

May 29, 2015

ANNUAL REPORT OF CODERE, S.A.

PURSUANT TO (i) SECTION 4.19(a)(i) OF THE EURO NOTES INDENTURE DATED JUNE 24, 2005, AS AMENDED AND SUPPLEMENTED FROM TIME TO TIME (THE “EURO NOTES INDENTURE”), AMONG CODERE FINANCE (LUXEMBOURG) S.A. (THE “ISSUER”), THE GUARANTORS (AS DEFINED THEREIN), DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE (THE “EURO NOTES TRUSTEE”) AND THE OTHER PARTIES LISTED THEREIN, GOVERNING THE ISSUER’S 8 ¼% SENIOR EURO NOTES DUE 2015 AND (ii) SECTION 4.19(a)(i) OF THE DOLLAR NOTES INDENTURE DATED FEBRUARY 8, 2012, AS SUPPLEMENTED ON JUNE 29, 2012, AMONG THE ISSUER, THE GUARANTORS (AS DEFINED THEREIN), DEUTSCHE BANK TRUST COMPANY AMERICAS, AS TRUSTEE (THE “DOLLAR NOTES TRUSTEE”) AND THE OTHER PARTIES LISTED THEREIN, GOVERNING THE ISSUER’S 9 ¼% SENIOR DOLLAR NOTES DUE 2019 (THE “REPORT”).

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

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

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USE OF CERTAIN DEFINITIONS

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

- “AAMS” are to the *Amministrazione Autonoma dei Monopoli di Stato*, the Italian betting and gaming authority;
- “AAMS PREU payments” are to the estimate of gaming taxes owed by concessionaires based on the amounts spent by customers on slot machines;
- “Argentine peso” or “AR\$” are to the lawful currency of the Republic of Argentina;
- “AWP machines” or “AWPs” are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as “Type-B machines”) and in Italy (as “Comma 6” or “Comma 6A” machines) to be placed in bars, cafés, arcades and bingo halls;
- “Brazilian real” are to the lawful currency of Brazil
- “CAGR” are to compound annual growth rate;
- “Caliente Holdcos” are to Grupo Caliente, S.A.P.I. de C.V., Jomaharho, S.A.P.I. de C.V. and Grupo Inverjuego, S.A.P.I. de C.V., each a holding company of certain of the Legacy Caliente companies;
- “CdC” are to the Italian *Corte dei Conti*, a constitutional body in Italy charged with supervising and auditing the management and accounts of the public administration (including the exercise of certain jurisdictional activities relating thereto);
- “CIE” are to Corporación Interamericana de Entretenimiento, S.A.B. de C.V.;
- “Codere América” are to Codere América, S.A.U.;
- “Codere Group”, “Group” or “Codere” are to Codere, S.A. and its subsidiaries; “we”, “us” or “our” are also to Codere, S.A. and its subsidiaries unless the context otherwise requires such reference to be to Codere, S.A. or to the Issuer;
- “Codere Mexico” are to Codere Mexico S.A. de C.V.;
- “Codere Network” are to Rete Franco, S.p.A. which we acquired from Franco Distribución, S.A. on April 28, 2006 and renamed “Codere Network S.p.A.” on September 7, 2006;
- “COFECO” are to the *Comisión Federal de Competencia*, the Mexican competition authority;
- “Colombian peso” or “COP\$” are to the lawful currency of Colombia;
- “Consolidated Financial Statements” are to the audited consolidated annual accounts of Codere, S.A. and its subsidiaries as of and for the year ended December 31, 2014 including comparative financial information for the year ended December 31, 2013 under equity method, prepared in accordance with IFRS and included in this Report;
- “CTH” are to Complejos Turísticos de Huatulco;
- “Dalla Pria” are to DP Service, S.r.l.;
- “Dollar Notes” are to U.S.\$300,000,000 aggregate principal amount of 9.250% senior notes due 2019 issued by Codere Finance (Luxembourg) S.A. on February 8, 2012;
- “Dollar Notes Indenture” are to the indenture governing the Dollar Notes dated as of February 8, 2012, as supplemented on June 29, 2012, among the Issuer, the Guarantors (as defined therein), Deutsche Bank Trust Company Americas as trustee, and the other parties listed therein;

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

- Hipódromo, S.A. de C.V. pursuant to which Codere, S.A. (through its wholly owned subsidiary Codere Mexico, S.A. de C.V.) purchased 35.8% of the outstanding ordinary shares of ICELA;
- “IFRS” are to International Financial Reporting Standards (formerly known as “International Accounting Standards”, or “IAS”) as endorsed by the European Union;
 - “IGT” are to International Game Technology;
 - “IPLYC” are to the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, the gaming regulator of the Province of Buenos Aires;
 - “IPO” are to the initial public offering of 10,780,469 shares of Codere, S.A. on October 19, 2007;
 - “JCs” are to Jockey Clubs with a presence in Rio de Janeiro, Rio Grande do Sul and Paraná;
 - “JC Agreements” are to exclusive agreements between Codere and JCs to jointly develop “any new form of gaming” permitted under the JCs’ licenses;
 - “Joint Opcos” are to Operadora Cantabria, S.A. de C.V., Libros Foraneos, S.A. de C.V. and Operadora de Espectáculos Deportivos, S.A. de C.V., the licensees indirectly purchased from Grupo Caliente and others in March 2011;
 - “Legacy Caliente” are to the Caliente Holdcos, the Joint Opcos, Promojuegos and Mio Games;
 - “Mexican peso” or “Mex. Ps.” are to the lawful currency of Mexico;
 - “Mio Games” are to Mio Games S.A. de C.V.;
 - “Net win” is to amounts wagered minus prizes paid in the gaming products which we offer (machines, bingo, sports betting and betting on horseraces);
 - “Notes” are to the Dollar Notes together with the Euro Notes;
 - “Operadora de Espectáculos Deportivos” are to Operadora de Espectáculos Deportivos, S.A. de C.V.;
 - “Original CIE Joint Venture” are to the joint venture entered into between Codere and CIE in March 1999;
 - “Panamanian balboa” are to the lawful currency of Panama, which are equivalent in value to the U.S. dollar;
 - “Parent Guarantor” or “Codere, S.A.” are to Codere, S.A., the parent company of the Codere Group;
 - “Promojuegos” are to Promojuegos de Mexico, S.A. de C.V.;
 - “Recreativos Marina” are to Recreativos Marina S.A. de C.V.;
 - “SAT” are to the Servicio de Administracion Tributaria;
 - “SATASB” are to SAT’s Administrative Supervisory Body;
 - “Senior Credit Facility” are to (i) a €130.0 million senior revolving credit facility, (ii) a €18.8 million (as of March 31, 2015) letter of credit facility pursuant to a senior facilities agreement, dated October 19, 2007, as amended and restated and as further amended from time to time, among, Codere, S.A. and certain of its subsidiaries as subsidiary guarantors, and Silver Point Finance LLC, Contrarian Capital and Third Avenue Capital Management as mandated lead arrangers, Silver Point Capital as agent, Houston Casualty Company Europe, Seguros y Reaseguros, S.A.U., as surety bond provider, and Deutsche Trust Company Limited, as security trustee;
 - “SLI Group” are to the Sociedad Latinoamericana de Inversiones Group;

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

PRESENTATION OF FINANCIAL AND OTHER DATA

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

In application of the recently revised IFRS 11 standard, there is a change in the method of consolidation used for “Hípica Rioplatense of Uruguay” and “New Joker” in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

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

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

Adjusted “EBITDA” is used as reference, defined as “EBITDA” excluding non-recurring items incurred in the financial restructuring process during 2013 and 2014 and the payment associated with the Corte dei Conti Settlement.

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

FORWARD LOOKING STATEMENTS

This Report includes forward looking statements that reflect our intentions, beliefs or current expectations and projections about our future results of operations, financial condition, liquidity, and operating performance for 2014 and thereafter, prospects, anticipated growth, strategies, opportunities and the industry in which we operate. Forward looking statements involve all matters that are not historical fact. Forward looking statements may be found in sections of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business” and elsewhere.

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

SELECTED FINANCIAL INFORMATION AND OTHER DATA

Our Selected Consolidated Financial Information and Other Data

The selected audited consolidated financial information as of and for the years ended December 31, 2013 and 2014 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2013 and 2014. The audited consolidated financial statements have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers Auditores, S.L., our independent auditors.

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(audited) (€ in millions)	
Income statement data:		
Operating revenue.....	1,520.8	1,385.6
Operating expenses:		
Consumption and other external expenses	51.9	45.7
Personnel expenses.....	358.6	306.3
Depreciation	108.1	87.9
Amortization of intangible assets	41.6	37.6
Variation in provisions for trade transactions.....	2.1	2.0
Impairment loss ⁽²⁾	57.3	4.9
Other operating expenses:	911.9	870.1
Gaming and other taxes.....	517.0	468.9
Machine rental costs.....	44.0	39.6
Other rentals	70.8	70.0
Other	280.1	291.6
Total operating expenses	1,531.5	1,354.5
Gains (losses) on asset disposals or acquisitions	(6.5)	(10.3)
Operating profit	(17.2)	20.8
Financial items:		
Financial income	5.1	3.3
Financial expenses.....	145.8	132.7
Gains or losses on financial assets	4.6	(15.5)
Exchange gains (losses), net.....	(8.8)	(45.9)
Results companies accounted by equity method	2.3	3.0
Profit before tax of continuing activities	(162.1)	(170.0)
Corporate income tax.....	45.4	40.9
Profit after tax of continuing activities	(207.5)	(210.9)
Consolidated net income	(205.2)	(207.9)
Non-controlling interests	(31.6)	(34.9)
Net income (loss) attributable to owners of the parent	(173.6)	(173.0)

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(audited)	
	(€ in millions)	
Balance sheet data:		
Cash and cash equivalents ⁽³⁾	102.4	86.7
Working capital ⁽⁴⁾	(159.6)	(123.4)
Total assets	1,651.9	1,539.3
Total debt ⁽⁵⁾	1,229.9	1,392.2
Equity attributable to owners of the parent.....	(260.4)	(449.1)
Non-controlling interests	56.9	17.3

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(audited)	
	(€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities.....	159.5	93.4
Net cash flow used in investing activities.....	(68.1)	(54.2)
Net cash flow provided by financing activities.....	(63.1)	(51.3)
Net increase (decrease) in cash.....	20.0	(15.7)

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(€ in millions)	
Other financial data:		
EBITDA ⁽⁶⁾	198.4	163.5

The reconciliation of EBITDA to operating profit is as follows:

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(unaudited)	
	(€ in millions)	
EBITDA	198.4	163.5
- Depreciation and amortization	149.7	125.5
- Variation in provisions for trade transactions.....	2.1	2.0
- Impairment loss ⁽²⁾	57.3	4.9
+ Gains (losses) on asset disposals or acquisitions	(6.5)	(10.3)
Operating profit	(17.2)	20.8

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- (1) In application of the recently revised IFRS 11 standard, there is a change in the method of consolidation used for “Hípica Rioplatense of Uruguay” and “New Joker” in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.
 - (2) Impairment charge was (€57.3 million) in 2013: (€24.3 million) in Mexico, (€16.0 million) in Italy, (€13.4 million) in Carrasco Hotel and Casino and (€3.6 million) in the online business in Spain; and was (€4.9 million) in Carrasco Hotel and Casino in 2014.
 - (3) Cash and cash equivalents consists of cash at banks, cash on hand and short-term deposits with an original maturity of three months or less, which are not subject to significant fluctuations.
 - (4) We define working capital as current assets (excluding cash and cash equivalents) less current liabilities (excluding payables to credit entities and bonds).
 - (5) We define total debt as non-current and current issued senior notes, plus non-current and current debt owed to finance entities.
 - (6) We define EBITDA as operating profit plus depreciation and amortization plus variation in provisions for trade transactions plus impairment losses less gains or losses on asset disposals or acquisitions. EBITDA is not a measurement required by, or presented in accordance with, IFRS. EBITDA should not be considered in isolation and is not a measurement of our financial performance or liquidity under IFRS and should not be considered as an alternative to operating profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. EBITDA does not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, EBITDA as we define it may not be comparable to other similarly titled measures used by other companies.

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

The Group is a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of 31 December 2014, the Group managed 52,172 gaming machines, 176 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 1,709 sport betting locations (including 1,202 self-service terminals at bars and 361 betting locations in Spain) and two horse racing tracks. In the twelve months ended 31 December 2014, the Group generated operating revenue of €1,385.6 million and EBITDA of €163.5 million.

In Argentina, the Group is the largest operator of gaming halls in the province of Buenos Aires with 14 gaming halls in which 6,562 slot and other gaming machine seats and 10,951 bingo seats were operated as of 31 December 2014. In the twelve months ended 31 December 2014, the Argentina business generated operating revenue of €489.0 million and EBITDA of €93.4 million.

In Mexico, through ICELA and Legacy Caliente, the Group considers itself to be the largest operator of gaming venues with 84 gaming halls in which 17,414 machine seats were operated as of 31 December 2014 (these figures exclude 7 gaming halls which are currently closed). As of the same date, the Group also held licenses to build and operate an additional 51 gaming halls. In addition, through ICELA, the Group owns a 52 hectare gaming complex in Mexico City that includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico (which from 1 June 2013 has been operated by CIE). In the twelve months ended 31 December 2014, the Mexican business generated operating revenue of €341.9 million and EBITDA of €75.1 million.

In Italy, the Group considers it is among the 3 largest operators of gaming halls with 11 gaming halls as of 31 December 2014 in which VLT and AWP machines are operated and bingo is offered. The Group also operates a machine network under a governmental concession (which is 1 of 13 concessions in Italy), AWP machines in non-specialized locations such as bars through majority-owned joint companies with local operators and VLT machines placed in specialized locations owned by third parties. As of 31 December 2014, the Group operated 6,999 AWP (mostly in non-specialized locations), 1,272 VLTs (729 of which are located in the Group's gaming halls) and 5,142 bingo seats. In total, 16,789 AWP and 1,272 VLTs operated by the Group and by other operators were connected to the Group's network. In the twelve months ended 31 December 2014, the Group's business in Italy generated operating revenue of €263.8 million and EBITDA of €4.9 million.

In Spain, the Group believes it is the second largest operator of AWP machines with 10,411 machines located in over 7,300 bars, restaurants, machine halls and one gaming hall as of 31 December 2014. The gaming hall operated by the Group is the Canoe gaming hall in Madrid, which features a bingo venue, AWP and sports betting self-service terminals. In total, the Group operated 1,563 sports betting locations in Spain as of 31 December 2014, that comprise 1,202 self-service terminals in bars, 345 betting corners at third-party gaming arcades and 16 company-operated betting shops. In the twelve months ended 31 December 2014, the Group's business in Spain generated operating revenue of €149.9 million and EBITDA of €17.6 million.

The Group's other operations (including operations in Panama, Colombia, Uruguay and Brazil), which generated operating revenue of €141 million and EBITDA of €18.9 million for the twelve months ended 31 December 2014, include (i) 12 gaming halls (including 11 casinos and one machine hall at the racetrack), one racetrack and 66 sports betting locations in Panama, (ii) 53 gaming halls, including 5 casinos, in Colombia, (iii) the Hotel Casino Carrasco in Uruguay and (iv) 7 horse racing betting locations in Brazil, as of 31 December 2014.

As of 31 December 2014, the Group is developing online commercial offerings in Spain and Mexico which are yet on a pilot stage and do not produce significant revenues.

Presentation of Financial Information

The financial statements contained in this Report include our audited consolidated financial statements as of and for the year ended December 31, 2014, including comparative financial information under equity method for the year ended December 31, 2013 prepared in accordance with IFRS (the “Consolidated Financial Statements”).

Segment Reporting

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

In 2014, our four principal businesses comprised 35.3%, 24.7%, 19.0% and 10.8%, respectively, of our consolidated operating revenue and 39.8%, 32.0%, 12.5% and 7.5%, respectively, of our consolidated adjusted EBITDA (excluding, in each case, headquarters expenses and the financial restructuring costs; and the payment associated with the Corte dei Conti Settlement in Q3 2014). Our operations discussed under “Other Operations” comprised 10.2% of our consolidated operating revenue and 8.2% of our consolidated adjusted EBITDA (excluding, in each case, headquarters expenses and the financial restructuring costs; and the payment associated with the Corte dei Conti Settlement in Q3 2014). The organization of our operations by country 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 markets and regulatory environments of the countries in which we conduct our operations.

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

Factors Affecting the Comparability of Our Results of Operations

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

Latin American Currency Depreciation

The Group is exposed to foreign exchange rate risk in that its reporting currency is the Euro, whereas the majority of the Group's subsidiaries keep their accounts in other currencies, principally Argentine peso, Mexican peso, Panamanian balboa (equivalent to the US dollar), Colombian peso, Uruguayan peso and Brazilian reals, and a portion of the Group's costs and revenue are referenced to US dollars. For the twelve (12) months ended 31 December 2014, 35.3% and 24.7% of operating revenue (including gains and losses on foreign exchange currency contracts) was denominated in Argentine peso and Mexican peso, respectively, and 70.2% of operating revenue was in non-Euro denominated currencies. During the period under review, Latin American currencies in the countries in which the Group operates, in particular the Argentine peso, have generally depreciated against the Euro and this has had a significant impact on the Group's financial condition and results of operations when expressed in Euro. As a result of the Latin American currencies depreciating against the Euro, the Euro value of the operating results of the Group's Latin American subsidiaries upon inclusion in the Group's Consolidated Financial Statements has significantly decreased. Accordingly, declining exchange rates may limit the ability of the Group's results of operations, stated in Euro, to fully describe the performance in local currency terms of the Group's Latin American subsidiaries. The Group's Latin American subsidiaries generally generate revenue 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 the Group's 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 the Group's balance sheet.

Income statement items are translated into Euro at the end of each month and these monthly results in Euro are added to produce quarterly or annual results, as applicable.

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

	Year ended December 31,		2013/2014 % change
	2013	2014	
Mexican peso/euro (€1.00 = Mex. Ps.)			
Period end	18.02	17.89	(0.7%)
Argentine peso/euro (€1.00 = Arg. Ps)			
Period end	9.01	10.41	15.5%
U.S. dollar/euro (€1.00 = U.S.\$)			
Period end	1.38	1.21	(12.3%)

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

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

	Year ended December 31,		2013/2014 % change
	2013	2014	
Mexican peso/euro (€1.00 = Mex. Ps.)			
Average	17.00	17.66	3.9%
Argentine peso/euro (€1.00 = Arg. Ps)			
Average	7.32	10.79	47.4%
U.S. dollar/euro (€1.00 = U.S.\$)			
Average	1.33	1.33	-

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

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

	Year ended December 31,		2013/2014 % change
	2013	2014	
Mexican peso/U.S.dollar (U.S.1.00 = Mex. Ps.)			
Period end	13.06	14.79	13.2%
Argentine peso/ U.S. dollar (U.S.1.00 = Arg. Ps)			
Period end	6.53	8.60	31.7%

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

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

	<u>Year ended December 31,</u>		<u>2013/2014 % change</u>
	<u>2013</u>	<u>2014</u>	
Mexican peso/U.S.dollar (U.S.\$1.00 = Mex. Ps.)			
Average	12.78	13.28	3.9%
Argentine peso/U.S.dollar (U.S.\$1.00 = Arg. Ps.)			
Average	5.50	8.11	47.4%

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

As of March 31, 2015, the exchange rate of the euro to the Mexican peso was €1.00 = 16.40Mex. Ps., the exchange rate of the euro to the Argentine peso was €1.00 = 9.48AR\$ and the exchange rate of the euro to the U.S.\$ was €1.00 = 1.08U.S.\$. As of March 31, 2015, the exchange rate of the U.S. dollar to the Mexican peso was U.S.\$1.00 = 15.19Mex. Ps. and the exchange rate of the U.S. dollar to the Argentine peso was U.S.\$1.00 = 8.78AR\$.

