government and gaming expertise, including 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 smaller competitors.

Our Strategy

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

- *Leverage Strong Positions in our Principal Gaming Markets and Pursue Selected Growth Opportunities*. We intend to continue to consolidate and build on our leading positions in attractive gaming markets to generate superior returns and take advantage of additional growth opportunities.

Spain. Our strategy in the AWP machine market is focused on continuing to generate superior net wins and provide superior customer service, thereby leveraging our portfolio of attractive points of sale and highest producing AWP machines for our AWP portfolio. We expect to continue to build on this advantage through organic growth and selective acquisitions of smaller AWP machine operators, such as our acquisition of MAE, an AWP machine operator in Mallorca which we acquired in December 2006. Additionally, we expect to enhance the profitability of our position in the Spanish gaming market through the addition of new activities, such as sports betting, in accordance with expected new regulations. We may also acquire existing bingo hall operators in Spain to take advantage of possible regulatory changes.

Argentina. We expect to invest in the further expansion of our bingo halls and slot machine portfolio as well as the introduction of ticket-in/ ticket-out technology in our gaming halls to maintain our leading market share. We may also acquire existing bingo hall operations to increase our presence in this attractive market.

Mexico. We continue to build new bingo halls and deploy EBTs to capitalize on and maintain our first mover advantage in this rapidly growing market. Through our joint venture with CIE, management services agreement with Caliente, and our Promojuegos and Mio operations as of December 31, 2008, we had licenses to operate 68 bingo halls that we have yet to exploit. We expect to continue to build halls to fully exploit these licenses in the coming years.

Italy. Following the restructuring process of the direct AWP operations, we continue to grow in the indirect AWP operations through the operators purchased in 2007 and in Italy Bingo primarily with the introduction of new AWP machines.

Other. Given our success with the "racino" business model, which combines horse racing and slot machines in Uruguay, we are implementing a similar business model in Panama, where we acquired the Hipódromo Presidente Remón, a horseracing track in Panama City, and in Mexico at the Las Americas Racetrack, following the 49% acquisition of ICELA. We are considering opportunities to develop similar operations in other Latin American markets, including Brazil to the extent permitted by local regulations. Following our acquisition of Crown Casinos in Panama, we may also consider opportunities to leverage our casino activities oriented to local casino markets and clientele in Latin America. We believe that acquisitions in markets in which we currently enjoy significant local market share are particularly attractive, since we can leverage our existing cost structure and relationships with local regulators.

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

- *Maintain an optimal capital structure and preserve our business model*. We view a stable and low-cost capital structure and a cash-generative, profitable business model as a strategic objective in the rapidly consolidating industry in which we operate. Through our 2005 and 2006 offerings of the Notes and our initial public offering in 2007, we improved our capital structure, lowered our cost of capital and ensured that we have sufficient funds to execute our business plan. We intend to maintain our capital structure and business model as we continue to participate selectively in both consolidation and expansion opportunities in Spain and international markets. In addition, we are reviewing our corporate structure with the goal of reducing our effective tax rate and have focused on decreasing minority interests in our businesses such as the purchase of minority stakes in the Argentine business (see "—Recent Developments— Purchase of minority stakes in Argentine business"), our buyout of certain remaining minority shareholders of Grupo Royal in Argentina and the purchase of the 10% minority shareholder in our Mexican business.

- *Continue to strengthen management and improve internal controls*. We believe that strengthening our corporate governance policies and procedures, management capabilities, and effective internal controls has been and will continue to be critical to our growth and success and to the enhancement of our reputation in the gaming industry. We will continue to pursue a program to strengthen our management team by attracting experienced executives to complement the skills of our founding members, as demonstrated by the hiring of Robert A. Gray, as Chief Financial Officer, who has over 23 years of investment banking experience, Rafael Catalá, as Chief Legal Officer, who has over 18 years of legal experience in various Spanish regulatory positions, and Serafín Gómez Rodríguez as Chief Compliance Officer, who has over 16 years of investigative and enforcement experience, and the appointment of Adolfo Carpena, as Internal Audit Officer, who has over 17 years of audit experience. We continually review and strengthen our internal controls and procedures, particularly those relating to compliance, money laundering, the handling of cash, large prize payouts and transaction authorization, and have undertaken a series of initiatives designed to strengthen our corporate governance and internal controls.

Spain AWP Machines

Our main business in Spain is the management and operation of AWP machines. We install, maintain, service and collect cash from over 15,963 AWP machines throughout Spain in over 10,886 bars and restaurants. Our installed base of AWP machines has increased through organic growth and acquisitions. We had 15,963 AWP machines in operation in Spain as of December 31, 2008 compared to 15,431 as of December 31, 2007. In 2008, the Spain AWP business entered into new contracts to install 1,810 AWP machines in bars, restaurants and other establishments and acquired AWP machine operators with a total of 166 machines. In 2008, 1,738 machine contracts expired or otherwise terminated. The average daily net box per AWP machine was €55.7 in 2008, compared to €59.3 in 2007, although it had grown at a compound annual rate of 2.9% from 2001 to 2008. We believe that the decrease, while partly compensated by the continuous renewal and rotation of the machine portfolio and the positive effect from regulatory changes in small markets such as Castilla y León, Cantabria, and Asturias, resulted primarily from the macroeconomic slowdown in Spain, the lower net win of operators acquired in late 2007 and the absence of the positive effects of regulatory changes implemented in 2006 and early 2007 in markets where we have a strong presence (e.g., Andalucía, Valencia, and the Balearic Islands). In the year ended December 31, 2008, our Spanish AWP machine business generated operating revenue of €208.6 million and EBITDA of €63.6 million, representing 19.8% of our consolidated operating revenues and 23.5% of our consolidated EBITDA (before corporate headquarters), respectively.

We are a market leader in the highly fragmented AWP machine market in Spain and have a significant presence in most of the regions of Spain, including Madrid, Catalonia and Valencia. The following table sets forth the number of AWP machines we operated in the five autonomous regions where we have the greatest number of AWP machines and our market share throughout Spain, as of December 31, 2007, which is the latest date for which the Spanish National Gaming Commission has published data regarding the number of AWP machines in such regions:

	Madrid	Catalonia	Valencia	Castilla-La Mancha	Andalucía	Spain
Number of AWP machines in region(1)	30,601	39,177	30,843	10,968	39,881	252,021
Number of our AWP machines in region(2)	3,535	2,442	1,912	1,417	2,212	15,963
Market share	11.6%	6.2%	6.2%	12.9%	5.5%	6.3%

(1) Source: Spanish National Gaming Commission Annual Reports (2007).

(2) Codere figures as of December 2008.

Operations and the Economics of the AWP Machine Business

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

	Year ended December 31,		
	2006	2007	2008
AWP machines			
Number of AWP machines operated (at year end)	13,995	15,431	15,963
Average daily net box per AWP machine (in €)(1)			
Spanish market average(2)	30.5	34.4	n.a.
Our average(3)	57.6	59.3	55.7

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

(2) Based on the latest available information at the date of this Report provided by the Spanish National Gaming Commission and certain Spanish autonomous regions.

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

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

Amounts Wagered (100%)	Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers
Less	
Prizes Payout (75%)	Prize payouts represents the percentage of amounts wagered that is required to be paid out to players on a AWP machine over a cycle of a certain number of games, as specified in applicable regulation. Certain regions have passed regulations that change the payout to 70%
Equals	
Net Box (Net Win) (25%)	Net box represents amounts wagered less prize payouts
Less	
Site Owner (10.2%)	Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located
Equals	
Operator Revenues (14.8%)	Operator revenues represents the percentage of amounts wagered we retain as AWP machine operator, prior to payment of applicable gaming taxes. We recognize this amount as operating revenue under IFRS
Less	
Gaming Taxes (4.6%)	Gaming taxes represents our estimate, based on historical experience, of the percentage of amounts wagered represented by legally mandated tax payments per AWP machine. AWP machine taxes are established by regulation in each Spanish region in which we operate as a fixed yearly amount per machine
Equals	
Operator Revenues After Gaming Taxes (10.2%)	Operator revenues after gaming taxes represents the percentage of amounts wagered that we retain as AWP operator

Relationship with Site Owners

We have established relationships with over 10,886 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 five years (in the Balearic Islands, this period is up to six years). In return, the owner typically receives 10.2% of the amounts wagered (which equals 50% of net box per machine after deducting gaming taxes). We are responsible for paying applicable AWP machine taxes to the regulatory authority in each Spanish region in which we operate.

In addition to revenue sharing, we often make interest-free loans or 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 repay these loans over a 12-24 month period through an offset against their share of revenues.

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. For the year ended December 31, 2008, these guarantees amounted to €29.6 million.

Although we prefer to enter into agreements directly with site owners, if there is a strong relationship between a gaming machine operator and site owners in an area in which we are interested, it is often preferable, and occasionally necessary, for us when we acquire that operator's business to agree that the operator will continue to maintain his or her relationship with the site owner in exchange for a percentage of the revenues. Typically, we pay the operator ("*colaborador*") 50% of our share of the net box per AWP machine after deducting gaming taxes and operating and depreciation costs due to us from the site owner. In order to get a toehold in a particular area and develop a relationship with local site owners, occasionally we also enter into another type of collaboration agreement (*aportación* agreements) with local operators in which we operate the AWP machines in exchange for a fee from the operator. We receive 50% of net box after all costs and expenses other than rental costs. As of December 31, 2008, we had *aportación* agreements and *colaborador* agreements covering approximately 1% and 18% of our Spanish AWP machines, respectively. Payouts to operators under *colaborador* agreements totaled approximately €5.6 million and fees earned under *aportación* agreements totaled approximately €0.3 million for the year ended December 31, 2008.

AWP Machines

We test substantially all of the AWP machines produced for the Spanish market each year to identify those that will perform best in our market. There are six to eight distributors that serve the Spanish market. Although we have chosen in recent years to obtain most of our machines from Recreativos Franco, we are not obliged to do so and are subject to no contractual restrictions over the ability to purchase or rent other manufacturer's machines. Recreativos Franco is owned by Jesús Franco and Joaquín Franco, who until April 2006 were two of our principal shareholders and members of our Board of Directors. The balance of our AWP machines were sourced from other manufacturers, including Cirsa, Unidesa, Europea Invest, Sleic and Tourvisión. The average purchase price for an AWP machine ranges from €2,100 to €7,000 depending on the model (the average is approximately €3,500). The useful life of an AWP machine is approximately five years.

Since July 1, 2006, we have obtained our AWP machines from Recreativos Franco pursuant to a framework agreement. The agreement was most recently renewed in December 2008 for a period of two years. The framework agreement generally provides for a monthly installment payment which decreases after each six-month period. We may return an AWP machine to Recreativos Franco after one year. Recreativos Franco also provides us with prototype AWP machines on a risk-free basis for up to six months before we are required to make any installment payments. If the prototype is successful, we agree to keep it and pay Recreativos Franco for the six-month trial period. If the prototype is not successful, we return it to Recreativos Franco without any obligation to pay.

We believe that our right to return AWP machines sourced from Recreativos Franco provides us with significant operational and financial flexibility. In recent years Recreativos Franco had been producing the best performing AWP machines in the Spanish market (in particular the Gnomos and Santa Fe machines), and the vast majority of the machines we currently operate have been sourced from Recreativos Franco. Had these machines not performed as we had expected, we could have returned them after meeting our minimum payment obligations, substantially limiting the risk in choosing to deploy these machines.

Given the success of the agreement with Franco, as well as the fact that other manufacturers are producing machines which are performing well in the market, in 2008 we signed similar agreements, based on installment payments and the right to return machines, with several other manufacturers in the Spanish market.

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

Coin Collection and Information and Collection Controls System

In Spain, we have a collections department that is responsible for carrying out coin collection from our AWP machines. Each of our collectors carries an electronic portable device that details the latest cash balances for the AWP machines and the pending balances with the site owners on their route, obtained from our proprietary computerized information and control system. The software that we use has been developed by our information technology department. The portable devices provide our collectors with a significant amount of information, including the share of the cash balance in the AWP machines payable to us and to the site owner, prize payout, the time during which the AWP machine was in use and the payment conditions established in the applicable installation agreement. The electronic portable devices read two sets of counters in the AWP machines, one electronic and one mechanical. The electronic counter controls in the case of a conflict due to its enhanced security. In addition, counters within the AWP machines record the physical entrance and exit of coins. This provides a cross check on the number of coins collected from each machine. On average, each AWP machine is visited by one of our collectors once per week. As of December 31, 2008, we employed 171 collectors in Spain. The collectors are based in each Spanish region in which we have operations and report each day to our regional headquarters.

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

Each AWP machine contains a “hopper,” which holds cash to ensure the AWP machine always has a sufficient amount of cash to pay out prizes. The amount of the hopper is approximately €220 per AWP machine contributed approximately equally by us and the site owner.

Approximately 20% of the site owners keep a key to the AWP machine on the premises, in which case they will collect the cash on the basis of the AWP machine’s counter. When the site owner does not have a key to the AWP machine, our collector will count and divide up the cash with the site owner in accordance with the installation agreement. The collection report issued by the electronic portable device is signed and accepted by the site owner.

Each day, we upload data from the electronic portable device to our computerized information and control system. Our computerized information and control system matches the amount due to the operator to the amount received from the collector. Any discrepancy between the amount due and the amount collected is analyzed (usually on the same business day that it is collected) and, if necessary, investigated, thereby minimizing losses during collection. In the coin-to-revenue cycle—tracking the path of a coin inserted into an AWP machine until that amount is recorded as revenue by us—the functions of authorization, custody and accounting are segregated. Employees that handle cash do not have access to accounting data, and employees that do not participate in operations control the accounting data. Cash provided to the cashier is collected daily and the cash is deposited in our bank accounts.

We believe that our information and collection controls system helps us maximize our net box performance through more efficient and accurate collections. Our information and collection control system also generates better machine performance and revenue data than is collected by many of our smaller competitors. Our revenue and game-use data assists us in monitoring individual machines and in determining when to rotate a machine to different locations or to retire it, as well as providing information on player tendencies. As a result, we believe our collection and controls system provides us with real-time information to optimize decisions regarding the performance of individual AWP machines and host premises, and has helped us achieve average daily net box per AWP machine that is substantially higher than the industry average in Spain.

Expansion of AWP Machine Portfolio

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

We also seek to grow the number of our AWP machines by negotiating the renewal of our existing contracts with site owners and generally attempting to limit the number of contracts that are terminated to those that we do not wish to renew. The higher average daily net box produced by our AWP machines is a key element in our negotiations with site owners, as are the exclusivity payments that we make in order to guarantee our exclusive right to install AWP machines in particular sites.

Sales and Marketing

In Spain, our sales force of 73 people, together with our 84 *colaboradores*, is responsible for maintaining our relationships with site owners and identifying new locations to install AWP machines and acquisition opportunities. Our sales force is spread throughout the country and is generally based out of our regional headquarters. Our sales employees' salaries comprise fixed and variable components, the latter of which is based on commissions related to the value of contracts they are able to close.

Although government regulations on advertising have become more relaxed in recent months, the current regulations limit the extent and manner by which we and our competitors can advertise. In particular, government regulation prohibits certain kinds of direct and indirect advertisements to potential AWP machine players. However, alongside the new sports betting legislation, the government has recently eased some of the restrictions that existed for gaming related advertisements. Due to such restrictions, our marketing and public relations expenditures tend to be modest and totaled approximately €0.6 million in the year ended December 31, 2008.

Argentina

In Argentina, we are focused on the development and management of bingo halls with slot machines. As of December 31, 2008, our Argentina business owned and operated 14 bingo halls with a total of 7,981 bingo seats and 4,485 slot and other gaming machine seats. In the year ended December 31, 2008, our Argentine business generated operating revenue of €352.5 million and EBITDA of €110.0 million, representing 33.5% of our total consolidated revenues and 40.7% of our consolidated EBITDA (both before corporate headquarters).

Operations

Through the combination of the operations we started in Argentina in 2003, and the acquisition of Grupo Royal in 2005, 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 the year ended December 31, 2008.

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

	2006	2007	2008
Number of bingo halls	14	14	14
Number of bingo halls seats	7,524	8,051	7,981
Number of slot machine seats	4,352	4,605	4,485
Amounts wagered per day per bingo hall seat (in Argentine pesos)	120.0	120.5	133.2
Amounts wagered per day per bingo hall seat (in euro)	31.9	28.3	28.8
Net win per slot seat per day (in Argentine pesos)	538.2	681.1	868.2
Net win per slot seat per day (in euro)	141.8	159.1	187.5

The following table sets forth certain information regarding our Argentina business's bingo halls as of December 31, 2008. All of the bingo halls are located in the Province of Buenos Aires.

Name	Opening Date	Concession Expiration Date	Number of bingo seats	Slot Machine Seats	2008 Revenues (in millions)(1)	Company
Bingo Sol	Feb. 1991	June 2021	470	216	16.4	Intermar Bingos S.A.
Bingo Platense	June 1992	June 2007(3)	920	543	42.2	Bingos Platenses S.A.
Bingo San Miguel	May 1999	May 2014	602	346	26.9	Interjuegos S.A.
Bingo del Mar	Sep. 1991	June 2021	450	225	11.5	Intermar Bingos S.A.

Bingo Lomas de Zamora	July 1991	June 2021	460	271	20.5	Bingos del Oeste S.A.
Bingo Peatonal	Jan. 1991	June 2021	244	121	6.0	Intermar Bingos S.A.
Bingo Puerto	Jan. 1994	Jan. 2009	199	103	4.1	Intermar Bingos S.A.
Bingo Temperley	Aug. 2001	Aug. 2016	214	127	4.0	Bingos del Oeste S.A.
Bingo Lanús(2)	Apr. 1992	June 2021	876	499	42.3	Iberargen, S.A.
Bingo San Martín(2)	Oct. 1994	Oct. 2009	960	558	47.3	Iberargen, S.A.
Bingo Morón(2)	June 1998	June 2013	640	399	37.1	Iberargen, S.A.
Bingo Ramos Mejía(2)	Apr. 1999	Apr. 2014	178	123	13.8	Interbas, S.A.
Bingo Lomas del Mirador(2)	July 2006	Sep. 2014	1,000	545	45.2	Interbas, S.A.
Bingo San Justo(2)	Oct. 1999	Oct. 2014	768	409	33.5	Interbas, S.A.
Total			7,981	4,485	350.9	

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

(2) Halls acquired in the purchase of Grupo Royal in June 2005.

(3) Under renewal. See "—Recent Developments—Argentine license renewals".

Bingo played in Argentina is a pari-mutuel gaming activity whereby players wager against one another and not against the gaming operator. The gaming operator collects wagers on a specific event and takes a commission for handling such wagers. The amount remaining after the gaming operator receives a commission is distributed to the players in the form of winnings. Slot machines that are installed in bingo halls, however, are different from AWP machines in Spain, in that they permit higher wager amounts, allow for higher maximum prize payouts and are similar to the Class III machines present in the United States. In addition, the Argentine bingo halls contain a limited number of non-slot gaming machines, such as a simulated roulette-type machine and a simulated horse race machine. These machines are regulated in the same manner as slot machines. For the year ended December 31, 2008, operating revenue generated from slot machines accounted for approximately 87.6% of our consolidated operating revenue in Argentina.

For our Argentine operations, we buy machines from a variety of U.S. and European manufacturers, including Recreativos Franco. We typically finance the purchase of slot machines in Argentina over a two- to three-year period. Each machine costs approximately U.S.$10,000 to U.S.$17,500 plus duties, taxes and transport.

Argentine law requires that gaming licenses be awarded to Argentine non-profit organizations which, in turn, enter into agreements with gaming operators such as us. Accordingly, in Argentina we have entered into operator agreements with various local non-profit organizations.

Six of the 14 gaming licenses we operate in Argentina were due to expire before the end of 2007. On December 1, 2006 the Province of Buenos Aires published its Decree 3198, which ratified the application of Resolution 456/06 to those bingo licenses which expired in 2006 and 2007. Among the fourteen halls which we operate, six were eligible for renewal at that time and we applied, in 2006, to extend those licenses in accordance with Decree 3198 and Resolution 456/06. As of the date of this Report, five of the licenses have been renewed until 2021. The remaining license (La Plata, which originally expired in June 2007) had been operated under a series of temporary extensions, the last one which expired on December 28, 2008. Prior to the change in administration following the Provincial elections in October 2007, the IPLyC had informed us that we were in compliance with all requirements for the renewal of our license as operator of La Plata, and the temporary extensions until then were provided to enable the non-profit organizations to bring their documentation into compliance with the renewal requirements.