In order to mitigate part of the foreign exchange risk to which the Group is subject, in prior years the Group has maintained hedging agreements for notional amounts equivalent to 50% of projected EBITDA from Argentine and Mexican operations on a four-quarter rolling basis. As of the date of this document, however, the Group has no foreign exchange forward contracts in place and does not hedge any Latin American currencies.

Tax restatements in Mexico

In May 2013, the subsidiary AMH filed Federal Gaming Tax restatements in connection with the years 2009 through 2012 for a combined sum of Mex. Ps. 176.6 million. Such restatements, which relate to how client promotions are computed for tax purposes, benefited from the new administration's tax amnesty which remained in force until 31 May 2013. Additionally, during March and June 2014, AMH filed the restatement for 2013, for an amount of Mex. Ps. 40.2 million.

Another subsidiary, Operadora Cantabria, 1 of the Joint Opcos, also filed a restatement for the year 2011 and for an amount of Mex. Ps. 13.4 million, also covered by the tax amnesty. In respect of the other years, the remainder of the Joint Opcos and Operadora Cantabria computed Federal Gaming Tax in a similar fashion to AMH and filed restatements in June and July 2013 for an amount of Mex. Ps. 151.6 million. In June 2014, all subsidiaries of the Joint Opcos filed Federal Gaming Tax restatements for the year 2013 for an amount of Mex. Ps. 30 million.

Opening of Sofitel Montevideo Casino Carrasco and Spa

On 7 March 2013, the Group opened a casino and resort in the city of Montevideo. The "Sofitel Montevideo Casino Carrasco and Spa" has approximately 116 rooms, 395 gaming machines and 20 tables as of 31 December 2014. The complex is a project of the Carrasco Nobile consortium, of which the Group owns 51% in a joint venture with Sikeston S.A., the Uruguayan vehicle of an international investor group. The opening of the Carrasco complex suffered delays and substantial overruns. Furthermore, the early results have been disappointing with lower revenue than expected and large operating losses. While the Group is taking measures to reduce losses, it believes that the long-term success of the business depends on the Group's ability to attract high value clients from overseas. In addition to marketing efforts, this will require managing the availability of credit to clients, an activity in which the Group has no significant previous experience.

In September 2014, Sofitel Montevideo hotel casino Carrasco obtained the final approval of the civil works (*recepción del edificio*) confirming the operational license for the venue.

Gaming Hall Closures in Mexico

Since 2013, seven of our halls in Mexico remain closed as a result of actions by local authorities: six in Monterrey (Cumbres, Jacales, Gonzalitos, both halls in Valle Oriente, and Sendero) and one in Tuxtla. Codere continues to deploy administrative, legal and institutional actions to revert this situation. The closures, most of which occurred between mid-January and mid-March 2013, were mandated by Mexican municipal authorities on the basis of alleged inadequacy of the Group's municipal permits. Certain of these permits were originally issued as food and beverage permits, a common description at the time when bingo halls or casinos did not exist in the municipal catalogue. All of the gaming venues operate with the permits and licenses required both by the Ministry of the Interior (*Secretaría de Gobernación*) and the local authorities at the time the venues were first open to the public. For the year ended 31 December 2012, these closed gaming halls generated total revenue of Mex. Ps. 755.7 million (approximately €44.7 million) and EBITDA of Mex. Ps. 190.8 million (approximately €11.3 million), and as of their respective closing dates had a total of 1,921 slots. The two largest halls by revenue, Gonzalitos in Monterrey and Sendero in General Escobedo, generated revenue of Mex. Ps. 390.7 million (approximately €23.1 million), and Mex. Ps. 110.2 million (approximately €6.5 million), for the year ended 31 December 2012.

We have received the resolution of our court request for an injunction on the municipality's decisions, which has ruled against Codere and has led us to impair the assets of five of these halls at a €6.9mm impact. Codere will continue to evaluate administrative and institutional alternatives in regards to this situation.

On 24 September 2014, the Meneo hall in Distrito Federal was closed, together with three other competitors' halls, by the local authorities on the basis of alleged inadequacy of the hall's municipal's permits. In December 2014 this hall was reopened. Also in September, two of our gaming halls in Baja California were closed due to damages caused by hurricane "Odile". One of these halls reopened in October and the other one in November.

As of the date of this document, 3 of the Group's ICELA and 4 of its Legacy Caliente halls in Mexico remain closed. 6 of the closed halls are located in the city of Monterrey or adjacent cities, such as General Escobedo. The Group has limited visibility as to when these venues will reopen, if at all.

Agreement with CIE Regarding the Convention Center in Mexico

The Group has recently entered into an agreement with CIE for CIE to operate the convention center the Group owns through ICELA, known as Banamex, for six (6) years starting on 1 June 2013. Pursuant to this agreement, CIE pays the Group an annual fee of Mex. Ps. 113 million divided into proportional monthly payments, plus 25% of the difference between actual revenue obtained during the year and a revenue threshold set forth in the agreement. In the twelve (12) months ended 31 December 2014, Banamex generated operating revenue and EBITDA of Mex. Ps. 169.7 million (approximately €9.6 million).

Launch of Betting Operations in additional regions in Spain

In March 2013, the Group launched operations in the Autonomous Region of Galicia. As of the date of this document, the Group has installed self-service terminals in approximately 330 third party bars and betting corners in 19 third party arcades in operation in Galicia. In June 2013, the Group also launched operations in the Autonomous Region of Murcia. As of the date of this document, the Group has installed self-service terminals in approximately 29 betting corners in Murcia.

In February, July and September 2014, the Group launched operations in the Autonomous Regions of Castilla La Mancha, Ceuta y Cataluña. As of the date of this document, the Group has installed betting corners in 44 third party arcades.

The Group has also incorporated 2 new betting companies in the Autonomous Regions of La Rioja and Extremadura, which started their operations on December 2014 and February 2015 respectively.

With these new regions, the Group's operations in Spain comprise Madrid, Basque Country, Navarra, Aragon, Valencia, Galicia, Murcia, Castilla La Mancha and Ceuta. The Group will commence operations in La Rioja and Extremadura in the coming months.

Renewal of Licenses in Argentina

In November 2012, 5 licenses for gaming halls operated in the province of Buenos Aires, the original terms of which would have expired between 2013 and 2014, were renewed for fifteen (15) years from their original expiry date following the signing of individual agreements for each of these halls with the IPLyC. The renewal of the 5 gaming licenses was subject to an upfront renewal fee of AR\$614 million for all 5 halls and a canon tax surcharge based on the estimated amount of revenue for the year, which the IPLyC set at AR\$232 million, payable monthly over five (5) years beginning in September 2012. In May 2013, the IPLyC increased the canon tax surcharge by AR\$124.4 million, which was paid in eight (8) monthly installments between October 2013 and June 2014. Also in May 2013, the IPLyC notified the Group of the renewal of the licenses for 5 other gaming halls which licenses initially expired in 2016 (1 hall) and 2021 (4 halls). These licenses have been extended to 2022 (2 halls), 2024 (2 halls) and 2031 (1 hall). The total fees associated with the renewal of these five additional licenses are AR\$87.7 million, and are also payable in three quarterly installments between June and December 2014.

Following these renewals, no licenses mature until 2021.

Financial Restructuring

On July 2013, the Company engaged in constructive conversations with Bondholders, Senior Lenders and their financial advisors with the objective of reaching an agreement that defines a financially sustainable capital structure that will enable the Company to create value in the future.

Since April 30th, 2014 the Company reached successive Standstill agreements with its creditors to be able to continue negotiations among all parties involved. On September 23, 2014, the Company entered into a lock-up agreement with the majority of its creditors, including Noteholders and Senior Credit Facility lenders, on the key terms of a financial restructuring of its balance sheet.

The key components of the agreed transaction include the exchange of €475mm of the existing outstanding notes (including all accrued interest up to and including the implementation date) into €150mm new second lien notes and €325mm new third lien notes, and a new cash notes subscription of €200mm of new second lien notes for a total of:

- i. €350mm of new second lien notes; and
- ii. €325mm of new third lien notes.

The Company will also be provided with a €253mm new first lien term loan facility which, in addition to the €200mm new cash notes subscription, will replace the existing senior facilities agreement and provide financing for future working capital, other projects, as well as for general corporate purposes. The remaining outstanding second lien notes (in aggregate amounting to approximately €636mm including accrued interest) will convert into 97.78% of the ordinary issued share capital of Codere, leaving former shareholders with 2.22%.

Further restructuring steps include the following:

- i. Each Existing Noteholder will agree to sell and the key Executives shall agree to purchase 19.58% of the ordinary issued share capital of Codere at market price, subject to a minimum of €0.5mm.
- ii. A 2% global coordinator fee will dilute all shareholders of the company.
- iii. Post-restructuring, Codere intends to launch a de-listing public offer addressed to former shareholders.

Codere and its lenders are now working to complete full documentation for the restructuring transaction and satisfy all conditions to completion before the implementation long stop date (set at 9 months from September 23, 2014).

Financial Restructuring costs in 2013 and 2014

As a result of the Restructuring process, the Group has incurred in extraordinary expenses during 2014, which include: €5.6 million of interest derived from the unpaid coupons and €4.8 million of default interest related to the Senior Facility Agreement, both included as financial expenses in the reported P&L; and €25.2 million of extra costs

related to the financial restructuring recorded as operating expenses. In 2013, the Group recorded €12.6 million as operating expenses in respect of the Financial Restructuring process.

Corte dei Conti settlement

On 11 November 2013, the Italian Court of Auditors (*Corte dei Conti*) offered all network concessionaires the possibility to settle a longstanding dispute by paying 30% of the amount of the claim, plus legal interest. In the case of Codere Network, such settlement was to be in an amount of €34.5 million (being 30% of a total claim of €115 million), plus legal interest.

On 10 October 2014, Codere Network filed to settle the process at 10% of the claimed amount (€115 million as of the first instance decision by the Corte dei Conti) based on, amongst other arguments, the fact that the Group acquired the network after the events that were being considered judged. On 15 October 2014, the Corte dei Conti accepted the settlement filing and defined a settlement amount of 30% of the original claim plus legal costs (€36.4 million) to be paid before 5 November 2014. The Group has secured an additional €35 million pursuant to the Existing SFA in order to make the payment.

The payment of the settlement finalizes the judicial process and solves all existing economic or legal responsibilities associated to the Corte dei Conti claims.

Key Factors Affecting Our Results of Operations

General Factors

Regulation

The operations of the Group are highly regulated and many of the factors that affect the Group's 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 the Group is present, gaming taxes, maximum wager, minimum average gaming time, and the number of gaming machines that the Group may install in bars, restaurants and bingo halls. Furthermore, 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 gaming activities are operated. 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, the Group is required to focus on the limited number of factors that are within its control, to improve results of operations.

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

Macroeconomic Factors and Demographics

Gaming is a form of entertainment and, as such, competes with other forms of entertainment for the discretionary spending of the local population. In general, countries and regions with higher GDPs will tend to have higher levels of discretionary spending that can be directed to gaming and other forms of entertainment. Similarly, although the Group believes 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 the Group's results of operations. In addition, changing social habits in the countries in which the Group operates, such as longer working hours that result in a decrease in time spent on entertainment, may adversely affect results of operations, while the growth of middle class populations in Latin American geographies may contribute positively to the business.

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.

Argentina

Our Argentina business principally operates gaming halls with slot machines and bingo. The key factors that affect the results of operations of our Argentina business's slot machine operations, besides the macroeconomic environment, are the number of installed slot machines and the average daily net win per slot machine. The factors that most significantly affect the number of our installed slot machines are the number of gaming halls that we are able to open in Argentina, our ability to expand or relocate existing halls and Argentine regulation that limits the number of slot machines that may be installed in any bingo hall to one for every two bingo seats. The average daily net win per slot machine is most significantly affected by our ability to select high production slot machines and efficiently rotate our portfolio of slot machines. The Argentina business principally purchases its slot machines. The results of operations of our Argentina business are also affected by gaming taxes which are levied at the provincial level. The operating results of our bingo operations are subject to factors such as the availability of larger cash pools and the number of players in the halls which affect card sales. Accordingly, our business, results of operations and financial condition are affected to a significant extent by Argentina's political, social and economic conditions, as well as by Argentine government measures including measures related to foreign exchange controls, currency exchange rates, interest rates and inflation.

In the early 2000s, the Argentine economy experienced a severe recession, as well as a political and social crisis, and the abandonment of the U.S. dollar/Argentine peso parity in January 2002 which led to the significant depreciation of the Argentine peso against major international currencies. Since 2008, there have been a number of negative economic and political developments that have increased the level of uncertainty. The country experienced high inflation in recent years and there can be no assurance that Argentina will not experience another recession, higher inflation, devaluation, unemployment and social unrest in the future. Furthermore, the Argentine government has adopted various rules and regulations since late 2011 that have established restrictive controls on capital flows and the transfer of funds into and from Argentina. These exchange controls have practically closed the foreign exchange market to retail and wholesale transactions and access to U.S. dollars at the official exchange rate is severely restricted. Among other measures, the Argentine government requires official approval to buy U.S. dollars. A parallel foreign exchange market has emerged, and it is widely reported that the Argentine peso/U.S. dollar exchange rate in the unofficial market substantially differs from the official foreign exchange rate.

Due to restrictions imposed by the Central Bank in accessing U.S. dollars for uses such as importing products and services, servicing debt or paying dividends, we have been and remain unable to purchase U.S. dollars at the official exchange rate in order to repatriate funds and we have resorted in the past to making Argentine peso purchases of U.S. dollar-denominated Argentine sovereign securities, which we subsequently sell outside of Argentina for U.S. dollars. In selling these securities for U.S. dollars outside of Argentina, we have incurred losses in the past (recorded since 2012 under 'Gains or losses on financial assets' in our income statement) because the value of the U.S. dollar relative to the Argentine peso in these purchases differs materially from the official exchange rate at which the Argentine peso is translated into euro in our consolidated financial statements. As a result, we believe that the exchange rate of these transactions would represent a better indicator of the underlying value of our Argentine peso earnings and cash flow for reporting purposes.

The government of Argentina has also nationalized companies in several industries over the past decade, and there have been rumors about bringing the gaming industry under government control through expropriation but it is very unlikely as gaming regulation is controlled by local authorities. As a regulated business we rely on the legal strength of our licenses, most of which have been renewed very recently.

We are required to obtain and maintain licenses in order to conduct our operations. We may also have difficulty or face uncertainty in renewing our existing or obtaining new, gaming licenses, if regulation in this regard does not

exist, is unclear, changes or is recently enacted. Regulatory developments are subject to change and we cannot assure you that any of our gaming licenses will be renewed or that they will be renewed on satisfactory terms. During 2012 and 2013 we have successfully renewed all of our gaming licenses in Argentina up to 2021.

The license renewals in Argentina result in additional upfront payments and a canon tax surcharge which have affected results, and which we expect to affect results in the coming years. As of the date of this Report, and since 2007, we have renewed 14 licenses. See “Business - Argentina” for additional detail regarding these license renewals.

Mexico

Our principal business in Mexico is the operation of gaming halls in which we operate slot machines and, in certain cases, traditional bingo. We also operate sports betting books and, through ICELA, a 52 hectare gaming complex in Mexico City, which includes the Las Americas racetrack, and an amusement park. On February 8, 2012 we closed the ICELA Acquisition Agreement with CIE, pursuant to which we purchased an additional 35.8% stake in ICELA.

Our Mexico business’s operating revenue is significantly affected by the locations of the gaming halls. In particular, the target population and its disposable income, together with the alternative leisure options in the area as well as the competing gaming offer, are critical to the success of our halls. Finally, the availability of sufficient parking space and the accessibility of the hall are also important commercial attributes.

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

The Group owns and operates sports betting books where we offer betting services provided by Codere as well as by Grupo Caliente. Codere assumes the financial risks for the bets placed in our terminals while on the other hand, the financial risks are assumed by Grupo Caliente, as we only act as agent for Grupo Caliente and receive a percentage of the win. Therefore, for both services, the key factor affecting operating revenue is the volume of betting by visitors to sports betting locations. Betting volume is principally affected by traffic at the gaming halls and the ability of the books to attract betting, which is most significantly affected by the number and type of sporting events and races on which betting is made available and the availability of televised simulcasts of such events displayed on televisions throughout the site.

Italy

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

Spain

In Spain, Codere operates traditional AWP machines in third party locations (mainly bars), sport betting in third party locations (bars and arcades) and in our own LBOs, and a bingo hall in Madrid offering bingo, AWP machines and sports betting. The key factors that affect the results of operations of our Spain AWP business are the number of installed AWP machines and the average daily net win per AWP machine. The factors that most significantly affect the number of our installed AWP machines are our ability to enter into new agreements, or renew existing agreements, with site owners. In addition to regulation, the average daily net win per AWP machine is most significantly affected by our ability to select high producing AWP machines and to efficiently rotate our AWP machine portfolio. In many cases, our success in entering into agreements with site owners depends on our making of exclusivity payments or loans and advances to the site owners, as is customary in the market.

The key factors affecting our sports betting business are the location and attractiveness of our shops, corners or self-service terminals in third party locations, and the number and type of events on which the client can bet and the odds offered. In the case of the Spanish business we assume financial risk for the bets placed. The operating results of the bingo business in our gaming hall operation are subject to factors such as competition or the availability of larger cash pools and the number of players in the halls which affect card sales.

Critical Accounting Policies

The Group's Consolidated Financial Statements and the accompanying notes contain information that is pertinent to the discussion and analysis of the Group's results of operations and financial condition set forth below. The preparation of financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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. The Group believes 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.

In application of the recently revised IFRS 11 standard, there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly

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 (3) to ten (10) years. Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

	Annual Depreciation Rate
Computer software	20 - 25%
Installation rights	10 - 33%
Gaming licenses	2.5 - 11%
Client portfolio	4.5 - 10%
Exclusivity rights	15 - 25%

Tangible Fixed Assets

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

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

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

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

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

Investment Property

These are assets (buildings, land) earmarked for the obtainment of rental income. These assets are not intended for sale or for administrative use. The Group recognizes real-estate investments using the cost model, applying the same policies as those mentioned for tangible fixed assets, depending on the category of asset concerned.