On December 29, 2008 the IPLyC announced in its Resolution 1657/08, that it does not intend to renew Codere's license to operate La Plata, based on alleged failures to comply with various regulatory requirements. The resolution provides for Codere to operate the hall through June 2009 pending the transfer of the license to a new operator.

Codere believes it has complied with all applicable legislative and regulatory requirements for the renewal and continued operation of the license, and intend to pursue aggressively both administrative and judicial avenues to defend our right to operate La Plata. During January we filed and subsequently supplemented an administrative appeal of Resolution 1657/08. In addition, on February 4, 2008 we filed suit in the Administrative Courts in La Plata requesting, *inter alia*, an injunction against the application of the measures contemplated in Resolution 1657/08. On March 26, 2009, the Judge of the *Juzgado Contencioso Administrativo N° 2 de La Plata* granted the injunction requested by Bingos Platenses S.A., in respect of Resolution 1657/08 issued by the IPLyC. The Judge ordered that the IPLyC suspend the execution of Resolution 1657/08 until the appeal against such Resolution that was filed by Bingos Platenses S.A. is resolved. Consequently, the Bingo Platense hall will remain in operation until the fundamental issues are resolved. Additionally, the representatives of the workers of La Plata Hall obtained an injunction in the Buenos Aires province for the protection of their jobs.

The La Plata hall generated approximately 11% of revenues and 14% of EBITDA for the Argentine operation in 2008. The upfront payment relating to the license renewal, (AR$28.4 million, equivalent to €5.8 million as of April 15, 2009) has been amortized since July 1, 2006 over the anticipated 15-year life of the license. In addition, we have accrued but not paid the extraordinary canon tax payable in connection with the renewal, AR$26.4 million (equivalent to €5.4 million as of April 15, 2009) through December 31, 2008, since January 1, 2007. As stipulated in Resolution Nº 456/06, both amounts were calculated on the basis of 2005 gaming taxes paid under the license.

We also applied to renew our Puerto license, which expired on January 16, 2009 (and have complied in all respects with the requirements for the renewal). On December 29, 2008, we initiated administrative and judicial actions against the IPLyC requesting confirmation of our right to obtain the renewal under the terms of Resolution 456/06, after having complied with all the requirements stipulated therein. The Puerto hall represented approximately 1% of revenues and 2% of EBITDA for the Argentine operation in 2008. As of the date of this Report the hall continues to operate normally and we have not received a reply from the IPLyC in respect of this renewal.

The total up-front fees related to the renewal of the six licenses were AR$118.8 million (equivalent to approximately €24.4 million as of April 15, 2009). The renewals were further subject to a canon tax surcharge, also determined for each license on the basis of the canon tax it paid in 2005. The total canon tax surcharge attributable to these six licenses was approximately AR$277.0 million or AR$55.4 million annually (equivalent to approximately €57.0 million or €11.4 million annually as of April 15, 2009), which has been and will be accrued and paid monthly over a five-year period starting January 2007.

Main operating projects

Our Argentine operations' principal operating project in the near-term is the continued general refurbishment and updating of our bingo halls and renewal of slot machine portfolio to ensure we have an attractive offer for our clients and to meet unmet demand in the geographical areas where we operate. In particular, we are currently in the process of introducing ticket in/ ticket out (TITO) or other coinless systems in the machines in our bingo halls. These systems are designed to accept a card from the player which contains credit purchased at the cashier. The introduction of coinless systems is expected to increase the average net win per machine as it increases the productivity of the machine. We may also slightly increase the number of machines in the halls.

At December 31, 2008 we had completed the installation of TITO or other coinless systems in the majority of the machines in five halls (Lomas del Mirador, San Martín, Lanús, Morón and San Justo), as well as half of the machines in San Miguel. These halls represent approximately 61% of the machine seats in our Argentine portfolio. We are currently working on the installation of the remaining machines in San Miguel, and our objective is to install the systems in Lomas de Zamora and Ramos Mejía in the coming months so as to have coinless systems installed in halls representing approximately 70% of the seats by June 2009, assuming receipt of the necessary approvals on a timely basis.

Sales and Marketing

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

Mexico

Our operations in Mexico are conducted through a joint venture with CIE (currently ICELA), a management services agreement with Caliente as well as through Promojuegos and Mio which we acquired in December 2006 and June 2007, respectively. In the year ended December 31, 2008, our Mexican operations generated operating revenue of €232.8 million and EBITDA of €69.0 million, representing 22.1% of our total consolidated revenues and 25.5% of our consolidated EBITDA (both before corporate headquarters). In Mexico, the development and management of bingo halls, in which we operate EBTs as well as traditional (paper-based) bingo, is our most significant activity. As of December 31, 2008, our Mexico business managed and operated 104 bingo halls in which we operated 20,351 EBTs and 47 off-track betting sites. Since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2008, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 68 bingo halls.

Competition

We began our operations in Mexico in 1988 through our management services agreement with Caliente and then grew them in 1999 through our joint venture with CIE. In both cases we participated in the development of the halls where we offered traditional bingo products pursuant to licenses which these parties owned. Until 2004, when the Mexican government granted additional licenses, we estimate that halls operated under Caliente and CIE's licenses constituted the majority of the 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 24 licenses to operate a total of 432 gaming facilities have been granted by the Mexican government as of December 31, 2008. Of these, 11 licenses for approximately 172 facilities are associated with Codere (CIE, Caliente, Promojuegos and Mio), and an additional 13 for approximately 260 facilities have been granted to third parties. One of these third party licenses was granted to Grupo Televisa, a large Mexican media company, which makes it a competitor of ours in Mexico. At December 31, 2008, Codere, through CIE, Caliente, Promojuegos and Mio, operated 104 halls and we estimate that there were approximately 88 halls in Mexico opened and operated by third parties.

In addition, we have noticed a proliferation of illegal gaming machines similar to Las Vegas style slot machines in Northern Mexico, particularly in the city of Monterrey. These machines may be attractive to certain portions of the gaming community in Mexico and affect our competitiveness in such regions.

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

We believe the Mexican gaming market 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 EBTs both in existing halls, as well as in new halls.

Operations

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

	Year ended December 31,		
	2006	**2007**	**2008**
Number of bingo halls	82	94	104
Number of bingo hall seats	19,665	15,396	15,460
Number of EBTs	10,630	16,788	20,351
Amounts wagered per day per bingo hall seat (in Mexican pesos)	530	567	520

	Year ended December 31,		
	2006	2007	2008
Amounts wagered per day per bingo hall seat (in euro)	39.9	38.0	32.0
Net win per EBT per day (in Mexican pesos)	885	958	889
Net win per EBT per day (in euro)	67.1	63.8	54.5

Mexico CIE—Background and Operations

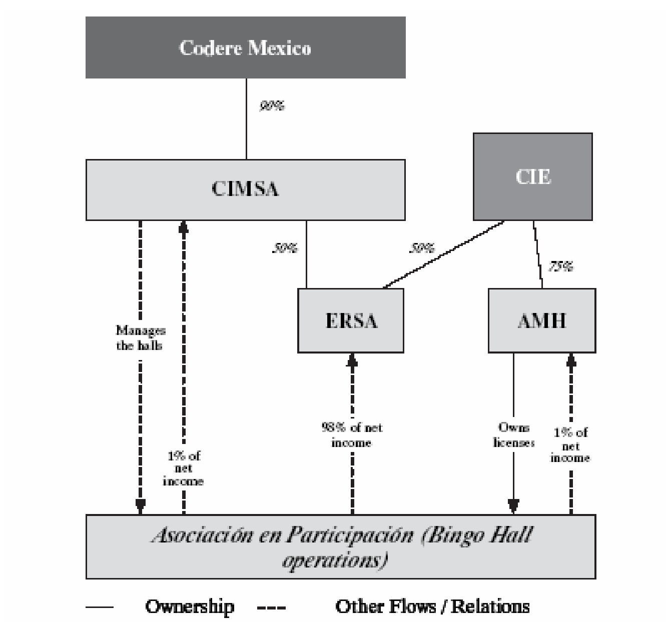
CIE is a leading live entertainment company, which serves the Spanish and Portuguese-speaking markets in Latin America, the United States, and Spain. CIE has interests in companies that offer the following recreational and entertainment products and services: the operation of entertainment venues and 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, Administradora Mexicana de Hipódromos, S.A. de C.V. ("AMH"), was awarded a 25-year concession to operate the racetrack Hipódromo de las Américas in Mexico City. In connection with this concession, AMH obtained permission to operate 45 off-track betting sites countrywide for a 25-year period and offer bingo at these locations. In May 2007, AMH's license was expanded to develop and operate an additional 20 bingo halls in addition to the original 45 bingo halls 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 joint venture with CIE was operated through ERSA, in which our subsidiary CIMSA held a 50% interest less one share and CIE held the remaining 50% interest plus one share. Under the joint venture agreement, ERSA received 98% of the net income generated by all of the joint venture's bingo halls and off-track betting activities and the remainder was divided between CIMSA and CIE.

In November 2007, we changed the nature of our relationship with CIE through the purchase of 49% of ICELA as described in more detail below, which resulted in a new joint venture. ("Mexico CIE business, or ICELA")

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



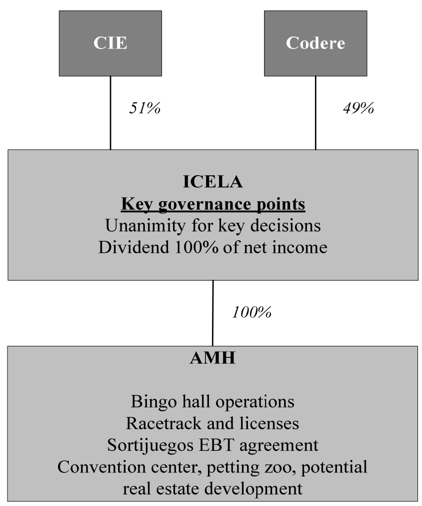
On November 9, 2007 we closed various agreements with CIE, our joint venture partner in Mexico since 1999, pursuant to which we acquired 49% ownership of Impulsora de Centros de Entretenimiento de las Americas

(“ICELA”) in exchange for our 50% interest in the joint venture with CIE and a cash payment of U.S.$173 million (financed in part by a dividend of Mex. Ps. 302 million, equal to approximately U.S.$28 million). The purchase consideration also included a deferred payment of U.S.$27 million, of which approximately U.S.$15.4 million were paid in 2008 (financed through a capital reduction of Mex. Ps. 400 million, of which Mex. Ps. 196 million corresponded to Codere). The purchase also included two contingent payments of up to U.S.$12.5 million each. Concurrent with the closing of the transaction, one of the contingent payment obligations was satisfied by a payment of U.S.$5.4 million. As of the date of this Report, only one contingent payment of up to U.S.$12.5 million remains outstanding. ICELA is a CIE subsidiary which 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. CIE Las Américas owns a 52 hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Mexico.

Pursuant to the agreements, unanimity is required for certain key decisions regarding the joint venture and, to the extent permitted by law, a dividend of 100% of ICELA’s distributable profits will be declared every year. Additionally, the agreement include exit mechanisms for each of CIE and Codere, a preferential acquisition right in the case of a share sale and certain provisions applicable in the case of a public offering of ICELA. The joint venture is subject to similar non-competition restrictions as are currently in place under the existing joint venture with CIE.

Following the acquisition of ICELA, in November 2007 we began proportionally consolidating ICELA’s results in our accounts.

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

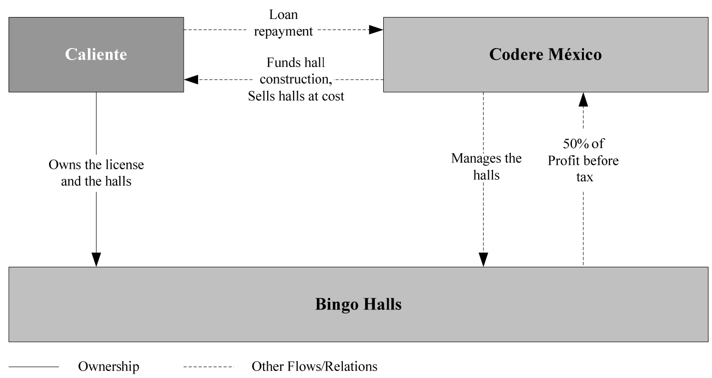


As of December 31, 2008, our Mexico CIE business operated 46 bingo halls.

In addition, our Mexico CIE business includes off-track betting operations where customers can bet on horse and dog races and on sporting events which occur principally in Mexico and the United States. Broadcasts of live horse and dog races or sports events are available through a simulcast provided by Caliente and are displayed on televisions located in the off-track betting areas of the bingo halls. The Mexico CIE business does not assume any financial risk for the bets placed at its off-track betting sites. The financial risk is assumed by Caliente; Mexico CIE business acts only as agent and collects a commission of approximately 10.2% of amounts wagered, regardless of the outcome of the bets. In the year ended December 31, 2008, gross amounts wagered at Mexico CIE’s off-track betting sites were 1,303 million Mexican pesos (€79.8 million), resulting in a commission of 132.9 million Mexican pesos (€8.1 million) for Mexico CIE.

Mexico Caliente—Background and Operations

The following chart sets forth the corporate organization of our Mexico Caliente business.



Our management services agreement with Caliente focuses on the development and management of bingo halls at its off-track betting sites. 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. Caliente is a Mexican company that started operations on January 1, 1916 with a horse racetrack in Tijuana, Mexico. Since 1950, Caliente has operated a greyhound track, with daily racing all year round. Caliente has developed a network of over 165 off-track betting sites located in Mexico, as well as Latin America and Europe. In connection with its license to operate the track, Caliente has been awarded a license to operate and additional 95 off-track betting sites, which are also authorized to include bingo halls, throughout Mexico. Pursuant to the management services agreement with Caliente described below, as of December 31, 2008, our Mexico Caliente business operated 51 bingo halls. Our Mexico Caliente business does not operate any sports books. Caliente's licenses to operate the off-track betting sites and bingo halls expire between 2014 and 2022. In May 1998 we entered into the management services agreement with Caliente to develop and manage bingo halls at Caliente's off-track betting sites.

Under the management services agreement, Codere México identifies locations for bingo halls, negotiates leases, constructs or refurbishes the halls, provides equipment, trains all bingo hall employees, and provides managers for the bingo halls. Caliente owns the licenses and the bingo halls and pays the salaries of the bingo hall managers. Upon completion of the construction of a bingo hall, Codere México sells the hall to Caliente at cost, fixed in U.S. dollars at the time of transfer. Caliente repays Codere México the construction or refurbishment costs of bingo halls over a five-year period in 60 equal monthly payments in U.S. dollars. As of December 31, 2008, payments to us by Caliente of €35.4 million, €17.5 million and €22.8 million relating to completed halls will become due in 2009, 2010 and beyond, respectively. Under the management services agreement, Codere México receives 50% of the income before taxes and depreciation of start-up expenses, less a contribution to a contingency fund (which is used to fund prizes during special promotions and to provide capital expenditure for start-up expenses at new bingo halls) generated by all of the bingo halls we manage, excluding off-track betting activities as Codere México does not participate in these activities. Codere México and Codere America have provided loans in an aggregate of U.S.$18.2 million to Caliente in the past, U.S.$8.2 million of principal is outstanding as of December 31, 2008. These loans have three and four year terms and interest rates of 13%. Codere México, Codere America or one of our other affiliates may loan money to Caliente in the future. Our management services agreement with Caliente may be terminated upon the expiration of Caliente's concession to operate the Hipódromo de Agua Caliente racetrack or upon non compliance by either party with its obligations under the management services agreement, including the failure by Caliente to pay principal and interest when due on the loans described above.

Electronic Bingo

On September 17, 2004, the Mexican government enacted new regulations under the FGLA. With respect to the bingo games we operate under CIE and Caliente's licenses, the regulations confirmed that the electronic versions of such games could be deployed. In the second half of 2004 we began to install in several Caliente bingo halls EBTs that permit clients to play a basic version of electronic bingo displayed on a computer screen. Since then, we and our partners have entered into agreements with suppliers of EBTs and have significantly increased the pace of the roll-out of EBTs in Mexico and as of December 31, 2008 had 20,351 EBTs installed. We install these EBTs in existing space in our bingo halls as well as in terminal-only halls that have approximately 200-250 machines at a cost of approximately U.S.$3.0 million per hall, excluding the cost of machines. In the year ended December 31, 2008, revenues from EBTs installed in Mexico represented approximately 80% of the total revenues in the halls we operate under our joint venture with CIE and management contract with Caliente which represents a significant increase from approximately 73% for the year ended December 31, 2007.

On August 25, 2005, CIE entered into an agreement with International Game Technology ("IGT") under which IGT agreed to supply CIE with an advanced version of EBTs. The IGT EBTs have two screens: the top screen contains the bingo game and the bottom screen shows a schematic representation of the game and is similar to a Class II machine screen. Deployment of the IGT EBTs began in August 2005. On September 13, 2005, Codere México entered into an agreement with Bally Gaming ("Bally") under which Bally agreed to provide Codere México with similar EBTs and a player terminal system that links and controls the EBTs. The Bally EBTs have been installed principally in Caliente bingo halls and are very similar to the IGT EBTs.

Sales and Marketing

Historically, marketing efforts by our Mexico business have been extremely limited. As a result of the regulations enacted by the Mexican government on September 17, 2004, however, certain forms of mass media advertising relating to gaming activities in Mexico have been expressly authorized. Pursuant to this law, we have begun to advertise our Mexico bingo halls and off-track betting sites in mass media, such as newspapers and magazines with wide circulation.

Other Operations

Italy Bingo

We have been present in the Italian gaming industry since 2001, when we entered the bingo market. Initially, our activities were focused on providing management services to bingo halls owned by Operbingo. We have owned and operated these bingo halls since our acquisition of Operbingo on December 15, 2005 and have since acquired Bingo Palace, Mortara and Maxibingo, each with one hall, and opened a greenfield bingo hall in Bologna, so that today we believe we are the industry leader in terms of bingo revenues with 12 owned and operated halls. Operbingo was consolidated in our December 31, 2005 balance sheet and has been consolidated in our income statement since January 1, 2006. In addition to the traditional bingo game available in our bingo halls, pursuant to legislation in 2007, we have installed AWP machines in our bingo halls. As of December 31, 2008, we had 601 AWP machines installed in our bingo halls. In the year ended December 31, 2008, our Italy Bingo business generated operating revenue of €95.4 million and EBITDA of €6.6 million, representing 9.1% of our consolidated revenues and 2.4% of our consolidated EBITDA (both before corporate headquarters).

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2008 and for the periods indicated:

Name of Bingo Hall	City/Region	Opening Date	Concession Expiration Date	Seating Capacity	No. of Seats	2008 Revenues (in millions of €)(3)
Palace(1)	Turin, Piemonte	Jan. 2002	Jan. 2014	854	833	14.4
Re	Rome, Lazio	Feb. 2002	Feb. 2014	900	856	25.7
Modernissimo	Salerno, Campania	Mar. 2002	Mar. 2014	470	446	7.8
Living	Bologna, Emilia Romagna	Apr. 2002	Apr. 2014	404	346	3.8
Marconi	Vigevano, Lombardia	May 2002	Apr. 2014	372	340	3.7
Garbini	Viterbo, Lazio	Aug. 2002	Aug. 2014	506	362	6.5
Ariston	Lecce, Puglia	Sep. 2002	Sep. 2014	650	578	9.9
Vittoria	Parma, Emilia Romagna	Apr. 2004	Apr. 2016	491	491	7.6
Cola di Rienzo	Rome, Lazio	Dec. 2004	Dec. 2016(2)	557	557	8.2
Regina	Bologna, Emilia Romagna	May 2006	Sep. 2014	576	362	2.5
Mortara	Mortara, Lombardia	Mar. 2002	Mar. 2014	378	307	1.0
Maxibingo(4)	Salerno, Campania	Mar. 2002	Mar. 2014	534	452	4.3

(1) Purchased by Codere on March 23, 2006.
(2) Assumes the concession is renewed for an additional six years from the date of expiration following the appropriate administrative procedures.
(3) Revenues consist of net win at bingo halls, food and beverage sales and other revenues.
(4) Purchased by Codere on June 21, 2007.