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 amortised but is tested annually for impairment. The goodwill is assigned to the Group's cash generating units which coincide, in general, with the operating segments, which correspond to geographical areas, as the cash generating units which make up the lines of activity (slot machines, bingo and casinos), do not provide sufficiently detailed information for individual analysis, since normally several different kinds of operations coincide in the same location; for example, gaming machines may be installed in bingo halls and casinos.

Impairment of Tangible and Intangible Assets

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

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

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

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

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

Provisions and Contingent Liabilities

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

Contingent liabilities are considered to be those possible obligations arising as a consequence of past events, the materialization of which is conditional upon one or more future events independently of the will of the consolidated companies. Contingent liabilities do not fall within the scope of the object of accounting record.

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

Financial Liabilities

Financial liabilities are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, financial liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowing based on an effective interest rate. Contracts that create an obligation to purchase own equity instruments for cash or another financial asset give rise to a financial liability equal to the present value of the redemption amount. The financial liability is recognized initially under IAS 39, at fair value (the present value of the redemption amount) against equity. Subsequently, the financial liability is measured in accordance with current rules and movements in fair value are

accounted for as gain or loss in the consolidated income statement. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. The Group records financial liabilities disposals when obligations are cancelled or expired. Difference between the carrying amount of a financial liability cancelled or transferred to third parties and the consideration paid is recorded in the income statement of the fiscal year.

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

Income Tax

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

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

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

Use of Estimates

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

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 fewer prizes paid. We recognize revenue on an accrual basis, that is, when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Revenues from the principal business divisions are recorded as follows:

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

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

Argentina. The Argentina business's operating revenue principally comprises revenue collected from slot machines located in our bingo halls after prize payouts and from sales of bingo cards after prize payouts and revenues from food and beverages. It also reflects gains or losses from Argentine peso and U.S. dollar foreign exchange forward contracts that matured during the 2012.

Mexico. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA, which we hold an 84.8% stake, and in the operating companies of Legacy Caliente (*i.e.*, the Joint Opcos, Promojuegos and Mio Games). In connection with the Caliente Restructuring, we terminated the contract pursuant to which we constructed or refurbished gaming halls and Grupo Caliente bought such halls at cost. Following the closing of the Caliente restructuring, we now fully consolidate Legacy Caliente, reflecting Grupo Caliente's stake in each of the Legacy Caliente entities as a non-controlling interest. On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE for Mex. Ps. 2,653 million (equivalent to approximately U.S.\$209.0 million and €158.0 million as of the date of closing of the acquisition). The acquisition of the 35.8% stake was in addition to Codere Mexico's already existing 49% stake in ICELA. Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements. Operating revenue also includes revenues from Internet operations.

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

Spain. Operating revenue in Spain comprises revenues obtained from AWP machines and from our sports betting business, including self-service terminals, which we operate at third party locations (such as bars and

stand-alone machine halls) after prize payouts, and excluding the site owner's share as well as ancillary services provided to site owners. Operating revenue also includes revenue obtained in our gaming halls from bingo cards sales, sports bets, AWP machines (after prize payouts in all cases) as well as from food and beverage sales at these halls.

The following table summarizes the manner in which revenue is recognized in 2014 across our businesses and certain business lines within certain businesses under IFRS:

<u>Main Gaming Income Statement Items</u>	<u>Recognition of Gaming Revenue</u>
Amounts Wagered	
Less	
Prizes Payout	
Equals	
Net Box (Net Win)	Spain bingo, Argentina slots and bingo, Italy bingo, Brazil, Panama casinos and racetrack, Colombia gaming halls, Mexico ICELA, Legacy Caliente and Carrasco.
Less	
Site Owner ⁽¹⁾	
Equals	
Operator Revenues	Spain AWP, Colombia arcade route operation, Italy AWP, Spain Sports Betting
Less	
Gaming Taxes	
Equals	
Operator Revenues after Gaming Taxes	
Less	
Operator Expenses	
Less	
Financial Expenses	
Equals	
Profit before Tax	
Less	
Income Tax	
Equals	
Net Profit	

(1) Share of net box to site owners.

Operating Expenses

Operating expenses comprise:

- *Consumption and Other External Expenses.* In Argentina, Panama and Italy, consumption and other external expenses principally comprises food and beverage cost of sales. In Mexico, it primarily includes food and beverage cost of sales for ICELA, Promojuegos and Mio Games. In Spain, it includes payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and other costs, including food and beverage, incurred at our gaming halls and sports betting locations.
- *Personnel Expenses.* Our personnel expenses include wages and salaries and social security costs.
- *Depreciation and Amortization.* Tangible fixed assets are depreciated on a straight-line basis over the estimated useful lives of each component of the assets. Other intangible assets are depreciated in the same way. The elements are depreciated from the date they are available for use. Land is not depreciated.
- *Variation in Provisions for Trade Transactions.* Variation in provisions for trade transactions principally relates to movements in provisions we have taken in connection with doubtful account receivables and loans that we have made to site owners. The amount of the variation in provisions is principally affected by our assessment of the likelihood that the account receivables will be paid or the loans will be repaid.

- *Impairment.* Impairment includes the amount by which asset values have been reduced at period end. See Note 2(b)(7) to our Consolidated Financial Statements.
- *Other Operating Expenses.* Other operating expenses comprise gaming and other taxes, machine and other leases, payment for independent professional services, such as legal and auditing services, travel and advertising expenses, repair and maintenance and insurance premiums, among others.
- *Gains or Losses on Asset Disposals or Acquisitions.* Gains or losses on asset disposals or acquisitions include the profit or losses obtained from disposals completed during the period.

Operating Profit

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

Financial Items

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

Results of companies accounted by equity method

In applying the recently revised IFRS 11 standard, from January 2014 there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

Corporate Income Tax

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

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

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

For Spanish tax purposes, in December 2014, 37 Spanish companies in the consolidated group filed their tax returns as a consolidated tax group. Under Spanish tax legislation, the Group must have owned more than 75% (70% if the shares of the owned company are traded on an official secondary market) of the capital stock of a company at the start of the tax year in order to include the company in the consolidated tax group. Spanish companies that are not part of the Group's consolidated tax group pay tax on an individual basis (unless such companies belong to another tax group).

There are 21 Italian companies that are included in the consolidated tax regime applicable in Italy at December 2014. This consolidated regime was applied from 1 January 2005 for companies included in the tax group headed by Codere Italia, S.p.A., and since 1 January 2006, for companies included in the tax group headed by Operbingo Italia, S.p.A. Since 1 January 2012, companies included in the tax group under Operbingo Italia, S.p.A. are included in the tax group under Codere Italia, S.p.A.

The statutory corporate income tax rate in Spain is 30% as of the date of this document. Companies that are considered resident abroad for tax purposes are subject to corporate income tax according to local tax laws in the range of 25% to 35% except Chile with 20%. The Group defines its effective tax rate as its income tax expense over its income (loss) before tax.

VAT taxes are generally not deductible for gaming companies and, accordingly, are recorded as operating expenses. Since 1 January 2009, 38 Spanish companies in the Group are taxed under the Special VAT Regime for groups of companies. This has allowed the Group to minimize the VAT cost of Spanish intra-group transactions.

Non-Controlling Interests

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

Results of Operations

The following tables set forth, by principal business and for our Other Operations, operating revenue, operating expenses, operating profit (loss) and EBITDA for the years ended December 31, 2013 and 2014 prepared in accordance with IFRS, and excluding the financial restructuring costs in both years and the payment associated to the Corte dei Conti Settlement in 2014:

	Year ended December 31,		
	2013 ⁽¹⁾	2014	% change
	(€ in millions, except percentages)		
Operating Revenue:			
Argentina	584.7	489.0	(16.4%)
Mexico.....	382.4	341.9	(10.6%)
Italy	258.5	263.8	2.1%
Spain.....	151.6	149.9	(1.1%)
Other Operations:			
Brazil	2.9	2.8	(3.4%)
Colombia	34.0	31.4	(7.6%)
Panama	90.3	88.6	(1.9%)
Uruguay.....	16.4	18.2	11.0%
Corporate Overhead.....	0.0	0.0	n.a.
Total.....	1,520.8	1,385.6	(8.9%)

	Year ended December 31,		
	2013 ⁽¹⁾	2014	% change
	(€ in millions, except percentages)		
Operating Expenses:			
Argentina	490.9	409.0	(16.7%)
Mexico.....	396.9	325.2	(18.1%)
Italy.....	271.4	251.3	(7.4%)
Spain.....	163.0	151.0	(7.4%)
Other Operations:			
Brazil	4.2	3.7	(11.9%)
Colombia.....	35.1	28.4	(19.1%)
Panama.....	89.3	84.8	(5.0%)
Uruguay.....	41.5	28.8	(30.6%)
Corporate Overhead.....	26.6	22.6	(15.0%)
Total.....	1,518.9	1,304.8	(14.1%)

	Year ended December 31,		
	2013 ⁽¹⁾	2014	% change
	(€ in millions, except percentages)		
Operating Profit (Loss):			
Argentina	93.8	80.0	(14.7%)
Mexico.....	(18.3)	9.8	n.a.
Italy	(13.4)	12.9	n.a.
Spain.....	(12.5)	(3.8)	69.6%
Other Operations:			
Brazil	(1.3)	(0.9)	30.8%
Colombia.....	(1.8)	1.8	n.a.
Panama.....	0.9	3.7	n.a.
Uruguay.....	(25.2)	(10.5)	58.3%
Corporate Overhead.....	(26.8)	(22.5)	16.0%
Total.....	(4.6)	70.5	n.a.

	Year ended December 31,		
	2013 ⁽¹⁾	2014	% change
	(unaudited)		
	(€ in millions, except percentages)		
EBITDA:			
Argentina	110.8	93.4	(15.7%)
Mexico.....	78.6	75.1	(4.5%)
Italy	21.6	29.4	36.1%
Spain.....	17.0	17.6	3.5%
Other Operations:			
Brazil	(0.8)	(0.4)	50.0%
Colombia.....	3.6	6.9	91.7%
Panama.....	14.6	14.9	2.1%
Uruguay.....	(9.1)	(2.5)	72.5%
Corporate Overhead.....	(25.3)	(21.2)	16.2%
Total.....	211.0	213.2	1.0%

(1) In applying the recently revised IFRS 11 standard, from January 2014 there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Group Results of Operations

Operating Revenue

Operating revenue decreased by €135.2 million, or 8.9%, to €1,385.6 million in the year ended December 31 2014 from €1,520.8 million in the year ended December 31 2013. The decrease in operating revenue was primarily attributable to the decrease in revenues in Argentina (€95.7 million), caused by the devaluation of the Argentine Peso; and in Mexico (€40.5 million), as a result of weaker wins per day and the devaluation of the Mexican Peso. This trend was partially offset by an increase in revenue in Italy (€5.3 million) and in Uruguay (€1.8 million) due to the opening of the Casino Hotel Carrasco in March 2013.

Operating Expenses

Operating expenses decreased by €177.0 million or 11.6% to €1,354.5 million. The main drivers of this reduction were Argentina (€81.9 million), mainly due to the devaluation of the Argentine Peso and the restructuring efforts, and Mexico (€71.7 million), partly due to the reporting of an impairment loss in the business unit in 2013. Excluding financial restructuring costs and the payment associated with the Corte dei Conti Settlement, operating expenses decreased by €214.1 million (14.1%) to €1,304.8 million.

Gains or Losses on Asset Disposals or Acquisitions

Gains or losses on asset disposals or acquisitions resulted in a loss of €10.3 million compared to a loss of €6.5 million in the same period in 2013, mainly due to the impairment of the halls closed in Mexico.

Operating Profit

Operating profit increased by €38.0 million to €20.8 million due to lower impairment losses in 2014. Operating margin increased to 1.5%, compared to negative 1.1% in 2013. Excluding financial restructuring costs, the payment associated with the Corte dei Conti Settlement, and impairment losses, operating profit is €75.4 million and the operating margin reaches 5.4%, representing an increase of €22.7 million and 1.9%, respectively, compared to 2013.

Adjusted EBITDA

Adjusted Ebitda increased €2.2 million (or 1.0%) to €213.2 million, mainly due to the growth in Italy (€7.8 million), Uruguay (€6.6 million), Corporate Overhead (€4.1 million) and Colombia (€3.3 million), partially offset by a decrease in Argentina (€17.4 million) and Mexico (€3.5 million). Adjusted 2014 EBITDA margin was 15.4%, 1.5% above the comparable period of 2013.

Financial Income

Financial income decreased by €1.8 million to €3.3 million.

Financial Expenses

Financial expenses decreased by €13.1 million (or 9.0%) to €132.7 million. The decrease was primarily attributable to lower financial charges in Argentina, Mexico and Panama, partially offset by higher funding costs in the Senior Credit Facility, including default interest costs and additional interest resulting from the unpaid coupons.

Gains or Losses on Financial Assets

Gains or losses on financial assets represented a loss of €15.5 million in the period as a result of the expiration of the call option on the 15.2% of ICELA (€5.4 million) and losses in transactions in Argentine bonds.

Exchange Gains (Losses), Net

Exchange gains (losses), net, which principally reflect the impact of changes in exchange rates on balances in foreign currencies, decreased by €37.1 million to a loss of €45.9 million in the year ended December 31 2014 from a loss of €8.8 million in the year ended December 31 2013.

Corporate Income Tax

Corporate income tax decreased by €4.5 million (9.9%) to €40.9 million, primarily due to the tax deductibility of the Corte dei Conti fine payment (-€10.4 million), lower income tax accrued in Mexico due to the abolishment of the Mexican Flat Tax (IETU) from January 1, 2014 (-€3.5 million) and the reported tax provision in 2013 (-€7.9 million). This reduction has been partially compensated with the write-off of certain tax credits in Mexico (€4.9 million), and by the increase in Argentina due to withholding taxes generated from intragroup service payments (€5.6 million) and the obligation to accrue for the distributable reserves of Argentine companies (€9.5 million) due to the new 10% withholding tax on dividends for all the existing distributable reserves.

Non-controlling Interests

Minority interest loss increased by €3.3 million to €34.9 million as a result of higher losses accrued in the operation of Legacy Caliente.

Net Income

As a result of the above, the Group incurred a net loss of €173.0 million in the year ended December 31 2014 as compared to a loss of €173.6 million in the year ended December 31 2013. Results of Operations by Business

Argentina

	Year ended December 31,		
	2013	2014	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	584.7	489.0	(16.4%)
Operating expenses:			
Consumption and other external expenses	11.9	7.8	(34.5%)
Personnel expenses.....	133.0	106.4	(20.0%)
Depreciation	14.0	9.0	(35.7%)
Amortization of intangible assets	3.0	4.4	46.7%
Other operating expenses	329.0	281.4	(14.5%)
Gaming and other taxes	256.1	214.3	(16.3%)
Machine rental costs	4.4	5.7	29.5%
Other rentals	8.3	7.6	(8.4%)
Others	60.2	53.8	(10.6%)
Total operating expenses	490.9	409.0	(16.7%)
Operating profit	93.8	80.0	(14.7%)
EBITDA	110.8	93.4	(15.7%)

Operating Revenue. Operating revenue decreased by €95.7 million, or 16.4%, to €489.0 million in the year ended 31 December 2014 from €584.7 million in the year ended 31 December 2013. This decrease was primarily due to a 47.4% devaluation of the Argentine Peso against the Euro, which offset the improvement of local currency revenue. Revenue in local currency grew fueled by a higher win per day per machine and by a larger portfolio of machines. This growth is mainly due to the effect of high inflation and commercial measures taken, and is partially offset by the adverse macroeconomic context. In constant currency terms, revenue increased by €136.3 million or 23.3% to €721.0 million.

Operating Expenses. Operating expenses decreased by €81.9 million, or 16.7%, to €409.0 million in the year ended 31 December 2014 from €490.9 million in the year ended 31 December 2013. This decrease is mainly due to the impact of the devaluation of the Peso and cost saving initiatives. This reduction was partially offset by the impact of high inflation in salaries and other operating costs. The cost saving initiatives generated higher non-recurring charges for the year (€9.6 million) compared to 2013 (€4.2 million).

Operating profit and EBITDA. As a result of the above, operating profit decreased by €13.8 million, or 14.7% to €80.0 million in the year ended 31 December 2014 from €93.8 million in the year ended 31 December 2013. EBITDA decreased by €17.4 million, or 15.7% to €93.4 million in 2014 from €110.8 million in 2013. EBITDA margin improved by 0.2%, from 18.9% in 2013 to 19.1% in 2014, as a result of the aforementioned factors. Excluding non-recurring items in both periods, the margin would have risen to 21.1%, 1.4% higher than 2013. In constant currency terms, EBITDA for 2014 would have reached €136.1 million, representing a growth of 22.8% compared to the same period in 2013.

Mexico

	Year ended December 31,		
	2013	2014	% change
	(€ in millions, except percentages)		
	(unaudited)		
Operating revenue	382.4	341.9	(10.6%)
Operating expenses:			
Consumption and other external expenses.....	20.7	17.6	(15.0%)
Personnel expenses ⁽¹⁾	87.0	76.1	(12.5%)
Depreciation	51.8	43.5	(16.0%)
Amortization of intangible assets	17.0	14.9	(12.4%)
Asset impairment test	24.3	-	n.a.
Other operating expenses:	196.1	173.1	(11.7%)
Gaming and other taxes	42.1	37.5	(10.9%)
Machine rental costs	38.0	32.5	(14.5%)
Other rentals	32.8	33.6	2.4%
Others ^{(2) (3)}	83.2	69.5	(16.5%)
Total operating expenses	396.9	325.2	(18.1%)
Gains or losses on asset disposals or acquisitions	(3.8)	(6.9)	(81.6%)
Operating profit	(18.3)	9.8	n.a.
EBITDA	78.6	75.1	(4.5%)

(1) It includes personnel costs related to outsourced employees.

(2) It excludes personnel costs related to outsourced employees.

(3) In 2013 Mexico includes Codere Interactiva SL for an amount of €0.2million which was included in corporate overhead in 2012.

Operating Revenue. Operating revenue decreased by €40.5 million, or 10.6%, to €341.9 million in the year ended 31 December 2014 from €382.4 million in the year ended 31 December 2013. This decrease is mainly due to the decrease of the average daily net win per machine in the first quarter, which was impacted by the new procedures in our halls to comply with the new regulation passed in Q4 2014⁽¹⁾, the devaluation of the Mexican Peso against the Euro, and the outsourcing of Banamex Convention Center.

Operating Expenses. Operating expenses decreased by €71.7 million, or 18.1%, to €325.2 million in the year ended 31 December 2014 from €396.9 million in the year ended 31 December 2013, due to the asset impairment recorded in 2013, and as a result of cost saving measures implemented since 2013. The expenses were also affected by the devaluation of the Mexican Peso against the Euro, the closure of gaming halls since Q1 2013 and the outsourcing of Banamex Convention Center. Additionally, there were less non-recurring expenses in 2014 (€4.2 million) when compared to the same period in 2013 (€13.5 million).