Italy AWP

Codere has also been active in the AWP machine market since the 2004 regulation which was intended to reform the Italian slot machine industry. We entered the market as an operator of AWP machines and subsequently acquired a network concessionaire. In the year ended December 31, 2008, our Italy AWP business generated operating revenue of €46.0 million and EBITDA of €5.4 million, representing 4.4% of our consolidated revenues and 2.0% of our consolidated EBITDA (both before corporate headquarters).

In the 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 50% of net box after deducting prizes, gaming taxes and the cost of the network provision.

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

Given the network's role in the industry structure, we have believed from the outset that participation in ownership and operation of a network is critical to profitable growth in the Italian AWP sector, and have sought to achieve this strategic position via acquisition or joint venture. This objective was achieved through our acquisition of Codere Network (previously Rete Franco) on April 28, 2006. Codere Network is one of ten government concessionaires for the provision of AWP network services and had 7,904 machines under its supervision as of December 31, 2008. With this acquisition, and following the restructuring of our direct machine business (as described in more detail below), we believe we now have the strategic platform for profitable growth.

In 2007, the Italy AWP business included Codere Network, our direct AWP machine operations (in which Codere wholly owned and operated the machine operations), as well as indirect AWP machine operations (in which Codere acquired controlling interests in established local operators, and local partners remain in their roles as management). However, in early 2008, prior to closing the 2007 accounts, we conducted a strategic review of the Italy AWP business, in the context of continuing losses in this segment, as well as continued substantial uncertainty with respect to the political and regulatory environment in Italy. The principal conclusion of this review was that we would focus exclusively on growth in our indirect AWP operations via acquisitions of controlling interests in partnership with established machine operators, supported by our network operation, and we would divest our direct operations, which was completed in March 2008.

This review also resulted in accounting measures which significantly impacted our 2007 results. First, we elected to make additional provisions of €14.1 million in Codere Network, against new potential claims under the 2007 Financial Law, as well as various previously outstanding claims. This resulted in total provisions equivalent to the full amount of the €18.3 million performance bond issued in favour of the AAMS by Codere Network as network concessionaire (the "Codere Network AAMS Performance Bond") (in turn guaranteed by Codere, S. A).

Concurrently, as noted above we reviewed the outlook for Codere Network and the direct AWP machine operations in the context of these regulatory uncertainties, current profitability, and market conditions, and took a €11.3 million impairment charge against the carrying value of these units. The impairment charge is a non-cash charge to operating earnings, and does not affect the company's liquidity, operating cash flow, or debt service capacity.

Restructuring of direct AWP machine activity

On March 17, 2008, we disposed of our Italian direct AWP business by means of the sale of our Italian subsidiaries Gaming Services and Gaming Re to Mr Giovanni Gargelli, the former chief operating officer of Codere Italia, for cash consideration of €10,000 plus the assumption of various debts and payables to Codere. We also announced that our results for the quarter ended March 31, 2008 would reflect losses taken in connection with this transaction of approximately €3.0 million, and our consolidated accounts will reflect receivables from Gaming Services and Gaming Re totaling approximately €12.1 million. Of this amount, €3.5 million in favor of Codere Network is cash collateralized and €3.0 million has been fully provisioned and included as a loss on disposal, as it may be forgiven under certain circumstances, including that Mr. Gargelli retains 100% of his interest in the business, complies with all applicable labor legislation, and meets certain conditions in respect of maintaining machine connections to Codere Network. The remaining exposure in the Codere consolidated accounts to debts and payables from Gaming Services and Gaming Re is approximately €5.8 million.

Simultaneously, we announced a restructuring of the management and administrative functions in the remaining AWP machine segment (which after the divestiture consists of Codere Network and the indirect AWP machine operations), which resulted in costs of €3.0 million, which were reflected as restructuring charges in our results for the quarter ended March 31, 2008.

Following the restructuring, our strategy for expanding our operations in Italy AWP is based on the acquisition or creation of joint ventures with established AWP operators. In 2007, we completed three acquisitions of AWP operators, Cristaltec Services srl, Vasa & Azzena Services srl and Seven Cora Services srl.

Notwithstanding the claims which have affected our AWP business in Italy (see "—Litigation—Other Litigation and Disputes—Italy—CdC Allegation" and "—Litigation—Other Litigation and Disputes—Italy—AAMS Resolution") and the provisions and charges we took in the Italy AWP business upon closing the 2007 accounts (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Comparability of Our Results of Operations—Italy AWP impairment charge and provision"), as noted above, we believe that the role of the AWP network concessionaire is increasingly important given the structure of the Italian AWP market. Network concessionaires are expected to liaise with the AAMS, operate the networks that link Italian AWP machines, collect and distribute data from the machines and collect and remit tax revenues to the AAMS.

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 AWP machine industry. We continue to be encouraged by the following events, among others: the April 1, 2008 TAR decision (see "—Litigation—Other Litigation and Disputes—Italy—CdC Allegation") as well as the amendment to the network concession and the likely implementation of the additional network service fee described below.

Amendment to the Network Concession Agreements

On March 13, 2008, the AAMS and Codere Network together with eight other network concessionaires signed an Amendment to the existing concession agreements, providing *inter alia,*

- Clarifications to the technical requirements in respect of AWP connection and network communication requirements, eliminating important ambiguities which have resulted in potential fines and claims under the previous concession agreement.

- An amended basis for calculation of the performance bond required under the concession, which is to be based on the number of "nulla ostas" (machine permits) managed by the concessionaire, adjusted semi-annually.

- Inclusion in the Concession of a service fee up to 0.5% of total amounts wagered on machines connected to the Network, as introduced by the 2006 Finanziaria law of December 23, 2005.

AAMS draft decree implementing the service fee of up to 0.5% of total amounts wagered as introduced by the 2006 Finanziaria law of December 23, 2005

Following legal proceedings by all ten network concessionaires, AAMS has complied with a court order to implement this law, through a draft decree which defines the parameters which will be used to calculate the service fee in question, up to a maximum of 0.5% of total amounts wagered on machines connected to the Network as from January 1, 2007. On January 27, 2009 Codere Network and the AAMS signed the "Atto aggiuntivo ed integrativo alla Convenzione di concessione" which amended the concession canon of 0.8% of amounts wagered which Codere Network has paid since January 1, 2007. The amendment specifies that 0.3% corresponds to the concession canon and 0.5% corresponds to a service fee which has been held as a temporary deposit and which will be returned to the concessionaires based on a series of guidelines relating to investments in the network and service levels, among others, which have yet to be defined. Related to this refund, we registered a deposit of €6.0 million which we recorded under short term credits and a provision for the same amount in our balance sheet for the year ended December 31, 2008.

Sports Betting

In July 2006, we signed a memorandum of understanding with William Hill plc ("William Hill") to participate in the sports betting market in Spain upon the passage of enabling legislation. In light of the publication in Madrid and the Basque region of such legislation, the parties created Codere Apuestas España, S.A., and Garaipen Victoria Apustuak, S.A.L., joint ventures to develop sports betting in Madrid and in the Basque region, respectively, each of which applied for the necessary licenses to operate in these regions. Madrid has since issued five-year administrative authorizations to conduct sports betting operations to companies which 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 sports betting shops, existing gaming establishments, sports premises and remotely (including over the internet and mobile phones). The joint venture obtained the necessary authorizations in both regions and began sports betting operations in Madrid in April 2008 and in the Basque region in November 2008. In addition to offering sports betting in our shops, we are able to offer sports betting at casino gaming halls, bingo halls and sports venues. At launch, we expected that capital expenditures associated with the development of sports betting operations in Madrid and the Basque region would be approximately €20 million in the years following the launch, shared equally by each partner.

We made progress in the establishment of the joint venture business in Spain with William Hill over the course of 2008 with 127 locations secured across Madrid and the Basque region, with 44 locations trading at the end of the year. Rollout has continued in 2009 and we conducted sports betting activities in 88 locations as of April 15, 2009. Following the investment of amounts originally committed, the parties are in discussions as to the future strategic direction of the joint venture and the levels of future investment expected to be required to develop the business in Spain.

We built upon our relationship with William Hill by jointly bidding for sports and horse betting licenses in Italy in a large scale auction conducted by the Italian government on October 20, 2006 and by forming a joint venture in Italy. Following the tendering process, we were jointly awarded 55 concessions by the Italian regulatory authority, comprising 20 concessions to operate horse racing betting shops, seven concessions to operate sports betting shops and 28 concessions relating to sports betting points as well as remote licenses relating to these activities. In January 2007 we jointly paid €4.7 million in connection with the concessions award. On July 2, 2008 we and William Hill closed the sale of WHCI to Intralot Italia SpA for €5.5 million. The sale followed a strategic review of WHCI within the Italian sports betting market. The sale resulted in a write-off of €1.0 million in our results for the quarter ended June 30, 2008. Our 50% stake in the Italian Sports Betting joint venture is reflected as discontinued operation in the results for 2008 and 2007 for comparative purposes.

Spain Bingo

We entered the Spanish bingo market in 1999 with the acquisition of Cartaya, a regional mid-sized bingo hall with 250 seats located in southeast Spain. In March 2000, we acquired Bingo Canoe, the largest bingo hall in Spain, with 1,040 seats, and Star, with 592 seats, both located in Madrid. Our lease to the premises on which Bingo Canoe is located expires in October 2012. We closed the Cartaya and Star bingo halls in 2003 and 2005, respectively, due to low profitability so that as of December 2008 our Spain Bingo business is limited to the Canoe hall. In the year ended December 31, 2008, our Spanish bingo business generated operating revenue of €26.3 million and EBITDA of €1.2 million, representing 2.5% of our consolidated revenues and 0.4% of our consolidated EBITDA (both before corporate headquarters).