Operating Profit and EBITDA. As a result of the above, operating profit increased by €28.1 million to €9.8 million in the year ended 31 December 2014 from a loss of €18.3 million in the year ended 31 December 2013. EBITDA decreased by €3.5 million, or 4.5%, to €75.1 million in 2014 from €78.6 million in 2013, mainly due to the decline in revenue in the first part of the year, partially offset by cost savings. The EBITDA margin for the period increased from 20.6% in 2013 to 22.0% in 2014. In constant currency terms, EBITDA in the period of 2014 would have reached €77.7 million, representing a decrease of 1.1% over the same period in 2013.

(1) Federal Law for the Prevention and Identification of Operations with Illicit Resources.

Italy

	Year ended December 31,		
	2013	2014	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	258.5	263.8	2.1%
Operating expenses:			
Consumption and other external expenses	1.5	1.4	(6.7%)
Personnel expenses.....	41.6	35.6	(14.4%)
Depreciation	11.2	9.8	(12.5%)
Amortization of intangible assets	6.4	6.4	-
Variation in provisions for trade transactions.....	0.9	0.7	(22.2%)
Asset impairment test	16.0	-	n.a.
Other operating expenses.....	193.8	221.9	14.5%
Gaming and other taxes	138.4	138.6	0.1%
Other rentals	9.3	9.1	(2.2%)
Others	46.1	74.2	61.0%
Total operating expenses	271.4	275.8	1.6%
Gains or losses on asset disposals or acquisitions	(0.5)	0.4	n.a.
Operating profit	(13.4)	(11.6)	13.4%
EBITDA	21.6	4.9	(77.3%)
Adjusted EBITDA ⁽¹⁾	21.6	29.4	36.1%

(1) Does not include the payment associated with the Corte dei Conti Settlement in Q3 2014.

Operating Revenue. Operating revenue increased by €5.3 million, or 2.1%, to €263.8 million in the year ended 31 December 2014 from €258.5 million in the year ended 31 December 2013. This increase was primarily due to an increase in the number of installed VLT and AWP's being complemented by the improvement of the average daily revenue (6.6% and 0.8% for VLTs and AWP's, respectively), along with a larger amount of third-party machines connected to the network.

Operating Expenses. Operating expenses increased by €4.4 million, or 1.6%, to €275.8 million in the year ended 31 December 2014 from €271.4 million in the year ended 31 December 2013, due to expenses from the settlement of the Corte dei Conti process (€24.5 million). These effects mitigate the impact of cost savings initiatives made during the year. Excluding the impact of this settlement, expenses would have been reduced to €251.3 million, an improvement of 7.4% over the same period of 2013, despite the increased number of installed AWP's and VLTs.

Operating Profit and EBITDA. As a result of the above, operating profit increased by €1.8 million to a loss of €11.6 million in the year ended 31 December 2014 from a loss of €13.4 million in the year ended 31 December 2013. EBITDA decreased by €16.7 million to €4.9 million in 2014 from €21.6 million in 2013 primarily due to expenses from the Corte dei Conti settlement (€24.5 million). EBITDA margin decreased to 1.9% in 2014 from 8.4% in 2013.

Adjusted EBITDA increased by 36.1% during the period due to the improved revenue and cost savings initiatives mentioned above. The adjusted EBITDA margin increased to 11.1%, 2.7% higher than in the comparable period in 2013.

Spain

	Year ended December 31,		
	2013	2014	% change
	(€ in millions, except percentages) (unaudited)		
Operating revenue.....	151.6	149.9	(1.1%)
Operating expenses:			
Consumption and other external expenses	8.7	9.6	10.3%
Personnel expenses.....	37.9	36.9	(2.6%)
Depreciation	14.9	11.9	(20.1%)
Amortization of intangible assets	8.9	5.5	(38.2%)
Variation in provisions for trade transactions	1.0	1.3	30.0%
Asset impairment test	3.6	-	n.a.
Other operating expenses:	88.0	85.8	(2.5%)
Gaming and other taxes	57.6	56.2	(2.4%)
Machine rental costs	1.5	1.2	(20.0%)
Other rentals	5.2	4.8	(7.7%)
Others	23.7	23.6	(0.4%)
Total operating expenses	163.0	151.0	(7.4%)
Gains or losses on asset disposals or acquisitions	(1.1)	(2.7)	n.a.
Operating profit	(12.5)	(3.8)	69.6%
EBITDA	17.0	17.6	3.5%

Operating Revenue. Operating revenue decreased by €1.7 million, or 1.1%, to €149.9 million in the year ended 31 December 2014 from €151.6 million in the year ended 31 December 2013. This decrease was primarily due to lower revenue in the AWP business as a result of the optimization of the portfolio (6.0%) and, to a lesser extent, in the bingo business. This decrease was partially offset by an increase in revenue from sports betting, due to an increase in points of sale (1,563 in Q4 2014 compared to 1,395 in Q4 2013), both in previously regulated regions and in new regions (Galicia began operations in Q1 2013, Murcia in Q2 2013, Castilla La Mancha in Q1 2014, Ceuta and Cataluña in Q3 2014 and La Rioja in Q4 2014), and to higher revenue per point of sale.

Operating Expenses. Operating expenses decreased by €12.0 million, or 7.4%, to €151.0 million in the year ended 31 December 2014 from €163.0 million in the year ended 31 December 2013. This evolution reflects the cost reduction through efficiency initiatives undertaken in the machine business (personnel costs and gaming taxes), although were partially compensated by higher expenses from increased activity in Sports Betting, and higher costs of guarantees related to deferred gaming taxes as a consequence of the financial position of the Group. Such efficiency efforts generated non-recurring items in 2014 of €1.4 million versus €0.5 million in 2013.

Operating Profit and EBITDA. As a result of the above, the Group experienced an operating loss of €3.8 million in the year ended 31 December 2014 as compared to an operating loss of €12.5 million in the year ended 31 December 2013. EBITDA increased by €0.6 million, or 3.5%, to €17.6 million in 2014 from €17.0 million in 2013. EBITDA margin increased to 11.7% in 2014 from 11.2% in 2013 as a result of the cost saving efforts. Excluding non-recurring items, the improvement in the margin would have been 1.2%.

Other Operations

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

Operating Revenue. Operating revenue decreased by €2.6 million, or 1.8%, to €141.0 million in the year ended 31 December 2014 from €143.6 million in the year ended 31 December 2013. This decrease was primarily in Colombia (€2.6 million) mainly due to the impact of the Colombian Peso devaluation against the Euro and in Panama (€1.7 million) principally due to fewer gaming machine seats, partially offset by the appreciation of the Dollar against the Euro in Q4 2014. The decrease of operating revenue was partially offset by the increased revenues in Uruguay (€1.8 million) due to the opening of the Carrasco Hotel and Casino on March 7, 2013, partially compensated by the devaluation of the Uruguayan Peso against the Euro.

Operating Expenses. Operating expenses decreased by €24.4 million, or 14.3%, to €145.7 million in the year ended 31 December 2014 from €170.1 million in the year ended 31 December 2013. This decrease was primarily in Uruguay (€12.7 million) due to the absence of the one-off costs recorded in 2013 for the opening of the Carrasco Hotel and Casino, to a decrease in asset impairments and to the efficiency efforts undertaken, in Colombia (€6.7 million) principally due to various cost saving efforts and the Colombian Peso devaluation against the Euro and in Panama (€4.5 million) due to the positive effect of non-recurring items, and, to a lesser extent, cost saving efforts.

Operating Profit and EBITDA. As a result of the above, operating profit increased by €21.5 million to a loss of €5.9 million in the year ended 31 December 2014 from a loss of €27.4 million in the year ended 31 December 2013. EBITDA increased by €10.6 million to €18.9 million in 2014 from €8.3 million in 2013, principally due to the opening of the Carrasco Hotel and Casino, the improvement plan deployed in all the business units in the second half of the year, and to the EBITDA growth in all the business included under "Other Operations". EBITDA margin improved to 13.4% from 5.8% in 2013 as a result of the improvement in profitability in these markets.

Liquidity and Capital Resources

Liquidity

Until 2012, the Group and its Subsidiaries' liquidity needs have been met principally from proceeds from the offerings of senior notes, including the Existing Notes, cash flow from operating activities and borrowings under the Existing SFA and other bank borrowings. In 2012 and 2013 the liquidity position of the Group was compromised due to the accelerated license renewal process and the smoking ban in Argentina, together with certain tax increases in some of our key markets and the devaluation of the Argentine Peso. As a result, the Group was driven in 2013 into a financial restructuring process that has significantly impacted its liquidity position since then. On one hand, costs to refinance the SFA in 2013, the costs associated with the restructuring process (financial and legal advisors) and the default interests paid for the SFA since February 2014 increased significantly the cash consumption at headquarters. On the other hand, the Group agreement with its bondholders not to pay the coupons since December 2013 (standstill and LUA agreements), the €35m additional amount borrowed under the SFA to settle the Corte dei Conti process, the reduction on cash used on capital expenditures and certain commercial agreements with key machine suppliers, have helped the company to continue its operations in each business unit.

The following table provides a profile of our liabilities under IFRS at December 31, 2013 and 2014.

	As at December 31,	
	2013 ⁽¹⁾	2014
	(audited)	
	(€ in millions)	
Short term debt payable to credit institutions	119.1	161.0
Other current liabilities ⁽²⁾	448.3	1,513.3
Total current liabilities.....	567.4	1,674.3
Long term debt payable to credit institutions.....	102.7	89.3
Other long term liabilities ⁽³⁾	1,242.2	224.8
Total long term liabilities.....	1,344.9	314.1
Total liabilities.....	1,912.3	1,988.4

(1) In applying the recently revised IFRS 11 standard, from January 2014 there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

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

(3) 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, 2013 and 2014.

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(audited)	
	(€ in millions)	
Cash flow from continuing operations:		
Operating profit	(17.2)	20.8
Non-cash expenses:		
Depreciation and amortization.....	149.7	125.5
Impairment test.....	57.3	4.9
Other operating expenses.....	16.1	16.6
Non cash income(loss)	(1.1)	(2.4)
Changes in working capital	(6.3)	(39.7)
Corporate income tax	(39.0)	(32.3)
Net Cash from Operating Activities.....	159.5	93.4
Capital expenditures ⁽²⁾⁽³⁾	(68.8)	(48.6)
Long term loans and receivables ⁽²⁾⁽⁴⁾	0.9	(0.1)
Investments ⁽²⁾⁽⁵⁾	(0.2)	(5.5)
Net Cash Used in Investing Activities	(68.1)	(54.2)
Net change in financial debt ⁽⁶⁾	76.6	35.0
Net change in other bank loans.....	(20.4)	(10.9)
Dividends	(4.3)	(2.6)
Net change in other debt and contingent payments ⁽⁷⁾	(23.4)	(32.4)
Net investment in treasury shares	(0.1)	-
Interest income	1.9	1.4
Interest expense	(83.6)	(31.2)
Net cash effect of exchange rate changes	(9.8)	(10.6)
Net Cash used in Financing Activities	(63.1)	(51.3)
Effects of exchange rate fluctuations ⁽⁸⁾	(8.3)	(3.6)
Net Change in Cash Position	20.0	(15.7)
Reconciliation		
Cash at beginning of period.....	82.4	102.4
Cash at end of period.....	102.4	86.7
Change in cash position.....	20.0	(15.7)

(1) Cash flow for 2013 has been pro-forma adjusted under equity method consolidation.

(2) Reflects accrued amounts, including any related contingency payment. Financing or deferment of these investments is recorded under *Net change in other debtor and contingent payments*.

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

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

(5) Includes the amounts committed to acquisitions.

(6) Includes our Senior Credit Facility.

(7) Reflects movements in temporary financial investments such as vendor financing for investments, contingent payments, and the payment of deferred gaming taxes.

(8) Includes the effect of exchange rate fluctuation in the conversion of balances to Euros.

Cash Flow for the Year Ended December 31, 2014

Net cash from operating activities for the year ended December 31, 2014 was €93.4 million, as compared to net cash from operating activities of €159.5 million for the year ended 31 December 2013.

This decrease is mainly attributable to the nonrecurring items attributed to the financial restructuring process and the higher negative change in working capital primarily due to the payment of the Corte dei Conti settlement, partially offset by lower corporate tax paid.

Net cash used in investing activities for the year ended 31 December 2014 was €54.2 million, as compared to net cash used in investing activities of €68.1 million for the year ended 31 December 2013. This decrease was primarily due to the €12.9 million invested in the license renewal in Argentina in 2013.

Capital expenditure was €48.6 million. The investments (€5.5 million) resulted from the acquisition of stakes in Mexico (€4.0 million) and Italy (€1.5 million).

Net cash used in financing activities for the year ended 31 December 2014 was €51.3 million, as compared to net cash used in financing activities of €63.1 million for the year ended 31 December 2013. This decrease in used cash was primarily due to less financial expenses paid in 2014 (€31.2 million in 2014 and €83.6 million in 2013) as a result of the unpaid bond coupon and less cash used in amortization of other bank loans in 2014 (€10.9 million in 2014 and €20.4 million in 2013). This decrease is partially offset by less cash originated in change in financial debt (€35 million originated in 2014, less than €76.6 million from 2013) and more cash used in other debt and contingent payments of €32.4 million (€23.4 million of cash used in 2013).

In 2014, the principal drivers of €51.3 million cash used in financing activities were the following:

- Negative change in other debt and contingent payments of €32.4 million, consisting of a decrease in net debt with suppliers of €25.1 million, €0.3 million of cash deducted from business which are now consolidated via the equity method, and a negative variation of €9.6 million of financial assets, mainly due to the losses associated to the sale of Argentine bonds. This negative variation was partially offset by an increase of deferred taxes in Spain of €2.6 million. The €25.1 million of decrease in net debt with assets suppliers is explained by a reduction of supplier financing in Argentina, Mexico, Spain and Italy.
- A decrease in bank loans of €10.9 million, primarily due to the repayment of loans in Mexico, Panama and Italy.
- Negative net dividends of €2.6 million that include dividends paid to minorities of €4.7 million net of €2.1 million dividends received from HRU.
- €31.2 million of financial expenses, as a result of the unpaid coupons of the Euro and the USD bonds.
- €1.4 million of financial income and a negative net change in funds from exchange differences of €10.6 million (€24.6 million negative differences and €14.0 million of positive differences).
- €35 million of new financial debt as SFA parties agreed to increase the original amount for the purpose of funding the Corte dei Conti fine payment.

Working Capital Requirements

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

	Year ended December 31,	
	2013 ⁽¹⁾	2014
	(unaudited) (€ in millions)	
Variations in:		
Receivables.....	(8.0)	(2.0)
Inventories.....	0.5	1.0
Payables.....	(9.0)	(39.6)
Other.....	10.2	0.9
Total.....	(6.3)	(39.7)

(1) In applying the recently revised IFRS 11 standard, from January 2014 there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly

The operation of the Group's various businesses, in the aggregate, is not working capital intensive. The Group manages its working capital requirements on a decentralized basis and has historically funded its working capital requirements through funds generated from operating activities and from borrowings under senior credit facilities.

During the periods under review, the Group's working capital needs have been principally driven by payables related to the Corte dei Conti provision (negative variation of €11.9 million for the year ended 31 December, 2014) group's request for deferral of gaming taxes in, gaming tax payable in Codere Network, variation in personnel cost provisions and payables and receivables in the Mexico business as well as receivables from clients of Codere Network.

During 2014, Codere decreased the amounts owed to operating and capex providers in different countries, trying to reduce payment days to providers that had increased in 2013. This increase was motivated by the liquidity constraints the group had in 2012 and 2013, due to the license renewal and the implementation of the smoking ban in the last quarter of 2012, both in Argentina.

The Group anticipates that its working capital requirements in the foreseeable future will generally be stable. However, these requirements can fluctuate for a variety of reasons, including movements in receivables from clients of Codere Network, payables related to the request for deferral of gaming taxes in Spain, and exchange rate fluctuations.

Capital Expenditures and Investments

The Group's capital expenditures primarily consist of expenditures towards maintaining, modernizing, upgrading or expanding its infrastructure. The Group generally classifies capital expenditures as growth capital expenditures to the extent that they relate to obtaining licenses, increasing the number of gaming machines in the Group's portfolio, increasing the number of bingo seats in its bingo halls or otherwise expanding the Group's business. Maintenance expenditures are expenditures that are not related to expanding the Group's business, including the licenses renewal. The Group invested €68.1 million and €54.2 million in the years ended 31 December 2013 and 2014, respectively.

The Group is making a positive effort to ensure all business initiatives continue despite headquarters liquidity stress.

The current policy in respect of capital expenditures continues to focus on the strategic needs of the Group that may have a direct impact on revenues or in projects that generate returns in the short term. The following table sets forth the Group's total capital expenditures by principal business and for its other operations based on management's estimates and divided between maintenance and growth capital expenditures for the period indicated.

	Year ended December 31	
	2013 ⁽¹⁾	2014
	(unaudited)	
	(€ in millions)	
Argentina	24.6	6.7
Maintenance ⁽²⁾	15.9	1.8
Growth	8.7	4.9
Mexico	7.4	19.0
Maintenance ⁽³⁾	7.0	13.9
Growth	0.4	5.1
Italy	12.0	7.3
Maintenance	8.0	5.8
Growth	4.0	1.5
Spain	12.7	14.9
Maintenance	8.5	10.3
Growth	4.2	4.6
Other	11.4	6.3
Maintenance	2.4	4.6
Growth	9.0	1.7
 Total Maintenance	 41.8	 36.4
Total Growth	26.3	17.8
Total Capex	68.1	54.2

(1) In applying the recently revised IFRS 11 standard, from January 2014 there is a change in the method of consolidation used for "Hípica Rioplatense of Uruguay" and "New Joker" in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

(2) €12.9 million related to the license renewals in Argentina in 2013.

(3) €8.4 million related to the purchase in Mexico of 1,940 machines that were formerly leased.

Contractual Obligations

The Group has 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 the Group enters into collaboration agreements in its AWP machine businesses. The Group also has, and will continue to have, payment obligations pursuant to its outstanding borrowings.

The Group's consolidated contractual obligations as of 31 December 2014 are set forth in the table below.

	Payments due by period			
	Total	Less than 1 year	1-3 years	After 4 years
		<i>(unaudited)</i>		
		<i>(EUR in millions)</i>		
Long-term debt ⁽¹⁾	89.3	-	20.0	69.3
Other long-term debt ⁽²⁾	58.2	-	40.1	18.1
Short-term debt ⁽³⁾	1,302.9	1,302.9	-	-
Capital lease agreements (short-term) ⁽⁴⁾	3.9	3.9	-	-
Other obligations (short-term) ⁽⁵⁾	67.4	67.4	-	-
Purchase obligations (trade accounts payable) ⁽⁶⁾	119.6	119.6	-	-
Total contractual obligations	1,641.3	1,493.8	60.1	87.4

(1) Includes long-term payables to credit entities (€89.3 million).

(2) Consists mainly of the deferred portion of the purchase price of AWP operators in Spain (€4.9 million), long-term payments of exclusivity rights in Spain (€1.7 million), long-term financial leasing (€2.0 million) and long-term payables related to the Group's request for deferral of gaming taxes.