Operations

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

	Year ended December 31,		
	2006	2007(1)	2008
Number of halls (at period end)	1	1	1
Number of seats (at period end)	1,024	770	700
Number of visitors (in thousands)	516	388	499(2)
Average amount wagered per visitor	€148	€153	€148
Average number of employees	157	126	165

(1) The hall was closed for refurbishment for three months, resulting in a decrease in the number of visitors and in the average number of employees.
(2) The number of visitors includes the visitors of the OTB.

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

The Canoe hall was closed for refurbishments in late July 2007. The first phase was completed in three months and the hall was reopened to the public on October 22, 2007. The second phase, which included the establishment of a new area dedicated to sports betting, and an additional space which has been adapted to accommodate paper based bingo or machines (if enabling legislation is passed), was completed, reducing the bingo seats to 770, and the Canoe hall opened the sports betting area to the public on April 16, 2008, when the sports betting joint venture obtained the necessary authorization.

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

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

Sales and Marketing

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

Panama

In October 2005 we purchased a 90% interest in the Hipódromo Presidente Remón horse racetrack in Panama City, Panama, which is the only racetrack in Central America. The remaining 10% is held by the Motta family. We currently hold licenses to open betting points and are permitted to install up to 500 slot machines and a bingo hall at the racetrack. At December 31, 2008 the racetrack had 373 machines and we were operating six OTBs in Panama.

On January 24, 2006, we completed the purchase of Alta Cordillera, the owner of Crown Casinos in Panama. This acquisition is part of the Sale Exchange Agreement signed on July 28, 2005 between the Antonio Martínez Group and Codere, pursuant to which Codere agreed to exchange its minority interest in four Chilean casinos for 100% of Crown Casinos. On December 6, 2008 we opened our fifth casino in Panama, located in Colon, the second largest city in the country. The casino, which operates under our Crown Casino brand, has 14 tables and 200 slots and is located at the Radisson Hotel. At December 31, 2008, Crown Casinos, a leading player in the local casino market, operated five casinos in Panama with a total of 93 tables and 1,233 slot machines. In the year ended December 31, 2008, our Panama business generated operating revenue of €45.3 million and EBITDA of €9.7 million, representing 4.3% of our consolidated revenues and 3.6% of our consolidated EBITDA (both before corporate headquarters).

Colombia

Our Colombia business focuses on the ownership and operation of slot machines. As of December 31, 2008, we operated 8,502 slot machines located in our casino as well as in bars, restaurants and salons in major cities throughout Colombia. In addition, as of December 31, 2008, we operated six bingo halls with an aggregate of over 1,156 seats. In the year ended December 31, 2008, our operations in Colombia generated operating revenue of €30.0 million and EBITDA of €8.9 million, representing 2.9% of our consolidated revenues and 3.3% of our consolidated EBITDA (both before corporate headquarters).

We estimate that the total number of licensed AWP machines in Colombia is approximately 77,240. In addition, we estimate there are an additional 27,000 unlicensed AWP machines currently in operation in Colombia. The AWP machines in the Colombian market are generally type-C machines, similar to U.S. Class III machines which differ from Spanish machines in that they do not have maximum wager and prize limits. The Colombian machine market (excluding machines located in casinos), with around 600 legal operators, is highly fragmented. Our main competitors in the licensed market are Unidelca, with approximately 4,379 slot machines, Mundo Slot with approximately 2,529 machines and Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 1,980 slot machines, each as of December 2008.

Operations

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

	2006	2007	2008
Number of AWP machines (at period end)	11,578	8,463	8,502
Net win per day per slot machine (in Colombian pesos)	24,677	28,757	32,747

Uruguay

In June 2002, the Uruguayan government granted Hípica Rioplatense Uruguay ("HRU"), a 50/50 joint venture between us and the Sociedad Latinoamericana de Inversiones Group (the "SLI Group"), an exclusive 30-year concession, to operate the historic Maroñas horse racing track in Montevideo and five off-track betting sites which include slot machines as well as wagering based on simulcast sporting events. Our partner, the SLI Group, also owns the Haras de La Pomme horse breeding center, which is one of the most prestigious in Latin America. The SLI Group is also involved in the hotel business, real estate investments, telecommunications and internet services.

As of December 31, 2008, our Uruguay business operated the Maroñas horse racing track and six off-track betting sites with slot machine parlors (with a total of 1,528 slot machines seats installed). In addition, we also had off-track betting agencies at which there were no slot machines and we simulcast horse racing at the Maroñas horse racing track in Latin America and Austria. In the year ended December 31, 2008, our Uruguay business generated operating revenue of €12.8 million and EBITDA of €3.3 million, representing 1.2% of our consolidated revenues and 1.2% of our consolidated EBITDA (both before corporate headquarters). In 2008 we changed our revenue recognition for the racetrack business in Uruguay to conform it to our other businesses. Beginning in 2008, revenues are recorded net of prizes. On a comparative basis, year ended December 31, 2007 revenue for Uruguay would have been €12.0 million.

The Uruguay business's operation of the Maroñas horse racing track and related on-track and off-track betting and slot machine sites is our first development of the "racino" gaming business model. The racino business model consists of combining generally more profitable casino gaming, such as slot machines, with a racing product, which is a generally less profitable area of the gaming business. By increasing overall profitability, purses to horsemen may be increased, attracting the best horsemen to the racetrack, which tends to increase betting. Top-class horse racing may also be leveraged by offering racing simulcasts to off-track betting sites, as well as other horse racing tracks. Racino gaming has grown rapidly in the United States and Canada in recent years.

On January 15, 2009, the Comisión Asesora de Adjudicaciones de la Intendencia de Montevideo ("IMM") announced that the Codere-Sofitel partnership received the highest point total awarded in the Hotel Casino Carrasco project. We view this as an exciting opportunity to reform to a world-class standard, and then operate the well-known Hotel Carrasco in Montevideo, Uruguay, together with Sofitel, under a 30 year concession. The formal granting of the concession is subject to the review of the Tribunal de Cuentas and the concession will formally be awarded subsequently by the Junta Departamental de Montevideo.

Brazil

Currently, regulated gaming in Brazil is restricted to lottery games run by the Brazilian government, local pari-mutuel horse racing and international pari-mutuel and fixed odds horse racing, operated exclusively under jockey club licenses that are issued and regulated by the Ministry of Agriculture. Although there are over 20 jockey clubs in the country, wagered amounts are concentrated in four institutions: Jockey Clube Brasileiro ("JCB") in Rio de Janeiro, Jockey Clube de São Paulo in São Paulo, Jockey Clube do Parana ("JCPR") in Curitiba and Jockey Clube do Rio Grande do Sul ("JCRGS") in Porto Alegre. In 2008, the estimated total amount wagered for these clubs was approximately €108.4 million.

In 2004 and 2006, Codere signed ten-year exclusivity agreements with three of the four major Jockey Clubs (JCB, JCRGS and JCPR) to offer all forms of betting permitted under their licenses throughout Brazil. Recently, the Ministry of Agriculture issued permits to certain jockey clubs for betting on international simulcast races. Until that time, only pari-mutuel wagering on local races was permitted. As a result of this change, and pursuant to the exclusivity agreements with JCB and JCRGS, we have opened three off-track betting facilities—one in Rio de Janeiro, one in Niterói and one in Porto Alegre (to which there is a small corner shop associated) to offer betting alternatives for local and international races. In the year ended December 31, 2008, our Brazil business generated operating revenue of €2.2 million and EBITDA of €(2.3) million, representing 0.2% of our consolidated revenues and (0.9)% of our consolidated EBITDA (both before corporate headquarters).

Employees

The tables below set forth the average number of our permanent employees during 2007 and 2008 and the breakdown of those employees by activity and geographically.

Category of Activity	2007		2008	
	Men	Women	Men	Women
Managers and supervisors	682	215	730	182
Specialists	250	74	292	82
Sales personnel	1,831	1,543	2,037	1,609

Collectors	340	131	335	170
Mechanics	490	1	334	6
Clerical staff	898	695	1,024	792
Assistants	674	360	373	362
Other personnel	3,444	2,162	3,654	1,991
Total(1)	8,609	5,181	8,779	5,194

Geographic Area	2007		2008	
	Men	Women	Men	Women
Spain	914	456	1,125	358
Argentina	2,276	1,635	2,457	1,668
Mexico	3,091	1,560	2,930	1,615
Italy	511	372	423	345
Panama	920	472	991	576
Colombia	418	243	431	257
Uruguay	405	397	377	347
Brazil	74	46	45	28
Total	8,609	5,181	8,779	5,194

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

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

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

Licenses and Trademarks

We, or our partners and clients, hold gaming licenses in each jurisdiction in which we operate and we expect that we will acquire additional licenses in the future. In addition, in some countries we hold licenses or authorizations permitting us to import AWP machines into such country. We have no material patents or trademarks.

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, except the Ballesteros transaction litigation, individually or in the aggregate, could have a material adverse effect on our business, results of operations or financial position.

Ballesteros Transaction

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

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

After signing the March 2, 2000 purchase and sale agreement, but during our due diligence of the Ballesteros Group's operations, it became apparent to us that the legal and economic aspects of the transaction were not as represented and, in particular, that the Ballesteros Group did not hold a license to operate in Venezuela and that the Venezuelan economic and political crisis had significantly reduced the value of the Ballesteros Group's businesses. Since we were unsuccessful in obtaining a refund from the Ballesteros Group of the €15.5 million that we had paid in connection with the transaction on October 29, 2003, we initiated a suit against Ballesteros in the First Instance Court of Madrid (*Juzgado de Primera Instancia de Madrid*). In the suit, we claimed that: (i) the purchase and sale agreement should be terminated based on breaches of representations and warranties and covenants by Ballesteros; (ii) we are entitled to recover €14.4 million based on Ballesteros' failure to consummate the transactions contemplated by the agreement; and (iii) Ballesteros should pay us €6.0 million as a penalty under the terms of the agreement and €1.1 million in damages. As required by the 49th First Instance Court of Madrid, we have posted a bank guarantee in the amount of €1.8 million in relation to our claim against Ballesteros.

On October 14, 2004, Ballesteros filed a counter claim alleging that we breached the purchase and sale agreement by failing to perform our obligations under such agreement. Ballesteros claimed €33.4 million in damages, including expenses incurred in making investments under the terms of the agreement, pain and suffering and loss of profits. Setting off the amount of €6.0 million that we are entitled to recover from the up-front payment under the terms of the agreement, Ballesteros' counter claim requests a total of €27.4 million in damages. The first hearing (*audiencia previa*) before the 49th First Instance Court of Madrid regarding these proceedings was held on March 10, 2005 and oral arguments were held on May 17, 2005. On October 4, 2006 the criminal proceedings brought against Ballesteros on charges related to the facts alleged by us in our civil suit were dismissed and on May 3, 2007 both the civil suit initiated by us as well as the counter-claim filed by Ballesteros were dismissed by the court which imposed the payment of legal fees on both parties. We have appealed the court's decision to dismiss our suit. We expect the court to rule on the appeal in the quarter ended June 30, 2009.

We made provisions of €15.5 million regarding the potential loss of the payments we have made in connection with the Ballesteros transaction, but have not made any additional provisions in connection with the Ballesteros litigation.

Tax Contingencies

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

Income Tax Dispute

We are involved in a dispute with the Argentine federal tax authorities regarding the application of Section 73 of the Argentine Income Tax law to certain inter-company loans with our Argentine affiliates. Section 73 also generally applies to loans to third parties and we have argued that the Argentine companies involved in the questioned loans are part of a single economic group. If this dispute is determined adversely to us, we estimate that we would be required to pay AR$13 million as of December 31, 2008 (equivalent to approximately €2.7 million as of April 15, 2009).

Other Tax Disputes

We are involved in several disputes with state tax authorities in Mexico concerning the payment of value added taxes and the application of state lottery taxes to our bingo hall operations. These disputes arose following the recognition by regulations enacted under the Mexican Federal Law of Games and Lotteries on September 17, 2004, of bingo as a form of lottery, which technically empowered the Mexican states to tax bingo activity. Caliente and CIE have each disputed the Mexican state governments' right to impose taxes on bingo activity, claiming that only the federal government is constitutionally empowered to take such action. Caliente and CIE have obtained injunctions absolving them of the obligation to pay such taxes in several states but the disputes are ongoing in other states. If these disputes are determined adversely to us, we could be required to pay Mex. Ps. 469.7 (equivalent to approximately €27.2 million as of April 15, 2009).

We are also involved in disputes with local tax authorities in Bogotá, Colombia regarding the application of gaming taxes to certain arrangements we enter into to operate slot machines in locations owned by third parties. Such gaming taxes generally apply only to the company that controls the slot machines and we have argued that since we do not control these slot machines we should not be responsible to pay such gaming taxes. As of the date of this Report, there is one outstanding dispute with the local tax authority in Bogotá and we estimate that if the dispute is determined adversely to us, as of December 31, 2008, we would be required to pay COP$10.1 billion (equivalent to approximately €3.2 million as of April 15, 2009), plus interest and penalties.

Other Litigation and Disputes

Argentina

License Renewal

On July 7, 2006, the *Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires*, or "IPLyC" (the gaming regulator of the Province of Buenos Aires), published its Resolution 456/06, dated June 30, 2006, which established the renewal process for bingo licenses operated in the Province. Resolution 456/06 provided to existing operators the option to extend their licenses through June 30, 2021, subject to a fixed renewal fee based on the average monthly canon tax paid under the relevant license in 2005, multiplied by the number of years for which the license was to be extended. The renewals were to be implemented through individual adhesion agreements in respect of each license. Operators electing to renew or extend licenses were required to confirm their intention to adhere to the terms of Resolution 456/06 in writing to the IPLyC prior to July 15, 2006. We accordingly applied to renew or extend all of the 14 licenses we operate in Buenos Aires and complied in all respects with the requirements established by the resolution.

On December 1, 2006 the Province of Buenos Aires published its Decree 3198, which ratified the application of Resolution 456/06 to those bingo licenses which expired in 2006 and 2007. Among the fourteen halls which we operate, six were eligible for renewal at that time and we applied, in 2006, to extend those licenses in accordance with Decree 3198 and Resolution 456/06. As of the date of this Report, five of the licenses have been renewed until 2021. The remaining license (La Plata, which originally expired in June 2007) had been operated under a series of temporary extensions, the last one which expired on December 28, 2008. Prior to the change in administration following the Provincial elections in October 2007, the IPLyC had informed us that we were in compliance with all requirements for the renewal of our license as operator of La Plata, and the temporary extensions until then were provided to enable the non-profit organizations to bring their documentation into compliance with the renewal requirements.

On December 29, 2008 the IPLyC announced in its Resolution 1657/08, that it does not intend to renew Codere's license to operate La Plata, based on alleged failures to comply with various regulatory requirements. The resolution provides for Codere to operate the hall through June 2009 pending the transfer of the license to a new operator.

Codere believes it has complied with all applicable legislative and regulatory requirements for the renewal and continued operation of the license, and intend to pursue aggressively both administrative and judicial avenues to defend our right to operate La Plata. During January we filed and subsequently supplemented an administrative appeal of Resolution 1657/08. In addition, on February 4, 2008 we filed suit in the Administrative Courts in La Plata requesting, *inter alia*, an injunction against the application of the measures contemplated in Resolution 1657/08. On March 26, 2009, the Judge of the *Juzgado Contencioso Administrativo N° 2 de La Plata* granted the injunction requested by Bingos Platenses S.A., in respect of Resolution 1657/08 issued by the IPLyC. The Judge ordered that the IPLyC suspend the execution of Resolution 1657/08 until the appeal against such Resolution that was filed by

Bingos Platenses S.A. is resolved. Consequently, the Bingo Platense hall will remain in operation until the fundamental issues are resolved. Additionally, the representatives of the workers of La Plata Hall obtained an injunction in the Buenos Aires province for the protection of their jobs.

Other Litigation and Disputes in Argentina

In 1996, Mr. Ernesto Lopez Moreno, the lessor of a bingo hall to Intermar Bingos S.A., of which we currently hold 58.95%, filed suit in Mar del Plata Courts, Argentina. Mr. Ernesto López Moreno claimed that Intermar Bingos owed approximately U.S.$1.5 million in rental payments. On behalf of Intermar Bingos, we filed a counter-suit, arguing that we do not owe any rental payments for the bingo hall since we were not allowed to use the premises. The Court suspended Mr. Lopez's claim pending the resolution of our counter-claim, which was rejected by the Lower Court, the Court of Appeals and by the Provincial Supreme Court. We estimate that during 2009 the Court will determine the final amount to be paid to Mr. López.

Codere is the subject of a criminal investigation in Argentina relating to the illegal importation and exploitation of slot machines, which was initially directed at all Argentine slot machine operators. The investigation is at a preliminary stage and we have been cooperating fully with the authorities. No director, officer or employee of Codere has been subpoenaed in either investigation. We do not believe the investigation, insofar as it relates to Codere, has merit. The lower Court has resolved that the allegation has no merit.

Civil and criminal proceedings have been initiated against us by an individual in Argentina, who claimed that we owed such individual approximately AR$35.7 million (equivalent to approximately €7.3 million as of April 15, 2009), in connection with a prize in that amount displayed on the screen of a slot machine such individual played in our Lomas del Mirador bingo hall in the Province of Buenos Aires. We believe that due to a presumed machine malfunction the prize displayed reflected incorrect information provided by the slot machine after a bet on such machine was placed by such individual. The criminal allegations were filed in October 2006 and we have fully cooperated with the ongoing investigation. The criminal proceedings are still in a preliminary stage and expert testimony will be heard in connection with the investigation of the slot machine in question to determine the cause of the incorrect prize display. The maximum prize payable by the machine, as notified to the IPLyC and stipulated in notices displayed on the machine under applicable regulations, was approximately AR$37,000, which amount has been paid to the complainant. The slot machine in question was a new model, which was leased on a trial basis from Recreativos Franco, under an agreement under which they assume responsibility for the proper function of the machine. Following the incident, we have removed this new model from all locations. We believe this individual's claim is without merit, but expect that such individual may pursue her claim in civil proceedings.

International Court of Arbitration

On or about January 6, 2009, we were notified by the International Court of Arbitration that Merit Holdings, LLC ("Merit") had sent a request for arbitration against Codere under International Chamber of Commerce ("ICC") rules. In the complaint accompanying the request for arbitration, Merit alleges that Codere violated the terms of a Consulting Services Agreement ("CSA") between the parties dated January 9, 2004. Specifically, Merit claims that in the CSA Codere agreed to pay it "performance compensation", the precise amount to be determined by application of a formula to Codere's reported financial results. Application of such formula, according to Merit, suggests that Codere owes Merit at least €9.14 million in performance compensation under the CSA. Codere denies the claims alleged by Merit, has answered the request for arbitration and is vigorously pursuing a favorable resolution of this matter on several grounds, including that the CSA was terminated without any obligation to pay performance compensation given the parties' failure to agree to certain key terms underlying the payment formula and other items.

Italy

AAMS Preu Payments

In connection with our acquisition of Codere Network in April 2006, we entered into a "Piano di Rientro" or repayment plan, with the AAMS in May 2006 which provided for Codere Network to satisfy past due payables related to the payment of certain taxes and concession fees in connection with the provision of network connectivity services. As of the date of this Report, Codere Network has paid €18.5 million of such amount to the AAMS.

In addition, on January 5, 2009, Codere Network received a notice from 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. On January 30, 2009, Codere Network timely filed a brief, requesting AAMS to recalculate the final amounts requested, taking into account (i) a more accurate allocation of payments and (ii) payments made under the Piano di Rientro repayment plan. If AAMS accepts the recalculation requested by Codere Network, a non-significant credit will be applied to the AAMS Preu payments and the penalties and interest will be reduced.

In addition, Codere Network is currently a party to various proceedings pursuant to which it is claiming an aggregate of €6.6 million from approximately 60 gaming operators relating to unpaid network interconnection fees and gaming taxes which Codere Network collects on behalf of the AAMS relating to the machines which Codere Network interconnects for such operators.