(3) Includes the Notes (€ 1,007.1 million), the accrued and unpaid interest on the Notes of €134.8 million plus bank loans in Mexico (€13.7 million), Italy (€1.7 million), Panama (€4.7 million), Uruguay (€11.2 million), Spain (€0.1 million) and Colombia (€0.9 million). The Senior Credit Facility (€128.7 million) is included.

(4) Includes short-term capital lease agreements.

(5) Other short-term obligations include deferred gaming taxes in Spain relating to the AWP business (€30.4 million) and exclude short-term capital lease agreements.

(6) Includes trade accounts payable.

Off-Balance Sheet Arrangements

The Group does not have any material off-balance sheet entities and does not utilise significant off-balance sheet arrangements.

Effects of Inflation

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

Market and Credit Risks

The Group is primarily exposed to market risk from changes in interest rates and foreign currency exchange rates. The Group manages its exposure to these market risks through its regular operating and financing activities. Financial instruments that potentially subject the Group to credit risk consist of cash investments, remaining debt owed to the Group by Grupo Caliente and trade receivables. The Group maintains cash and cash equivalents with financial institutions in Spain with high credit standards.

Interest Rate Risks

The Group is subject to interest rate risks related to its borrowings. Borrowings under the Existing SFA are principally in Euro with floating interest rates based on EURIBOR or LIBOR. The Group does not currently hedge its interest rate exposure and does not expect to do so in the future.

Foreign Currency Risks

The Group's principal exchange rate exposures relate to the Euro-Mexican peso and Euro-Argentine peso exchange rates for translation related exposure. The Group also has translation related exposures arising from its operating revenue generated in the local currencies of Colombia, Brazil and Uruguay (the Colombian peso, Brazilian reals and Uruguayan peso, respectively) and to the US dollar in Panama where the US dollar is the functional currency. The Group also has currency translation related exposure relating to the US dollar-Euro exchange rates, particularly in Mexico, where certain costs, in particular gaming machine rental costs, as well as the management services agreement with Legacy Caliente, and the outstanding obligations from the Caliente Restructuring are denominated in US dollar-denominated or referenced to the US dollar. The issuance of the Existing USD Notes on 8 February 2012 increased the Group's exposure to the US dollar-Euro exchange rates, given that the Existing USD Notes are US dollar denominated.

In order to mitigate part of the foreign exchange risk to which the Group is subject, in prior years, it maintained hedging agreements for notional amounts equivalent to 50% of projected EBITDA from Argentine and Mexican operations on a four-quarter rolling basis. As of the date of this document, however, the Group has no foreign exchange forward contracts in place and it does not hedge any of Latin American currencies.

The Group's Argentine peso foreign exchange forward contract that matured during 2012 amounted to a net loss of €3.8 million and nil in the year ended 31 December 2013 and 2014, respectively. The realized losses were recorded as other operating revenue in the Argentine business.

BUSINESS

Overview

The Group is a leading gaming company engaged in the management of gaming machines, machine halls, bingo halls, horse racing tracks, casinos and sports betting locations in Latin America, Italy and Spain. As of 31 December 2014, the Group managed 52,172 gaming machines, 176 gaming halls (including machine halls, bingo halls with machines, machine halls at racetracks and casinos), 1,709 sport betting locations (including 1,202 self-service terminals at bars and 361 betting locations in Spain) and two horse racing tracks. In the twelve months ended 31 December 2014, the Group generated operating revenue of €1,385.6 million and EBITDA of €163.5 million.

In Argentina, the Group is the largest operator of gaming halls in the province of Buenos Aires with 14 gaming halls in which 6,562 slot and other gaming machine seats and 10,951 bingo seats were operated as of 31 December 2014. In the twelve months ended 31 December 2014, the Argentina business generated operating revenue of €489.0 million and EBITDA of €93.4 million.

In Mexico, through ICELA and Legacy Caliente, the Group considers itself to be the largest operator of gaming venues with 84 gaming halls in which 17,414 machine seats were operated as of 31 December 2014 (these figures exclude 7 gaming halls which are currently closed). As of the same date, the Group also held licenses to build and operate an additional 51 gaming halls. In addition, through ICELA, the Group owns a 52 hectare gaming complex in Mexico City that includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico (which from 1 June 2013 has been operated by CIE). In the twelve months ended 31 December 2014, the Mexican business generated operating revenue of €341.9 million and EBITDA of €75.1 million.

In Italy, the Group considers it is among the 3 largest operators of gaming halls with 11 gaming halls as of 31 December 2014 in which VLT and AWP machines are operated and bingo is offered. The Group also operates a machine network under a governmental concession (which is 1 of 13 concessions in Italy), AWP machines in non-specialized locations such as bars through majority-owned joint companies with local operators and VLT machines placed in specialized locations owned by third parties. As of 31 December 2014, the Group operated 6,999 AWP (mostly in non-specialized locations), 1,272 VLTs (729 of which are located in the Group's gaming halls) and 5,142 bingo seats. In addition, 16,789 AWP and 1,272 VLTs operated by the Group and by other operators were connected to the Group's network. In the twelve months ended 31 December 2014, the Group's business in Italy generated operating revenue of €263.8 million and EBITDA of €4.9 million.

In Spain, the Group believes it is the second largest operator of AWP machines with 10,411 machines located in over 7,300 bars, restaurants, machine halls and one gaming hall as of 31 December 2014. The gaming hall operated by the Group is the Canoe gaming hall in Madrid, which features a bingo venue, AWP and sports betting self-service terminals. In total, the Group operated 1,563 sports betting locations in Spain as of 31 December 2014, that comprise 1,202 self-service terminals in bars, 345 betting corners at third-party gaming arcades and 16 company-operated betting shops. In the twelve months ended 31 December 2014, the Group's business in Spain generated operating revenue of €149.9 million and EBITDA of €17.6 million.

The Group's other operations (including operations in Panama, Colombia, Uruguay and Brazil), which generated operating revenue of €141 million and EBITDA of €18.9 million for the twelve months ended 31 December 2014, includes (i) 12 gaming halls (including 11 casinos and one machine hall at the racetrack), one racetrack and 66 sports betting locations in Panama, (ii) 53 gaming halls, including 5 casinos, in Colombia, (iii) the hotel casino Carrasco in Uruguay and (iv) 7 horse racing betting locations in Brazil, as of 31 December 2014.

The following table sets forth the number of gaming machines (AWP, slot machines and VLTs), gaming halls and other gaming facilities we operated as of December 31, 2014 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (in each case, before corporate headquarters expenses, restructuring costs and the payment of the Corte dei Conti Settlement) for 2014.

	Gaming machine seats	Gaming Halls	Betting Locations	Horse Race Tracks	Revenue	EBITDA ⁽¹⁾	Percent of EBITDA
					(unaudited) (€ in millions)		
Argentina	6,562	14	—	—	489.0	93.4	39.8%
Mexico.....	17,414	84	73	1	341.9	75.1	32.0%
Italy.....	8,271	11	—	—	263.8	29.4	12.5%
Spain.....	10,411	1	1,563	—	149.9	17.6	7.5%
Other Operations:							
Panama	3,144	12	66	1	88.6	14.9	6.4%
Colombia	5,975	53	—	—	31.4	6.9	2.9%
Uruguay	395	1	—	—	18.2	(2.5)	(1.1)%
Brazil	—	—	7	—	2.8	(0.4)	(0.0)%
Total.....	52,172	176	1,709	2	1,385.6	234.4	100.0%

(1) EBITDA do not reflect expenses relating to corporate services provided to each of our four principal businesses and Other Operations by our Group headquarters (€46.4 million) and expenses in Italy related to the Corte dei Conti Settlement in Q3 2014.

History

Codere S.A. was founded in 1980 by the Martínez Sampedro family, Jesús Franco and Joaquín Franco. Jesús Franco and Joaquín Franco owned Recreativos Franco, S.A., one of the largest gaming machine manufacturers in Spain. At that time, Jesús Franco, Joaquín Franco and the Martínez Sampedro family had established businesses in the operation and distribution of non-prize entertainment games, such as flipper and pinball. These businesses formed the basis of what is now the Group. Holdco began AWP operations in 1981, mainly in Madrid, and grew rapidly. In 1983, the Group began its expansion outside Madrid by adding operations in the Spanish regions of Catalonia and Valencia and in the following year, commenced AWP machine operations in Colombia. As the Spanish AWP market began to mature, the Group continued its expansion strategy in Latin America, including Argentina in 1991 and Mexico in partnership with Grupo Caliente in 1998, diversifying into bingo, sports betting and casinos. The Group has also grown its operations in Europe and in 2006 it acquired Rete Franco, one of the ten government concessionaires at the time for the provision of AWP network services in Italy. The Group's growth has been mainly through acquisitions or the development of licenses in newly regulated markets.

To finance this growth, the Group issued Euro and dollar denominated notes, including several taps. With the proceeds of these issuances, the Group acquired over the years Grupo Royal in Argentina and Operbingo in Italy, as well as other small operators. The Group also conducted an initial public offer in October 2007 and acquired a 49% interest in ICELA with the proceeds.

In 2006, the Martínez Sampedro family entered into an agreement to purchase Jesús and Joaquín Franco's stake in Holdco, becoming the majority shareholders.

In 2008, we obtained the necessary authorization to operate sports betting in Spain (Madrid and Basque region), and since then we are leading operator in these markets in terms of point of sales. In recent years the Group entered into the online business, leveraging its platform in the countries where it had existing operations as regulators enacted regulations. Italy was the first country where online operations were launched in 2011, followed by Spain in 2012 and Mexico in 2013, after appropriate licenses were obtained. The Italian online business was recently closed.

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

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

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

In 2013, we launched sports betting operations in Galicia and Murcia (Spain), we opened the Carrasco Hotel and Casino in Uruguay and we renewed an additional license in Argentina.

In 2014, we launched sports betting operations in Castilla La Mancha, Ceuta, Cataluña and La Rioja in Spain. On September 23, the Company communicated that it entered into a lock-up agreement with the majority of its creditors, including Noteholders and Senior Credit Facility lenders, on the key terms of a financial restructuring of its balance sheet.

Recent Developments

Refinancing and Repayment of Inbursa Facilities in Mexico

On November 2014, the Group agreed with Inbursa the terms to extend the current Mex. Ps. 1,200 million facility due to mature in June 2015 to October 2019.

Refinancing of Rospide loan in Carrasco

On January 2015, the Group agreed with Rospide the terms to extend the current USD 23.5 million loan facility due September 2016 to mature in December 2018.

Financial Restructuring

On June 2013, the Senior Financial Agreement, after a change of the lenders, was extended to February 6, 2014. Once it expired, it entered into default as it wasn't repaid by the Company. This triggered the interest default that has been paid since then. This debt has not been accelerated as it has been under several standstill agreements linked to the payment of the mentioned default interest. In October 2014, in order to settle the longstanding dispute with AAMS the SFA lenders and the Company agreed to upsize the original amount by €35 million in the same terms as the original contract.

Regarding the bonds issued by the Company since 2005, €760 million of Euro bonds and a USD300 million bond, both of them are in default as the Company had not paid the relating coupons since December 2013.

Due to the circumstances, the Company started conversations with Bondholders, Senior Lenders and their financial advisors with the objective of reaching an agreement that defines a financially sustainable capital structure that will enable the Company to create value in the future.

This agreement was signed and communicated to the markets on September 23, 2014, (see “—*Factors Affecting the Comparability of our Results of Operations – Financial Restructuring*” – or the Significant Event sent to the Spanish Regulator on its website www.cnmv.es)

Our Competitive Strengths

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

- ***Leading Positions in Major Markets.*** We have been a first mover in targeting local resident populations in all of our major markets and now enjoy leading positions in most of these markets. We have been present in Argentina since licenses were originally awarded to operate bingo halls in the early 1990s in the Province of Buenos Aires, and we are currently the largest operator of gaming halls in that market. With 14 out of 46 gaming halls, we represent approximately 48% of the market in the Province of Buenos Aires in terms of gross win. In Mexico, where we also helped to create and develop the market since 1998, we are the largest operator of gaming halls. In Italy, we operate 11 gaming halls and we believe we are among the three largest operators of gaming halls in that market. We believe we are the second largest operator of AWP machines in Spain, with 10,411 AWP machines in over 7,300 points of sale, including bars, machine halls and one gaming hall, as of December 31, 2014. In Panama, we operate 12 casinos, making us the leader in the casino market.
- ***Large and Diversified Multinational Gaming Operator.*** Our size affords us a competitive advantage with respect to the procurement of gaming machines, which are sourced from many of the same suppliers across our operations. In addition, our geographic diversification allows us to share best practices among our operations and enables us to anticipate industry, regulatory and technology trends in one market enhanced by our experience in other markets. Geographic diversification also provides us with a balanced portfolio, reducing our dependence on any given market.
- ***Significant Experience Operating Diverse Gaming Products.*** Since becoming one of the first companies to operate AWP machines in bars in Spain in the early 1980s through our present operation of gaming halls, racetracks and betting locations in eight countries in Latin America and Europe, we have evolved into one of the most diversified and experienced international gaming operators. During this time, we have developed significant expertise in managing a wide variety of products and have thus benefited from an industry trend towards the concentration of different gaming activities, including gaming machines, paper based bingo, horse races, sports betting and table games on the same premises. For example, in recent years, in Spain the regions of Madrid, Aragón, Galicia, Murcia, Castilla la Mancha, Ceuta, Cataluña and La Rioja allowed sports betting machines in gaming, and the Basque region, Navarra, Valencia and Galicia allowed sports betting machines alongside AWP machines in bars. In 2014, the regions of allowed sports betting machines in gaming halls too. Italy also permitted the installation of VLTs in bingo halls in 2010. Our expertise allowed us to respond swiftly to these regulatory changes and generate revenue.
- ***High Standards of Transparency and Significant Experience Operating in Regulated Gaming Markets.*** As one of a limited number of companies in our industry that is publicly traded, we are subject to high standards of transparency and integrity in the markets in which we operate, including with respect to compliance, money laundering, the handling of cash, large prize payouts and transaction authorization. We voluntarily follow the compliance standards of the Nevada Gaming Commission and have undertaken various other “best practices” initiatives for Spanish publicly traded companies. We have also implemented compliance policies required by EU Directive 2005/60/EC on money laundering. A high degree of transparency is particularly important in the gaming industry because it is heavily regulated and key players in the industry, such as regulators and machine suppliers, demand high standards and seek to limit the opportunities available to companies that do not comply with such standards. In addition, we have acquired valuable experience complying with regulatory requirements and tax regimes in a diverse range of countries and regional jurisdictions. In several cases, we have collaborated with gaming regulators in the development of new gaming regulations or markets. We believe that our strong market positions and close and cooperative relationships with gaming regulators and tax authorities provide us with a competitive advantage over most of our competitors and make us an attractive partner (for both regulators and competitors) with whom to develop new gaming businesses.

- ***Favorable Demographics and Economic Conditions in Latin America.*** With the exception of Argentina, Latin American economies in which we are present exhibit compelling growth prospects, sound macroeconomic conditions and expanding buying power of the consumer sector in general. There is potential for disposable income expansion as regional economies grow and consumer financing alternatives expand, which generally results in increased demand for entertainment products, such as gaming. We believe that for income levels as is the case in the Latin American countries where we operate, increases in disposable income lead to increases in gaming expenditure. The confluences of favorable factors throughout the region, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of customers.
- ***Experienced Management Team and Board of Directors.*** Our senior management team has extensive industry experience and our Board of Directors includes prominent individuals with extensive government and gaming expertise. Our Chief Executive Officer, José Antonio Martínez Sampedro, was a co-founder of Codere and has overseen the growth of our company from several dozen AWP machines in Spain to a geographically diversified operator with a broad gaming product offering. Luis Javier Martínez Sampedro, the brother of José Antonio Martínez Sampedro and a member of our Board of Directors, is head of our Latin American operations and has been with us for more than 25 years. In addition, our key operations in Mexico, Argentina, Italy and Spain are managed by executives with extensive gaming industry experience and proven track records of success in related or complementary industries. Our Board of Directors includes José Ignacio Cases Mendez, who served as the head of the Spanish National Gaming Commission from 1994 to 1998, Joseph Zappala, who served as U.S. Ambassador to Spain from 1989 to 1992 and has interests in the gaming sector in the United States, and José Ramón Romero Rodríguez, who has been our external legal counsel since July 2002 and has specialized in gaming legislation since 1978. Their government and gaming experience is important to our ability to establish and maintain good relationships with regulators in the markets in which we operate, which we believe serves to distinguish us from our competitors.

Our Strategy

Our goal is to maximize the cash flow generation and profitability of our businesses, expand selectively in certain of our existing markets, pursue regulatory improvements in all of the markets in which we operate, and enhance the efficiency of our operations through cost reduction initiatives and taking advantage of new products and technologies. The key elements of our strategy are:

- ***Leverage Strong Positions in our Principal Gaming Markets.*** We intend to continue to consolidate and build on our leading positions in our core markets.
 - *Mexico.* We plan to continue to integrate our ICELA and Legacy Caliente operations to achieve improved efficiency and consistency in our Mexican business in the face of increasing competitive pressure. Our ability to optimize our Mexican operations is currently partially constrained by certain contractual provisions that restrict our ability to use our existing brands and to pursue the integration of the betting business into our Spain-based platform, as well as by certain minority protection clauses contained in the bylaws of each of the Caliente Holdcos and ICELA. Our joint venture, shareholder and operator agreements limit our influence over, and, in certain cases, the cash flow that can be derived from, certain of our businesses, and we are subject to certain agreements that limit our ability to pursue new gaming opportunities."

In addition, we intend to continue to pursue our low cost format strategy, which consists of developing smaller halls in periphery and downtown locations where we currently do not have a presence or where our presence is limited. We are also working with our core machine suppliers to develop low cost machines to match product cost to local yield per machine.

Furthermore, we continue to support government efforts to regulate the gaming industry and to reduce illegal gaming and the number of unlicensed and "informal" operators for greater tax consistency and compliance in Mexico.