We have owned Codere Network since it was acquired with AAMS approval in April 2006, and the amounts claimed relate to operations since the inception of the network in September 2004. For the period since its acquisition by us to December 31, 2008, Codere Network has generated operating revenue of €25.5 million and incurred negative EBITDA of €12 million. Codere Network's net book value in our 2008 Consolidated Financial Statements was €26.1 million. In addition, Codere S.A. has provided a guarantee of Codere Network's performance bond in favor of the AAMS in the amount of €13.8 million.

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 AAMS had not requested from Codere Network €3,047 million in penalties for the alleged incompliance with certain obligations such as the terms for the activation and management of the AWP network and the minimum levels of service (the "CdC Letter"). The CdC letter claimed four types of penalties, was addressed to both official representatives of the AAMS and to Codere Network as concessionaire, which the CdC considered to be jointly responsible, and under similar circumstances was sent to nine other concessionaries which had provided AWP network services in Italy claiming an aggregate amount of €98 billion in penalties and fines. On June 26, 2007, pursuant to the CdC Letter, the AAMS requested that Codere Network pay penalties and fines per the CdC Letter (the "AAMS Letter").

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

On May 27, 2008 and June 11, 2008, the AAMS sent additional letters to Codere Network again claiming three of the four types of penalties contained in the CdC letter at reduced amounts (the "Additional AAMS Letters"). The Additional AAMS Letters claimed €78,888 for the late launch of the telecommunications network, €118,635 for the late activation of the telecommunications network and approximately €1.7 million for the late management of the telecommunications network. Similar additional letters claiming reduced penalties were sent to the other concessionaires. As of the date of this Report, AAMS has not provided an amount for the fourth type of penalty, which is likely the most significant. In order to calculate this penalty, a technical commission, which was appointed in March 2009, must evaluate various technical parameters in calculating the penalty.

Codere Network filed motions against the Additional AAMS Letters, which resulted in the further reduction in the amounts of the penalties provided to €47,333 for the late launch of the telecommunications network, €183,064 for the late activation of the telecommunications network and €445,111 for the late management of the telecommunications network. In addition, Codere Network and the other concessionaires with respect to their respective penalties have challenged these penalties with an appeal before the TAR. The TAR has postponed proceedings to examine the merits of such appeals to June 24, 2009.

Additionally, with respect to the CdC Letter, Codere Network filed a defense motion before the CdC in May 2007 claiming that the penalties were not owed, which motion the CdC rejected on March 18, 2008. The CdC provisionally scheduled a hearing to discuss the merits of the penalties claimed for December 4, 2008, which would have taken place in conjunction with hearings relating to the claims against the other concessionaires. However, as a result of an appeal before the Italian Corte Suprema de Cassazione ("Court of Cassation") by Codere Network and the other concessionaires seeking to clarify the calculation of penalties claimed in the CdC letter and challenging the jurisdiction of the CdC on matters which the concessionaires believe the TAR has jurisdiction, the December 4, 2008 hearing was postponed and the CdC Letter (and similar letters for the other concessionaires) were suspended until the Court of Cassation rules on the concessionaires' appeal. As of the date of this Report, a proceeding on the appeal before the Court of Cassation is pending.

Request for "resa del conto"

In January 2009, the CdC requested Codere Nertwork to file a document called "*resa del conto*", a form of balance sheet, stating for each fiscal year the sums collected from the slot machines through the gaming operators and the sums paid to the government. The "*resa del conto*" is generally collected from entities that have been entitled by the government to collect taxes due by third parties. While Codere Network is not an entity entitled by the government to collect taxes due by third parties, it is an entity that is obliged to pay the AAMS Preu payments. In its defense, Codere Network intends to argue that it is not required to file a "*resa del conto*" and, as with the CdC allegation, intends to challenge the CdC's jurisdiction on this matter. Codere Network's response is expected to be in coordination with the responses of the other concessionaires, who have received similar requests for "*resa del conto*".

General

Since 2006, one of our minority shareholders, who owns 0.5% of our share capital, has challenged all of the resolutions adopted by our shareholders at our general shareholders' meetings, except for the change of our headquarters. In addition, this minority shareholder has informed the CNMV that he has petitioned a court to undertake proceedings in which he would challenge the registration of the *Folleto Informativo* on September 20, 2007 by the CNMV.

On January 10, 2008, the Commercial Court in Madrid ruled in favor of this minority shareholder in respect of his claim as it relates to the resolutions passed at the extraordinary general shareholders' meeting held on June 27, 2006. We have appealed this ruling. We expect the court to rule on the appeal in the quarter ended June 30, 2009.

Real Property

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

Other than the bingo halls we acquired when we purchased Grupo Royal, 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.

The Colombia headquarters building was sold in the quarter ended September 30, 2008.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of December 31, 2008, our authorized and issued share capital was approximately €11.0 million, consisting of 55,036,470 fully paid-up ordinary shares, forming part of the same series, each with a par value of €0.20. The following table sets forth information regarding the beneficial ownership of our shares as of December 31, 2008.

	As of December 31, 2008	
Owner	**Number of shares beneficially owned**	**Percent**
Masampe Holding B.V.(1)	28,254,326	51.3%
José Antonio Martínez Sampedro(2)	7,991,518	14.5%
Luis Javier Martínez Sampedro(3)	1,450,000	2.6%
Encarnación Martínez Sampedro(4)	1,300,000	2.4%
Other board members	349,456	0.6%
Other members of management	396,337	0.7%
Public float	15,294,833	27.8%
Total	55,036,470	100.00%

(1) Masampe Holding B.V., a Dutch special purpose vehicle, is owned by José Antonio Martínez Sampedro, Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro.
(2) José Antonio Martínez Sampedro is the Chairman of our Board of Directors, our Chief Executive Officer, and the brother of Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro, both of whom are members of our Board of Directors.
(3) Luis Javier Martínez Sampedro is the Executive Director of Codere América Latina and a member of our Board of Directors.
(4) Encarnación Martínez Sampedro is the Executive Director of Codere and a member of our Board of Directors.

SPV Financings, Capital Increase, and Remaining Franco/ICIL Payment Obligation

In March 2006 Masampe Holding B.V., a Dutch special purpose vehicle (the "SPV") that is controlled by Jose Antonio Martínez Sampedro as described below, borrowed €135.0 million from Credit Suisse, London Branch (the "2006 SPV Financing") to finance the following transactions in Codere, S.A. shares:

- the payment of the initial installment of €41.4 million relating to the purchase of 18,986,564 Codere, S.A. shares from Jesús Franco, Joaquín Franco and Intermediate Capital Investment, Ltd. ("ICIL"), which purchase was for an aggregate purchase price of approximately €390.6 million;

- the purchase by the SPV of approximately 3.3 million Codere, S.A. shares from certain shareholders of Codere, S.A, for an aggregate purchase price of approximately €39.2 million; and

- the subscription by the SPV for 6.0 million Codere, S.A. shares consisting of new shares issued pursuant to a capital increase (the "Capital Increase") and treasury shares for an aggregate subscription price of €47.3 million, or €7.88 per Codere, S.A. share. We used the proceeds from the Capital Increase and the sale of treasury shares to redeem that portion of a convertible investment instrument we had not previously redeemed as of such time.

Following the initial installment payment on March 31, 2006, the SPV novated its obligations to pay the second and third installments of Codere, S.A. shares from Jesús Franco, Joaquín Franco and ICIL to its owners.

In June 2007, the SPV borrowed €340.0 million from Credit Suisse, London Branch (the "2007 SPV Financing"), the proceeds of which, after underwriting fees and pricing at 99%, were used to repay the amount outstanding under the 2006 SPV Financing (€155.4 million), make the second installment payment to Jesús Franco, Joaquín Franco and ICIL in an aggregate amount of €165.2 million, pay fees and expenses incurred in connection with the 2007 SPV Financing amounting to €9.5 million and the remainder (€6.5 million) are being used to pay the SPV's ongoing expenses.

The third installment of €187 million was due April 30, 2008 pursuant to Sale and Purchase Agreements (the "SPA") subject to a six-month cure period and to the alternative of a sale process, as described below. On April 29, 2008, the Martínez Sampedros paid to ICIL the approximately €10.9 million third installment relating to the ICIL shares, so that only the third installment relating to the Francos shares (approximately €176 million, plus accrued interest) remained outstanding.

Following the passage of payment deadline for the third installment, on November 13, 2008 the Francos informed the Martínez Sampedros that they required the initiation of the sale process, which requires the sale of all the shares held directly or indirectly by the Martínez Sampedros, which as of the date of this release total approximately 71% of Codere's total shares outstanding. The sale process is the sole recourse of the Francos under the SPA and, it replaces the Martínez Sampedros' obligations in respect of the third installment. The Francos may not require a sale if the proceeds from the sale of the Codere shares held by Masampe Holding B.V. would not be sufficient to satisfy its obligations under the June 2007 PIK financing (unless the PIK lenders agree otherwise).

The SPA provides that sale proceeds would be divided among the Francos and the Martínez Sampedros in proportion to the percentage ownership of Codere shares held by the Francos in March 2006 (approximately 41%), taking into account credit for the first and second installment payments made to the Francos totaling approximately €191.0 million, and subject to certain adjustments such as for Codere share issuance since the initial agreement. The agreement does not restrict either the Martínez Sampedros or the Francos from participating as buyers in the sale process.

The SPV's activities are limited to the holding of Codere, S.A. shares and certain other limited actions required or permitted under the 2007 SPV Financing documentation. Although Codere, S.A. is not a party to the 2007 SPV Financing documentation and has no financial obligations to the SPV, certain events relating to Codere, S.A., including a change of control of Codere, S.A., would require the SPV to repay any amounts outstanding under the 2007 SPV Financing.

Corporate Governance.

In its meeting of July 23, 2008, the Board of Directors determined that it would monitor potential conflicts of interest which may arise in the resolution of the majority shareholders' obligations and to take such measures as may be appropriate to address any conflicts of interest as they may develop. The Board of Directors adopted a number of initial measures to reinforce Codere's corporate governance mechanisms. These measures included the appointment of Eugenio Vela Sastre to the Audit Committee of the Board of Directors. The Audit Committee now consists of Codere's three independent directors (Juan Zornoza, President; Eugenio Vela and Joseph Zappala). The Audit Committee was charged in particular with the review and approval of any external communications which could have an effect on the value of Codere's securities.