- *Argentina:* Our strategy in Argentina is to increase our profitability through cost reduction initiatives while continue investing to upkeep our facilities as machines and technology improve. In addition, we plan limited expansions or changes in the layout of certain of our busiest halls to accommodate new machines in order to meet peak time demand and better manage customer flow. Along those lines, we have deployed smoking clubs in certain of our halls and plan to continue doing so in 2015 as we got the related permits from regional and municipal authorities.
- *Italy:* We plan to continue leveraging our unique value proposition to other gaming industry players (AWP operators) to progressively gain on volume and market share in the market. We expect to continue to grow our gaming network through adding new machines, including third-party machines and machines that we control through partnerships with local AWP operators. We expect to continue to pursue selective majority acquisitions of local AWP operators and potentially bingo halls where we are able to substitute existing machines with our VLTs.
- *Spain:* Our strategy in Spain is to continue to integrate our AWP and sports betting operations including local logistics and commercial functions as well as our central administration, finance, marketing and product and business development departments. We expect this to allow us to reduce our infrastructure costs, facilitate the effective integration of our multi-product offering, and enable us to make our betting products available to other operators. We also plan to continue to invest in the deployment of sports betting products at third party venues, including self-service terminals at bars and specialized locations such as gaming arcades, as authorities enact enabling regulation in new regional markets.
- ***Focus on Regulated Local Gaming Markets.*** We will continue to focus on offering gaming activities targeted to the local resident population rather than tourist-oriented gaming markets, which requires investment in capital intensive Las Vegas-style casinos and gaming facilities. We believe that this focus limits required capital investment, and that these local market-oriented gaming activities generate significant tax revenue for the jurisdictions in which we operate, ensuring transparent regulation and political support for these gaming activities.
- ***Internet Activities.*** In constant collaboration with the public administration, we continue to provide consulting to regulatory bodies, licensee associations, payment providers, search engines and social media organizations, in terms of certification and providing general advice to ensure that the competitive environment guarantees the same legal and security standards for all i-gaming players. We believe that technological advances and regulatory changes will result in increasing convergence between online and offline products which will offer us the opportunity to leverage the 30 years of experience we have garnered operating a variety of gaming products and our relationship with local regulators in eight countries into the online gaming business.
- ***Cost Cutting Initiatives.*** During 2013 and 2014 significant efforts have been carried out to reduce our overhead and operating costs, in order to recover profitability (and margins) recently eroded by higher taxes and declining revenue in some markets. This effort has, among other efficiency gains, reduced headcount, excluding HRU business, from an average of 20,686 in 2012 to an average of 17,771 and 15,181 in 2013 and 2014 respectively. We continue to deploy these efforts in 2015 while refocusing our goals to revenue generation. In addition, we continue to work with key suppliers to reduce the costs and improve the performance of products in each of the markets in which we operate, including by entering into revenue sharing agreements and by using lower cost technology alternatives.
- ***Revenue generation.*** The focus of our management efforts is progressively shifting from efficiency to revenue growth. We are already working in a number of initiatives, some local some global, targeted to enhance revenue growth in our markets. Some of these efforts are such as the international expansion of the Sports Betting platform built in Madrid, the deployment of new halls in Mexico, the enhancement of the player tracking technology and the marketing and promotional activities and the development of complementary online activities integrated with our physical business.

Argentina

In Argentina, we are focused on the development and management of gaming halls, in which the majority of the profitability is generated by the machines, but we also have a bingo business. As of December 31, 2014, our Argentina business owned and operated 14 gaming halls with a total of 6,562 slots and other gaming machine seats and 10,951 bingo seats. In 2014, our Argentine business generated operating revenue of €489.0 million and EBITDA of €93.4 million, representing 35.3% of our total consolidated revenues and 39.8% of our consolidated adjusted EBITDA (excluding headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti Settlement).

Operations

Through the combination of the operations we started in Argentina in 1991, and the acquisition of Grupo Royal in 2005, we believe we have become the industry leaders in the bingo and the slot machine markets in the Province of Buenos Aires, each in terms of operating revenue in 2014.

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

	Year ended December 31,					
	2009	2010	2011	2012	2013	2014
Number of gaming halls (at period end).....	14	14	14	14	14	14
Number of slot machine seats (at period end).....	5,043	5,279	5,856	6,282	6,282	6,562
Net win per slot seat per day (in Argentine peso).....	1,233.4	1,559.4	1,717.9	1,740.8	1,740.8	2,117.0
Net win per slot seat per day (in euro).....	236.2	270.2	293.5	238.7	238.7	196.4
Number of bingo hall seats (at period end).....	8,991	9,517	10,533	11,405	11,405	10,951
Net win per bingo hall seat per day (in Argentine peso).....	58.4	61.2	55.0	53.6	53.6	61.8
Net win per bingo hall seat per day (in euro).....	11.3	10.6	9.4	7.3	7.3	5.7

The following table sets forth certain information regarding our Argentina business's gaming halls as of December 31, 2014.

Name	Opening Date	Concession Expiration Date	Number of Bingo Seats	Slot Machine Seats	Revenues for 2014 (€ in millions) ⁽¹⁾
Bingo San Martín	Oct. 1994	Oct 2024	1,546	919	70.5
Bingo Lomas del Mirador	July 2006	Sep. 2029	1,194	643	53.2
Bingo Lanús	Apr. 1992	April 2022	930	597	53.1
Bingo Platense	June 1992	June 2022	1,102	740	56.1
Bingo Morón	June 1998	June 2028	968	569	52.6
Bingo San Justo	Oct. 1999	Oct. 2029	839	502	42.8
Bingo San Miguel	May 1999	May 2029	1,044	613	47.9
Bingo Lomas de Zamora	July 1991	June 2021	586	382	27.3
Bingo Sol	Feb. 1991	June 2021	528	326	20.1
Bingo Ramos Mejía	Apr. 1999	Apr. 2029	726	443	33.7
Bingo del Mar	Sep. 1991	June 2021	830	457	19.0
Bingo Peatonal	Jan. 1991	June 2021	244	121	5.0
Bingo Temperley	Aug. 2001	Jan. 2031	214	129	2.8
Bingo Puerto	Jan. 1994	Jan. 2024	200	121	4.9
Total			10,951	6,562	489.0

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

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

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

As stipulated under Resolution 1078/12 and Decree 569/12 published in July 2012, the renewal of the five gaming licenses was subject to a fixed renewal fee of AR\$614 million (equivalent to approximately €107 million as of August 29, 2012), which we began paying in August 2012 and finished paying in January 2013, and an AR\$232 million (equivalent to approximately €40 million as of August 29, 2012) canon tax surcharge payable monthly over five years, beginning in September 2012. In May 2013, the IPLyC also notified the Group of the renewal of the licenses for 5 other gaming halls which licenses initially expired in 2016 (1 hall) and 2021 (4 halls). These licenses have been extended to 2022 (2 halls), 2024 (2 halls) and 2031 (1 hall).

Following these renewals, out of the 14 halls we operate in the Province of Buenos Aires, four have licenses which expire in 2021, two have licenses which expire in 2022, two have licenses which expire in 2024, one has a license which expires in 2028, four have licenses which expire in 2029 and one has a license which expires in 2031. The latter refers to Temperley, the smallest of our halls in the Province.

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

Hall	Original expiration	Renovation date	Renewal through	Up-front fee (in millions) ⁽¹⁾		Canon tax surcharge (in millions) ⁽¹⁾	
				Ar\$	EURO	Ar\$	EURO
Mar	Sep. 2006	Mar. 2007	June 2021	14.3	1.6	33.4	3.8
Lomas de Zamora	July 2006	June 2007	June 2021	16.6	1.9	38.6	4.4
Sol	June 2006	Mar. 2007	June 2021	15.6	1.8	36.5	4.2
Peatonal	June 2006	May 2007	June 2021	5.7	1.4	13.4	3.2
Lanus.	Apr. 2007	May. 2013	April 2022	47.9	1.6	93.4	3.7
Platense	June 2007	May. 2013	June 2022	40.7	1.5	143.4	3.5
San Martín	Oct. 2009	May 2013	Oct. 2024	105.4	0.5	95.1	1.3
Puerto	Jan. 2009	May 2013	Jan. 2024	7.9	4.6	8.4	9.0
Morón	June 2013	Nov. 2012	June 2028	166.3	3.9	53.1	13.8
Ramos Mejía	Apr. 2014	Nov. 2012	April 2029	100.9	10.1	32.3	9.1
San Miguel	May 2014	Nov. 2012	May 2029	139.3	0.8	44.5	0.8
Lomas del Mirador	Sep. 2014	Nov. 2012	Sep. 2029	192.1	16.0	61.3	5.1
San Justo	Oct. 2014	Nov. 2012	Oct. 2029	140.2	9.7	44.8	3.1
Temperley	Aug. 2016	May 2013	Jan. 2031	<u>13.4</u>	<u>13.4</u>	<u>6.1</u>	<u>4.3</u>
TOTAL				1,006.3	96.7	704.3	5.9

(1) Data is calculated based on the exchange rate as of December 31, 2014.

Slot machines that are installed in gaming halls are similar to the Class III machines present in the United States. In addition, the Argentine gaming halls contain a limited number of non-slot gaming machines, such as a simulated roulette-type machine. These machines are regulated in the same manner as slot machines. In 2014, operating revenue generated from slot machines accounted for approximately 90.4% of our consolidated operating revenue in Argentina.

For our Argentine operations, we buy machines from a variety of U.S. and European manufacturers. We typically finance the purchase of slot machines in Argentina over 18- to 36-month periods. Each machine costs on average U.S.\$23,000 (including duties, taxes and transportation costs).

The following chart sets forth the business model economics for our Argentine slot machine operations. This example is based on our 2014 accounts and for illustrative purposes only:

Net Box (Net Win) (100%)	Net box represents amounts wagered less prize payouts.
Less Gaming Taxes ⁽¹⁾ (34%)	Gaming tax on slots
Less Nonprofit Organizations ⁽¹⁾ (1.7%)	Nonprofit organizations represent the amount paid to such organizations that nominally hold the licenses
Less Gross revenue tax ⁽¹⁾ (7.4%)	Calculated based on net win
Equals Operator Revenues After Taxes and Nonprofit Organizations (56.9%)	Operator revenues after taxes and nonprofit organizations represent the percentage of amounts net win that we retain as the operator

(1) Included under Gaming and other taxes in our Income Statement

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

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

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

Main Operating Projects

Our Argentine operations' principal operating projects are the continued general refurbishment and updating of our gaming halls and the implementation of additional smoking clubs. During 2013 we enlarged various of our halls (R. Mejía, San Miguel, San Justo, Platense and San Martín) renewing our slot machine portfolio to ensure that we have an attractive offer for our clients and to meet unmet demand in the geographical areas where we operate and we have also implemented smoking clubs in some halls (San Martín, Morón, Lanús and San Miguel) During 2014 we have kept renewing our portfolio and have increased the gaming halls with smoking clubs (Lomas del Mirador, Ramos Mejía, San Justo and La Plata). In 2015 we will continue deploying smoking clubs in some of the remaining gaming halls which is helping us to faster revenue growth. These smoking clubs comply with provincial and municipal regulations, having the appropriate approvals

Competition

We entered the Argentinean gaming market in the early 1990s, when we opened the first bingo hall in the Province of Buenos Aires. At that time, the Province of Buenos Aires granted 46 bingo licenses for bingo halls that are still operating. The regulation that permits bingo operations also restricts the number of bingo halls to the original 46, limiting direct competition. As of December 31, 2014, we operated 14 gaming halls in the Province of Buenos Aires and estimate that 43.4% of the net wins from the slot machines business and 71.0% of the net wins from the bingo business operated in the Province of Buenos Aires were attributable to us. Our main competitors in the Province of Buenos Aires are AGG, Golden Jack and Grupo Midas which have between three and four halls each.

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

Sales and Marketing

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

Mexico

Until June 30, 2010, we conducted our operations in Mexico through a management services agreement with Grupo Caliente, a joint venture with CIE (currently ICELA) as well as through the licensees Promojuegos and Mio Games. On July 1, 2010, the terms of the original management services agreement with Grupo Caliente were changed and we terminated the contract pursuant to which we constructed or refurbished halls and sold them to Grupo Caliente at cost. After COFECO approved the Caliente Restructuring, we began consolidating the operations acquired from Grupo Caliente and the Joint Opcos under the global method since April 1, 2011. We also consolidate by the global method our operations in Mexico through ICELA (until February 2012, our joint venture with CIE in which we now hold a stake of 84.8%). In 2014, our Mexican operations generated operating revenue of €341.9 million and EBITDA of €75.1 million, representing 24.7% of our total consolidated revenues and 32.0% of our consolidated adjusted EBITDA (excluding corporate headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti settlement). The development and management of gaming halls, where we manage or operate slot machines, and the bingo and sports betting are our most significant activities. As of December 31, 2014, our Mexico business operated 84 gaming halls in which we operated 17,414 slot machine seats and 73 betting locations. We also operate a 52-hectare gaming complex in Mexico City, which includes the Las Americas racetrack, an amusement park and the largest convention center in Mexico. As of December 31, 2014, we held licenses to build and operate an additional 51 gaming halls (26 in Legacy Caliente, 13 in ICELA and 12 in Recreativos Marina).

Mexico ICELA—Background and Operations

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

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

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

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

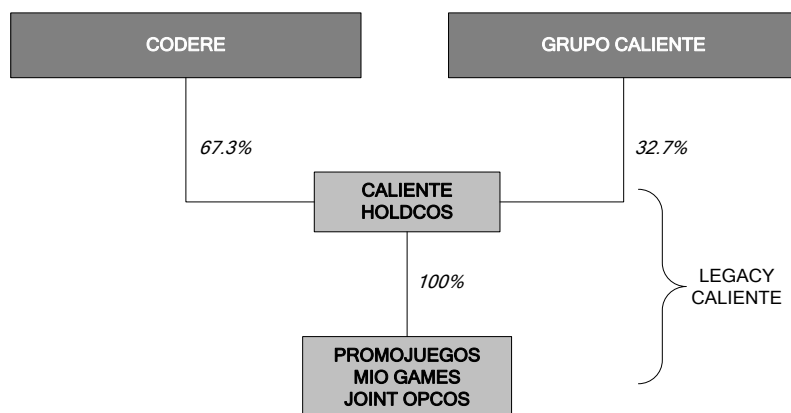
On February 8, 2012, we completed the purchase of a 35.8% stake in ICELA from CIE (the “ICELA Acquisition”) for a purchase price of Mex. Ps. 2,653 million (equivalent to approximately U.S.\$209.0 million and €158.0 million as of the date of closing of the acquisition) pursuant to a sale and purchase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

Until January 31, 2012, we consolidated our stake in ICELA under the proportional method and, beginning February 1, 2012, we began consolidating 100% of ICELA in our financial statements. Since the ICELA Acquisition we have been actively working to achieve synergies between our ICELA and Caliente businesses to reduce corporate overheads and expenses. As of December 31, 2014, our Mexico business through ICELA operated 52 gaming halls.

In addition, our ICELA business includes betting operations where customers can bet on horse and dog races and on sporting events that occur principally in Mexico and the United States. This business is operated by two different providers. On the one hand, starting in late 2013, ICELA operates part of the sport betting business through self service terminals provided by our platform in Spain, assuming ICELA the financial risk of this part of the business. On the other hand, it is provided by the Grupo Caliente, that assumes the financial risk of this part of the business where ICELA acts only as agent and collects a commission of approximately 75% of the amounts wagered less the prizes.

Mexico Caliente—Background and Operations

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



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

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

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

Following the consummation of the Caliente Restructuring, Codere Mexico holds indirectly through the Caliente Holdcos a 67.3% stake in each of the Joint Opcos, Promojuegos and Mio Games with Grupo Caliente holding the remaining 32.7%. As of December 31, 2013, Promojuegos, Mio Games and the Joint Opcos held an aggregate of 46 gaming permits and operated 32 halls in Mexico. The previous management services agreements with Grupo Caliente have been terminated. On July 16, 2010 (with retroactive effect as of July 1, 2010), Codere Mexico and the Joint Opcos entered into new management services agreements pursuant to which the Joint Opcos pay Codere Mexico an aggregate maximum annual fee of U.S.\$36.4 million through the end of 2014. In connection with the new management services agreements, Codere Mexico provided transitional assistance services to the Joint Opcos for an aggregate monthly fee of U.S.\$1.0 million until December 31, 2010.

In addition, Codere Mexico entered into management services agreements with Promojuegos and Mio Games pursuant to which these companies pay Codere Mexico an aggregate maximum annual fee of U.S.\$7.6million through the end of 2014. The management services fees are payable on a monthly basis and account as intercompany transactions. In addition, pursuant to the Caliente Restructuring, Codere Mexico extended a revolving credit facility to the Joint Opcos to finance the payment of certain liabilities to third parties. As of December 31, 2014, the total amount due from Legacy Caliente under the management services agreements and the revolving credit facility granted by Codere Mexico, was U.S.\$429.4 million.

Pursuant to the Caliente Restructuring, Codere is entitled to receive 100% of the dividends from Legacy Caliente until all the obligations that were owed to Codere at the time of the restructuring are repaid in full. In the second quarter of 2012, €29.6 million remained on our balance sheet as debt from the Caliente Group, which was to be repaid from dividends from Legacy Caliente. In the second quarter of 2012 we wrote-off this €29.6 million because the assessed net present value of the dividends is very low compared to the amount of the outstanding debt, principally due to the fact that the Joint Opcos must first satisfy the payments due under the management services agreement and service the credit facility loan granted by Codere Mexico. Cash flows from the Joint Opcos must first be paid to Codere Mexico, S.A. de C.V. as service agreements, loans and a credit line. The provision amounts to €38.9 million at 31 December 2014.

Regarding the operations of Legacy Caliente, they are similar to the ones operated by Icela, including the sport betting business provided by Caliente and Codere.

Recreativos Marina—Background and Operations

Recreativos Marina S.A. de C.V. (“Recreativos Marina”) is a company we established in 2006, which submitted an application for a gaming license from the Secretaría de Gobernación, the Mexican gaming authority, in the same year. The application went through a protracted legal process, including litigation, which ultimately resulted in Recreativos Marina being awarded 14 permits to establish gaming halls, plus an authorization to install gaming terminals in other locations. Following the granting of the permits, and mainly resulting from the redefinition of the geographic reach of these permits, the number of permits was modified from 14 to 12.

Operations

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

	Year ended December 31,					
	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽¹⁾	2012	2013 ⁽²⁾	2014
Number of gaming halls (at period end)	94	96	94	89	82	84
Number of slot machines seats (at period end)	17,421	19,299	19,571	19,222	16,970	17,414
Net win per machine per day (in Mexican peso)	883	881	842	877	752	723
Net win per machine per day (in euro)	47.0	52.9	49.0	51.8	44.3	41.0
Number of bingo hall seats (at period end)	13,266	12,574	13,430	12,825	11,833	11,591
Net win per bingo hall seat per day (in Mexican peso)	141	114	99	107	81	69.5
Net win per bingo hall seat per day (in euro)	7.5	6.8	5.8	6.3	4.8	3.9

- (1) Data for 2009 and the first six months of 2010 have been adjusted to reflect only the operations included in the agreement we entered into with Grupo Caliente on July 16, 2010, pursuant to which we restructured our previous contractual relationship.
- (2) Since January 1, 2013, net win per machine per day excludes freeplay as we believe it provides a more meaningful measure of net consumer spending. Free play represents a promotional tool which provides extra gaming time to customer.

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

Business Unit	Permission	Date of Extension of Permits	Number of Permits	Geographic Restrictions	Term (date of expiry)
ICELA.....	AMH	September 1997	65	X	September 2022
Legacy Caliente	Promojuegos	May 2005	10	✓ ⁽¹⁾	May 2030
Legacy Caliente	Mío Games	May 2005	2	✓ ⁽¹⁾	May 2030
Legacy Caliente	Libros Foráneos	May 2015	18	✓ ⁽¹⁾	May 2027
Legacy Caliente	Operadora Catabria	Several dates between October and December 1993	25	✓ ⁽¹⁾	October to November 2018
Legacy Caliente	Operadora Espectáculos Deportivos	June 1992	3	✓ ⁽¹⁾	June 2017
Recreativos Marina	Recreativos Marina	July 2012	12	✓ ⁽¹⁾	July 2037
Total	n.a	n.a	135	n.a	n.a

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

The following chart sets forth the business model economics for our Mexican slot machine operations. This example is based on our 2014 accounts and for illustrative purposes only:

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

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

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

We and our partners have entered into agreements with leading suppliers of slot machines, including Bally Technology, Inc. and IGT. As of December 31, 2014, we had 17,414 gaming machines installed. In 2014, we estimate that operating revenue generated from gaming machines accounted for approximately 69.7% of the total operating revenue of all the Mexican businesses.

In Mexico we operate an entirely cashless system as the regulation forbids the use of machines that accept cash. Codere’s customers in Mexico purchase credit at the hall entrance cask desk, and, through the use of a magnetic card, the funds are credited into their wallet account. By introducing the card into the terminal’s reader, the customer transfers his account balance to the machine, and is able to play; once finished, the credit at the device is cashed out to the patron’s electronic wallet account, so he can transit to another device and play on the same way. The system will keep track of the customer’s credit balance and, on exit, the player can cash it out by simply presenting his card at the cashier desk, to get his money back. The magnetic card is used concurrently to feed the Player Tracking and Loyalty System, which is working on a multisite environment, registering the player’s activity over the 84 actual Mexican venues operation, in a single Loyalty file.

Since 2013, seven of our halls in Mexico remain closed as a result of actions by local authorities: six in Monterrey (Cumbres, Jacales, Gonzalitos, both halls in Valle Oriente, and Sendero) and one in Tuxtla. Codere continues to deploy administrative legal and institutional actions to revert this situation. The closures, most of which occurred between mid-January and mid-March 2013, were mandated by Mexican municipal authorities on the basis of alleged inadequacy of the Group’s municipal permits. Certain of these permits were originally issued as food and beverage permits, a common description at the time when bingo halls or casinos did not exist in the municipal catalogue. All of the gaming venues operate with the permits and licenses required both by the Ministry of the Interior (Secretaría de Gobernación) and the local authorities at the time the venues were first open to the public.

We have received the resolution of our court request for an injunction on the municipality’s decisions, which has ruled against Codere and has led us to impair the assets of five of these halls at a €6.9mm impact. Codere will continue to evaluate administrative and institutional alternatives in regards to this situation..

As of the date of this document, 3 of the Group’s ICELA and 4 of its Legacy Caliente halls in Mexico remain closed. 6 of the closed halls are located in the city of Monterrey or adjacent cities, such as General Escobedo. The Group has limited visibility as to when these venues will reopen, if at all.

Competition

We began our operations in Mexico in 1988 through our management services agreement with Grupo Caliente and expanded our operations in 1999 through ICELA. In both cases, we participated in the development of the halls where we offered traditional bingo products pursuant to licenses that these parties owned. Until 2004, when the Mexican government enacted regulation granting additional licenses to operate gaming facilities throughout the country, we estimate that halls operated under Grupo Caliente and CIE's licenses constituted the majority of private gaming offered in Mexico. Beginning in 2005, the Mexican government granted additional licenses to operate gaming facilities throughout the country. We estimate that approximately 30 licenses to operate a total of 663 gaming facilities have been granted by the Mexican government as of December 31, 2014. Of these, 7 licenses for 135 gaming permits were associated with Codere and an additional 23 for approximately 528 permits have been granted to third parties. One of these third-party licenses was granted to Grupo Televisa, a large Mexican media company, making it our competitor in Mexico. At December 31, 2014, Codere, through ICELA and Legacy Caliente managed or operated 84 halls, and we estimate that there were approximately 206 halls in Mexico opened and operated by third parties at that date.

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

Mexican authorities are progressively regularizing gaming activities of these operators and as a consequence, some halls closed in 2014 due to their illegal use of the gaming permit. The most part of these halls are still closed but some of them have finally regularized their legal situation and have been reopened.

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

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

During 2014 the authorities, following the complaints of the legal gaming operators with valid permits, had initiate several campaigns against those operators that were using invalid permits or that were giving to them inappropriate use, as those that were renting the permits. These measures have implied the revocation of 3 licensees and the closure of approximately 72 gaming halls. Some of these halls have been able to reopen, either by getting the required permits to do it or by being sold to operators who did have them.

Sales and Marketing

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

Italy

We have been present in the Italian gaming industry since 2001, when we entered the bingo market. Initially, our activities were focused on providing management services to bingo halls owned by Operbingo. After acquiring Operbingo, and most of those halls, we are focused on the development and management of our 11 gaming halls, the AWP machines placed in bars and gaming halls, the development of our AWP network and the 1,609 VLT rights to install an equivalent number of machines granted therein. In 2014, our Italian business generated operating revenues of €263.8 million and adjusted EBITDA of €29.4 million, representing 19.0% of our consolidated revenues and 12.5% of our consolidated Adjusted EBITDA (excluding corporate headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti Settlement).

Operations

AWP

Since 2004, the year in which the Italian government regulated the gaming machine industry (AWPs were illegal prior to 2004), we have been present in the Italian AWP machine market. We entered the market as an operator of AWP machines and subsequently acquired a network concessionaire.

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

	Year ended December 31,					
	2009	2010	2011	2012	2013	2014
Number of AWP machines operated (at period end)	2,181	2,178	5,138	6,907	7,181	6,999
Net win per AWP per day (in euro)	74.8	86.0	74.1	65.1	59.8	60.3
Number of VLT machines operated (at period end)	—	402	962	1,157	1,193	1,272
Net win per VLT per day (in euro)	—	176.2	264.1	216.2	189.7	202.2

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

The following chart sets forth the business model economics for our Italian AWP machine operations. This example is based on our 2014 accounts and for illustrative purposes only:

<p>Amounts Wagered (100%)</p> <p>Less</p> <p>Prizes Payout (74.6%)</p> <p>Equals</p> <p>Net Box (Net Win) (25.4%)</p> <p>Less</p> <p>Site Owner (6.1%)</p> <p>Equals</p> <p>Operator Revenues (19.3%)</p> <p>Less</p> <p>Gaming Taxes (13.5%)</p> <p>Less</p> <p>Interconnection Fee (1.6%)</p> <p>Equals</p> <p>Operator Revenues after Gaming Taxes and Interconnection Fee (4.2%)</p>	<p>Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers.</p> <p>Prize payout represents the percentage of amounts wagered that must be paid to players of AWP machines over a cycle of a certain number of games, as specified in applicable regulations.</p> <p>Net box represents amounts wagered less prize payouts.</p> <p>Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located.</p> <p>Operator revenues represent the percentage of amounts wagered that we retain as AWP machine operator, prior to payment of applicable gaming taxes and the interconnection fee. We recognize this amount as operating revenue.</p> <p>Gaming taxes represents the amount paid to the state and is the sum of 12.7% of PREU payments and 0.8% of the canon.</p> <p>Interconnection fee represents the amount paid to the network by each of the machines connected to it.</p> <p>Operator revenues after gaming taxes and interconnection fee represents the percentage of amounts wagered that we retain as AWP operator.</p>
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The Italian regulator has approved certain changes in the regulation which affect gaming taxes. In the case of the AWP, gaming taxes increased from 12.7% of amounts wagered in 2012 to 13.4% in 2013. The minimum prize pay-out decreased from 75% to 74% in 2013. In addition gaming taxes for VLTs increased from 4% in 2012 to 5.0% of amounts wagered in 2013. In 2014 the regulation remained the same as in 2013, but in 2015 the gaming tax of the AWP has increased to 13% of PREU.

On April 28, 2006 we purchased Codere Network (previously Rete Franco), which is one of thirteen government concessionaires for the provision of AWP network services. At December 31, 2014 Codere Network had 18,061 CGA and VLTs machines connected to its network. In 2013 the duration of the license of Codere Network was extended to 2022.

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

VLTs have higher prize payout (85% vs. 75%) and higher prizes, which could be as high as €500,000 per gaming system compared to a maximum prize of €100 of the AWP. In addition, they have significantly lower taxes (5.0% vs.13.4% of amounts wagered in 2014) and can be placed only in gaming halls, bingo halls and betting shops. In December 2010, we acquired a majority stake in FG Slot Services S.r.l., which is a leading AWP machine operator in the area of Verona with approximately 620 AWP machines. In 2011, we purchased two other Italian operators; Gap Games in May and Gaming Re in July, which together operate approximately 2,560 AWP machines. In June 2012, we acquired a majority stake in Dalla Pria which operated approximately 2,000 AWP machines at the time of the acquisition. These acquisitions are a reflection of the increased attractiveness of the gaming market in Italy due to recent regulatory changes benefitting gaming operators, particularly the introduction of VLTs. On 15 March 2013, the Group acquired 51% of the shares of Royal Jackpot S.r.L for 150 thousand Euros.

In Q4 2013, as a result of the higher number of AWP connected, we obtained 250 additional VLTs licenses to expand our business according to the license availability defined by the Italian regulator (AAMS).

We have owned bingo halls since December 15, 2005, when we acquired Operbingo, and have since acquired Bingo Palace, Mortara, Maxibingo and Royal (Caserta), each with one hall, and opened a greenfield bingo hall in Bologna. Following the enactment of enabling legislation, in 2007 and 2010 we began installing AWP and VLTS, respectively at our halls so that today the bingo halls have been transformed into gaming halls in which we offer a variety of gaming products. Today we own and operate 11 gaming halls in Italy.

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

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

	Year ended December 31,							
	2007	2008	2009	2010	2011	2012	2013	2014
Number of gaming halls (at period end).....	12	12	12	13	14	13	13	11
Number of bingo hall seats (at period end)....	6,447	5,930	5,817	6,071	5,950	5,775	5,775	5,142
Net win per bingo hall seat per day (in euro).....	36.6	33.0	30.0	27.1	24.3	20.4	19.0	20.7
Number of AWP.....	480	601	493	480	322	325	326	292
Number of VLTs	-	-	-	402	769	808	749	729

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2014:

<u>Name of Bingo Hall</u>	<u>City/Region</u>	<u>Concession Date</u>	<u>Number of Seats</u>	<u>Revenues for 2014 (in millions of €)⁽¹⁾</u>
Palace.....	Turin, Piemonte	Jan. 2002	755	16.6
Re.....	Rome, Lazio	Feb. 2002	750	23.8
Modernissimo	Salerno, Campania	Mar. 2002	401	6.4
Garbini.....	Viterbo, Lazio	Aug. 2002	374	6.1
Ariston	Lecce, Puglia	Sep. 2002	422	10.8
Vittoria.....	Parma, Emilia Romagna	Jan. 2002	418	10.3
Cola di Rienzo	Rome, Lazio	Dec. 2004	310	11.3
Regina.....	Bologna, Emilia Romagna	Sep. 2002	336	3.4
Mortara	Mortara, Lombardia	Mar. 2002	306	3.9
Maxibingo.....	Salerno, Campania	Mar. 2002	440	5.2
Royal.....	Caserta, Campania	Feb. 2002	<u>630</u>	<u>15.4</u>
Total.....			5,142	113.2

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

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

On December 29, 2014 the Italian government published the Legge Stabilità or Stability Law, which outlines the implementation of additional annual machine fees to be distributed among the Italian gaming machine sector in a bid to increase fiscal revenue by €500mm per annum. The yearly payment, effective from the 2015 Italian government budget, will be proportionately distributed between all 13 network concessionaires based on the number of machines (both AWP and VLTs) connected to each operator's as of December 31, 2014. Codere Network has been allocated €22m of the total €500m yearly payment, based on AAMS's (the regulatory body of gaming and sports betting activities in Italy) announcement on January 15, 2015. Codere Network is responsible for collecting this sum amongst all participants in the slot business value chain.

Competition

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

Sales and Marketing

We started advertising our gaming halls at the end of 2010. We mostly plan local campaigns with a marketing mix, which include radio, cinema and Internet. We operate a loyalty plan in our gaming halls that provide us player tracking information that is managed to optimize the business.

Spain

Our Spanish business comprises AWP machines, a sports betting business, including self-service terminals as well as our Canoe gaming hall in Madrid in which we operate machines and bingo. As of December 31, 2014, we install, maintain, service and collect cash from over 10,411 AWP machines compared to 11,070 as of December 31, 2013, throughout Spain in over 7,300 bars, restaurants, arcades and gaming halls. The average daily net box per AWP machine was €43.1 in 2014 and €43.1 in 2013. As of December 31, 2014, we had 1,563 sports betting locations in Madrid, Navarra, the Basque region, Aragón, Valencia, Galicia, Murcia, Castilla la Mancha, Ceuta, Cataluña and La Rioja, compared to 1,395 in December 31, 2013. Codere also owns and operates the Canoe gaming hall. In 2014, our Spanish business generated operating revenue of €149.9 million and EBITDA of €17.6 million, representing 10.8% of our consolidated operating revenues and 7.5% of our consolidated adjusted EBITDA (excluding corporate headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti Settlement).

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

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

Operations

We are a market leader in the highly fragmented AWP machine market in Spain and have a significant presence in most of the regions of Spain, including Madrid, Catalonia and Valencia. The following table sets forth certain historical data concerning our AWP machine operations in Spain and the average daily net box per AWP machine:

	Year ended December 31,						
	2008	2009	2010	2011	2012	2013	2014
Number of AWP machines (at period end)	15,963	15,587	15,399	14,677	12,188	11,070	10,411
Average daily net win per AWP machine (in €) ⁽¹⁾	55.7	49.2	49.2	42.3	44.9	43.1	43.1
Spanish market average daily net win ⁽²⁾	39.3	36.4	37.6	36.2	35.2	n.a.	n.a.

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

(2) Source: Spanish National Gaming Commission Annual Reports (2006–2010), and DNOJ 2011 Annual Report.

The most important asset in the AWP business is the relationship with the bar and restaurant owners. We have established relationships with over 7,300 bars and restaurants through installation agreements.

These agreements generally give us the exclusive right to place one or more of our AWP machines in the owner's establishment for a period of up to ten years. In return, we share the revenues obtained. The following chart sets forth the business model economics for our Spanish AWP machine operations. This example is based on our 2014 accounts and for illustrative purposes only:

Net Box (Net Win) (100%)	Net box represents amounts wagered less prize payouts.
Less	
Site Owner (39%)	Site owner represents the percentage of amounts net win that is paid to the owner of the site in which the AWP machine is located.
Equals	
Operator Revenues (61%)	Operator revenues represent the percentage of net win we retain as AWP machine operator, prior to payment of applicable gaming taxes. We recognize this amount as operating revenue under IFRS.
Less	
Gaming Taxes (22%)	Gaming taxes represents our estimate, based on historical experience, of the percentage of net win represented by legally mandated tax payments per AWP machine. AWP machine taxes are established by regulation in each Spanish region in which we operate as a fixed yearly amount per machine.
Equals	
Operator Revenues after Gaming Taxes (39%)	Operator revenues after gaming taxes represents the percentage of net win that we retain as AWP operator.

In addition to revenue sharing, we often made interest-free loans or up-front cash payments to owners to induce them to enter into or extend contracts and grant us exclusive rights to install AWP machines in their establishments. Site owners typically repaid these loans over a 12- to 24-month period through an offset against their share of revenues. Beginning in 2009, as a result of the decrease in the net wins, and in order to align the incentives of the bar owners, we reduced significantly the up-front payments and increased deferred payments, conditional on the performance of the bar. Under the current methodology for an average contract, which is approximately for €11,500, we pay 20% up-front, 15% in the first year and 65% after 18 months, the latter two payments only being made if the net wins exceed the minimums stipulated in our agreements with the individual bar owners.

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

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

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

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

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

Regarding the sports betting business, we have applied and obtained the necessary licenses to operate in the next regions: Madrid (April 2008), Basque Region (November 2008), Navarra (October 2010), Aragón (2011), Valencia (2012), Galicia and Murcia (2013), and Castilla la Mancha, Ceuta, Cataluña and La Rioja (2014). Some Regions allow sports betting only at dedicated sports betting shops, casinos gaming halls and bingo halls, while others also allow sports betting in bars. As in the case of the AWP machines, we enter into different agreements with bar and gaming halls owners, sharing the revenues with them.

We made progress in the establishment of the sports betting business in Spain over the course of 2012, 2013 and 2014, passing from 600 sports betting locations in January, 2012 to 1,395 as of December 31, 2013 and to 1,563 as of December 31, 2014; the majority of these being self-service terminals installed in bars.

We also operate the Canoe gaming hall, which has a number of different gaming devices offering various types of games, including traditional bingo, (similar to the game played in other countries as Mexico, Italy or Argentina) and sports betting. The estimated number of visits to the gaming hall was around 400,000 as of December 31, 2014.

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

In the fourth quarter of 2013 assets relating to operations in Internet Spain were impaired in the amounts of 3.6 million Euros, because the regulation of the industry carried out in Spain has affected the development of that unit, since it has been placed in a clearly disadvantageous position in relation to competitors operating in the business prior to its regulation.

Competition

Competition in the AWP machine operation market in Spain is highly fragmented. Regionally, our competitors are local operators, while, our primary competitor nationally is Cirsa, which we estimate had approximately 26,678 AWP machines throughout Spain as of December 31, 2014. We believe that the AWP machine market in Spain remains highly fragmented and offers considerable possibilities for further consolidation. In the case of the sports betting business, the competition depends on the number of licenses issued in each region. In the case of the Basque region there are only three players as the licenses are limited, while in the case of Madrid or Valencia the number of competitors is higher due to the fact that there is no limit upon the number of licensees.

Sales and Marketing

Although government regulations on advertising have become more relaxed in recent months, the current regulations limit the extent and manner by which we and our competitors can advertise. In particular, government regulation prohibits certain kinds of direct and indirect advertisements to potential AWP machine players.

Other Operations

Panama

In October 2005, we purchased a 90% interest in the Presidente Remón Racetrack in Panama City, which is the only racetrack in Central America. We acquired the remaining 10% held by the Motta family in 2010. We currently hold licenses to open betting locations and are permitted to install up to 500 slot machines and a bingo hall at the racetrack. As of December 31, 2014, the racetrack had 393 machines and we were operating 66 sports betting locations in Panama.

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

At December 31, 2014, Codere operated 12 casinos in Panama, including the machine hall at the racetrack, through its two brands, Crown and Fiesta, with a total of 3,144 gaming machines seats and 100 tables. Six out of these 12 casinos in Panama, including the hall at the racetrack, are located in Panama City. Two of the remaining casinos are located in Colón, Panama's second largest city, a further two in David, one in Chitré and one in a touristic area in the Province of Coclé. With 12 out of the 22 casinos operating in the country, we are the leader in the Panamanian casino market.

In 2014, our Panama business generated operating revenue of €88.6 million and EBITDA of €14.9 million, representing 6.4% of our consolidated revenues and 6.4% of our consolidated adjusted EBITDA (excluding corporate headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti Settlement).

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

Casino Name	Location	Opening Date	Size (m ²)	Average Slots Machine Seats	Tables	License expiration date
Crown						
Casinos						
Sheraton	Panama City	Sep.1998	1,280	329	17	Mar. 2018
Continental	Panama City	Oct.1998	900	372	13	Mar. 2018
David	Chiquiri	Feb.2004	565	276	9	Mar. 2018
Granada	Panama City	May1998	205	45	5	Mar. 2018
Colón	Colón	Sep.2010	507	225	10	Oct. 2030
HPR	Panama City	Apr.2007	991	393	-	Dec. 2017
Fiesta						
Casinos						
El Panamá	Panama City	Jul. 1998	1,778	397	12	Mar. 2018
Soloy	Panama City	Aug1998	1,105	383	8	Mar. 2018
Nacional	Chiriqui	Dec.1998	911	261	9	Mar. 2018
Washington	Colón	Oct.1998	860	224	5	Mar. 2018
Guayacanes	Chitré	Oct.2002	549	138	5	Oct. 2022
Decameron	Coclé	Mar.2003	<u>229</u>	<u>101</u>	<u>7</u>	Mar. 2023
Total		—	9,880	3,144	100	

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

Our competitors in the casino segment include Veneto Hotel & Casino S.A., Majestic Casino, which is operated by Cirsa, the Royal Casino at the Marriott Hotel and Princess Entertainment Panama, Inc. (Casino Princess) located at the Sheraton, each of which operate one casino, The Ocean Sun Casino, The Star Bay and Sortis. In addition, Cirsa operates a number of gaming halls throughout the country which compete with our casinos. As of December 31, 2014, Cirsa operated a total of 7,541 slot machines and 28 tables in Panama.

Colombia

Our Colombia business focuses on the ownership and operation of gaming machines. As of December 31, 2014, we operated 5,975 gaming machines located in 53 gaming halls, including five casinos operated under the Crown Casino brand as well as in arcades in major cities throughout Colombia. In addition, as of December 31, 2014, we operated five bingo venues with an aggregate of 850 seats. Through our four gaming hall brands (Crown Casinos, Mundo Fortuna, Fantasia Royal and Star Casino Game), Codere is present in over 80 municipalities, including large cities such as Bogota, Cartagena, Barranquilla, Medellin, Pasto, Cali, Ibague, and Bucaramanga. In 2014, our operations in Colombia generated operating revenue of €31.4 million and EBITDA of €6.9 million, representing 2.3% of our consolidated revenues and 2.9% of our consolidated adjusted EBITDA (excluding corporate headquarters expenses, the financial restructuring costs and the payment associated with the Corte dei Conti Settlement).

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

The first two Crown Casinos were the result of the remodeling and reopening of the old Cali Gran Casino in Cali, which was turned into Crown Casinos Cali, and the old Mundo Fortuna Palatino, which was turned into Crown Casinos Palatino in Bogota in 2009. In 2011, we inaugurated two new Crown Casinos in Bogota, one located at the

Unicentro shopping mall and one in the San Rafael area. In the summer of 2012 we opened our fifth Crown Casino, located in the Zona T area of Bogota.

In completing the renovation to Fantasia Royal and Crown Casinos formats, Codere is implementing a complete turnaround strategy focused on developing new value offers for each brand.

As of 2008, the Colombian Government increasingly focused on cracking down on illegal operators and changed the regulation to eliminate gaming in non-dedicated venues. This has resulted in much needed support for legal operators.

The average Mundo Fortuna halls have approximately 77 slot machines in an area of approximately 585 square meters. The five Crown Casinos in operation have 681 slot machines and 44 tables (in four of them) in an area of approximately 2,083 square meters per casino. The halls we operate in Colombia normally open 16 hours per day.

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

In 2014 the gaming regulator, in order to control the illegal gaming machines and venues established that as of the end of February 2016 all the gaming machines should be interconnected. This measure will allow the Government to control the illegal gaming, the amounts wagered and to change the way to recognize the gaming taxes. On July 25, 2014 the Colombian government published “Resolución 1400 de 2014”, a revision of tax for gaming companies operating in Colombia. The revised legislation envisages 12% of net win of each machine to be paid as tax, subject to a monthly minimum fixed payment per machine equivalent to 30% of the minimum wage of the country (the previous tax payable).

We estimate that the total number of licensed gaming machines in Colombia, as of December 31, 2014, was approximately 83,915. In addition, we estimate that, as of December 31, 2014, there were an additional 50,000 unlicensed gaming machines in operation in Colombia. The gaming machines in the Colombian market are generally type-C machines, similar to U.S. Class III machines which do not have maximum wager and prize limits. The Colombian machine market (excluding machines located in casinos), with around 300 legal operators, is highly fragmented. Currently, our main competitors in the licensed market are Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 6,025 gaming machines and 207 tables at December 31, 2014. In 2013, the operational control organism (Coljuegos) seized 3,000 illegal machines.

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

	Year ended December 31,						
	2008	2009	2010	2011	2012	2013	2014
Number of AWP machines (at period end).....	8,502	6,556	6,179	6,224	6,044	5,932	5,975
Net win per gaming machine per day (in Colombian peso)....	32,747	33,257	39,938	44,890	49,488	50,483	52,514

Uruguay

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

The Uruguay business’s operation of the Maroñas horse racetrack and related on-track and off-track betting and slot machine sites is our first development of the “racino” gaming business model. The racino business model consists of combining generally more profitable casino gaming, such as slot machines, with a racing product, which is a generally less profitable area of the gaming business. By increasing overall profitability, purses to horsemen

may be increased, attracting the best horsemen to the racetrack, which tends to increase betting. Top-class horse racing may also be leveraged by offering racing simulcasts to off-track betting sites as well as other horse racetracks. Racino gaming has grown rapidly in the United States and Canada in recent years. During 2013 we developed all necessary systems, controls and procedures to launch this new online horse betting system in Uruguay which is already functioning.

On July 27, 2012 HRU was granted a 30 year concession to refurbish and operate the Las Piedras racetrack. Pursuant to this concession, the fee HRU receives from the local gaming authority for the gaming machines it operates under the Maroñas concession increased in the three months ended December 31, 2012. In 2013 we began operations in Las Piedras racetrack. As of December 31, 2014, our Uruguay business operated the Maroñas horse racetrack, six machine halls including Casino Carrasco with a total of 2,263 slot machines seats and 21 horse betting locations. Out of the 21 horse betting locations, three were fully owned by HRU and operated under our Turff Bet & Sport Bar brand, while the others are third-party locations which take bets on races at Maroñas horse racetrack and to which we offer international simulcast.

In application of the recently revised IFRS 11 standard, there is a change in the method of consolidation used for “Hípica Rioplatense of Uruguay” and “New Joker” in Italy. Both operations are now reported using the equity method instead of the proportional method. For consistency and comparison purposes, 2013 data have been restated accordingly.

On November 9, 2009, the Intendencia Municipal de Montevideo awarded the Carrasco Nobile consortium (a 51%/49% partnership between Codere and Sikeston S.A., an international investor group) a 30-year concession for the reconstruction and management of the iconic Carrasco Hotel and Casino in Montevideo built in 1912. The formal granting followed the announcement on January 15, 2009 that the partnership received the highest point total as well as a review by the *Tribunal de Cuentas*. The consortium partnered with the French hotel group, Accor, to operate the hotel under the Sofitel luxury brand. The total investment was approximately U.S.\$75 million. The complex, which opened on March 7, 2013 as “Sofitel Montevideo Casino Carrasco and Spa” has approximately 116 rooms, 395 gaming machines and 20 tables. The opening of the Carrasco complex suffered delays and substantial overruns. Furthermore, the early results have been disappointing with lower revenue than expected and large operating losses. While we are taking measures to reduce losses, we believe that the long-term success of the business depends on our ability to attract high value clients from overseas. In addition to marketing efforts, this will require managing the availability of credit to clients, an activity in which we have no significant previous experience.

In 2014, the hotel and casino Carrasco generated operating revenue of €18.2 million and EBITDA of (€2.5) million, representing 1.3% of our consolidated revenues.

Brazil

At December 31, 2014 we operated seven horse betting locations in Brazil under our Turff Bet & Sport Bar brand. Codere went into business in Brazil in 2006 when it commenced the development of a network of on-track and off-track high profile betting offices that operate under horse betting licenses held by the Jockey Clubs (“JCs”) with a presence in the states of Rio de Janeiro (Jockey Club Brasileiro or JCB), Rio Grande do Sul (Jockey Club do Rio Grande do Sul or JCRGS), and Paraná (Jockey Club do Paraná or JCPR). Under the JCs’ licenses, our betting locations are permitted to distribute (i) pooled betting products on local horse races and (ii) fixed-odds betting products on international simulcast horse races.

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

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

In 2014, our Brazil business generated operating revenue of €2.8 million and EBITDA of (€0.4) million, representing 0.2% of our consolidated revenues.

Employees

The tables below set forth the average number of our permanent employees during 2012, 2013 and 2014 and the breakdown of those employees by activity and by geography.

Category of Activity	2012	2013	2014
Clerical Staff	2,104	817	659
Top management	32	27	31
Directors	150	116	116
Intermediate managers	881	2,021	2,254
Operational employees	15,768	13,039	10,062
Technical employees	1,751	1,751	2,059
Total	20,686	17,771	15,181

Geographic Area	2012	2013	2014
Argentina	5,367	4,850	3,838
Mexico	9,414	7,551	6,250
Italy	1,061	914	827
Spain	1,039	993	955
Panama	2,503	2,073	2,053
Colombia	851	735	713
Uruguay	203	396	335
Headquarters	187	192	151
Brazil	61	67	59
Total	20,686	17,771	15,181

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

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

Licenses and Trademarks

Licenses

The Group holds gaming licenses or government authorisations in each jurisdiction in which it operates, directly or indirectly through its partners or clients. The Group expects to obtain additional permissions to operate off-line and on-line gambling, and betting operations in the future.

In addition, in some countries the Group holds licenses or authorisations permitting the Group to import gaming machines.

Trademarks

The Group operates three trademarks worldwide: Codere (gambling and bingo), Victoria (gambling, bingo and betting) and Turff (betting). The Group also has 196 local trademarks used for local operations and 582 Internet domains for its on-line business. In addition, the Group owns a copyright on SPACE Codere, a complex Customer Relationship Management software for performance analysis of gaming machines and gaming shops. The Group has no material patents as of the date of this document.

Litigation

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

Tax Contingencies

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

Mexico

In Mexico, the Group has been involved in several audits and disputes with state tax authorities concerning the application of state lottery taxes to the Group's bingo hall operations. In the past, some of the Group's Mexican subsidiaries disputed the right of governments of Mexican states to impose taxes on bingo activity, claiming that only the federal government has authority to tax such activities. These subsidiaries obtained injunctions absolving them of the obligation to pay such taxes in several states, but certain of the injunctions have expired and the relevant states have claimed the taxes since 2011. Also, the Mexican subsidiaries dispute in some States the taxable basis foreseen in the relevant Law governing the State lottery taxes, the tax rate or the calculation applied by the state tax authorities in their tax audits.

If the tax related disputes that are on an ongoing basis in some states are determined adversely to the Group, the Group could be required to pay Mex. Ps. 3,071 million (equivalent to approximately EUR 171.7 million as of December 31, 2014), which would include taxes applied to the operations of ICELA and the Joint Opcos.

In addition, 3 Mexican subsidiaries are currently the subject of 4 tax claims from Federal and State Tax authorities. During the course of 2012 and 2013 the Group took provisions against these claims for a total of Mex. Ps. 203.8 million (equivalent to approximately EUR 11.4 million as of December 31, 2014).

The first claim is made against the Mexican holding company Codere México by the Federal Tax Administration Service (the Servicio de Administracion Tributaria or "SAT") and relates to certain gaming machine import duties in 2009 and 2010. The amount claimed is Mex. Ps. 147 million (equivalent to approximately EUR8.2 million as of December 31, 2014), was first contested before the SAT's ° Body (the "SATASB"), and, after having failed, the case was taken to the Federal Tax and Administrative Court. The group has just received the ruling on May 2015 turning down our arguments. A legal opinion from the Group's legal advisers in Mexico states that the claim has significant flaws both in substance and form, but also indicates that, as is the case for any legal process, the outcome is by no means certain; consequently, the Group will file an amparo claim before June 2, 2015, before the Federal Circuit

Court of Justice. During 2012, a provision of Mex. Ps. 22 million (equivalent to approximately EUR1.2 million as of December 31, 2014) was taken, which reflects the assessed value of the imported gaming machines at the time of the tax audit. In 2012 the Group took an additional charge to the provision of Mex. Ps. 1.5 million (equivalent to approximately EUR0.08 million as of December 31, 2014). This provision is reflected in other expenses.

The subject of the second claim is the subsidiary Operadora de Espectáculos Deportivos, S.A. de C.V. ("Operadora de Espectáculos Deportivos") and the claimant is the SAT. The Mex. Ps. 298 million (equivalent to approximately EUR16.7 million as of December 31, 2014) claim relates to the alleged inability to provide sufficient evidence to SAT's satisfaction that, for cash management convenience, certain amounts deposited at Operadora de Espectáculos Deportivos by Operadora de Espectáculos Deportivos' sister companies during the course of 2010, prior to the July 2011 transaction with Caliente, were deposits and not taxable income under the Federal Gaming Tax ("IEPS"). The Group believes that it has provided sufficient evidence that the amounts were not taxable income, except where it relates to some relatively small transactions. The Group initially appealed to the SATASB, which turned down its arguments, so on 21 May 2013, the Group appealed the case before the Federal Tax and Administrative Court of Justice. The Group has obtained a legal opinion from its legal advisers in Mexico to the effect that the SAT's claim is unjustified and without technical merit.

The third claim in the amount of Mex. Ps. 560 million million (equivalent to approximately EUR31.3 million as of December 31, 2014) is the result of the reassessment by the SAT of Codere México's 2008 income tax return. In 2008, Complejos Turísticos de Huatulco ("CTH") and other subsidiaries of Codere México merged into Codere México. Prior to the merger, Codere México had large USD-denominated credits payable to it by CTH as this was the entity the Group used to fund the Legacy Caliente operations. These credits generated a significant exchange rate gain for Codere México during the course of 2008 and a corresponding exchange rate loss at CTH. When the 2008 accounts were submitted to the SAT, following the merger, the corresponding amounts were not offset and the accounts continued to show the gains and losses. The claim presented by the SAT questions the validity of the losses for tax relief purposes whilst not accepting the defence that those losses are offset by an equivalent gain. The Group appealed before the SATASB in December 2012 and we have just received the ruling on December 2014 turning down our arguments. The Group has obtained a legal opinion from its legal advisers in Mexico to the effect that the SAT's claim and the arguments elaborated in the recent answer to our appeal is unjustified and without technical merit. Consequently, on March 6, 2015 the Group filed an appeal before the Federal Tax and Administrative Court of Justice. Even though, we and our legal advisers consider this case unjustified and without technical merit, during the course of 2012 the Group took a provision for Mex. Ps. 33.8 million (equivalent to approximately EUR1.9 million as of December 31, 2014) which was reflected in corporate income tax. In 2013, the Group took an additional charge against operating profit of Mex. Ps. 2.5 million (equivalent to approximately EUR0.14 million as of December 31, 2014).

The Fourth Claim is against Operadora Cantabria by the Local Tax Authorities (Secretaria de Finanzas del Distrito Federal) for a total amount of Mex. Ps. 32.5 million. This is because the local tax authorities rejected the decrease on prizes paid and therefore they calculated a greater basis of taxes (they argued lack of supporting documentation). The company filed an administrative appeal (revocation) before local tax administrative authorities in Mexico City (Procuraduría Fiscal del Distrito Federal) which turned down its arguments. On 11 November 2014 our subsidiary appealed the case before the Administrative Court of the Federal District, the outcome of which is still pending resolution. The Group has obtained a legal opinion from its legal advisers in Mexico to the effect that the SAT's claim is unjustified and without technical merit. The Group took a provision for Mex Ps 5.5 million.

On the other hand, the SAT has started a review of corporate income tax for 2008 to our subsidiaries (CTH and Promociones Recreativas Mexicanas (Premsa) in order to verify the correct calculation of this tax in accordance with the relevant tax law in force. Both companies have provided supporting documentation in respect of the tax being reviewed.

The SAT has not completed its review, however, in December 2013 the Group took a provision for Mex Ps \$ 138.5 million (equivalent to approximately EUR7.7 million as of December 31, 2014).

In addition to the above claims, on May 2013, the subsidiary AMH filed Federal Gaming Tax restatements for the years 2009 through 2012 for a combined sum of Mex. Ps. 176.6 million. Such restatements, which relate to how client promotions are computed for tax purposes, benefited from the new administration's tax amnesty which remained in force until 31 May 2013. Additionally, during March and June of 2014 AMH filed the restatement for the year 2013, for an amount of Mex. Ps. 40.2 million.

Another subsidiary Operadora Cantabria, 1 of the Joint Opcos, did likewise but only for the year 2011 and for an amount of Mex. Ps. 13.4 million, also covered under the tax amnesty. The remainder of the Joint Opcos and Operadora Cantabria for the rest of the years, which computed Federal Gaming Tax in similar fashion as AMH, filed restatements, due to liquidity constraints, in June and July of 2013 for an amount of Mex. Ps. 151.6 million. In June 2014, all subsidiaries of the Joint Opcos filed Federal Gaming Tax restatements for the year 2013, for an amount of Mex. Ps. 30 million.

Additionally, during the first two weeks of April 2015, subsidiary AMH received several requests for information issued by the Local Tax Authorities (Secretaria de Finanzas del Distrito Federal) with respect of some months of fiscal year 2010 of some of the casinos located in Mexico City, where they required information concerning the Local Tax Lotteries, raffles and Contests. The company will provide the documentation in the following weeks.

Argentina

The Group is involved in a dispute with the Argentine federal tax authorities regarding the application of Section 73 of the Argentine Income Tax law to certain intercompany loans with the Argentine affiliates. Section 73 also generally applies to loans to third parties and the Group has argued that the Argentine companies involved in the questioned loans are part of a single economic group. If this dispute is determined adversely to the Group, the Group estimates that it will be required to pay AR\$9.76 million (equivalent to approximately EUR0.94 million as of December 31, 2014).

Bingos del Oeste S.A. is also involved in a dispute with the Argentine federal tax authorities concerning the application of the credit debit tax to the amounts of money the Group periodically pays to the Buenos Aires province gaming authorities (34% of net win in the case of slot machines, and 21% of the total amounts wagered in the case of bingo). The Group has argued that these amounts are not subject to the credit debit tax, as they are owed to the province of Buenos Aires and are therefore not subject to the federal credit debit tax law. If this dispute is determined adversely to the Group, Bingos del Oeste S.A. would be required to pay AR\$9.43 million (equivalent to approximately EUR0.91 million as of December 31, 2014).

Italy

In Italy, the Group is involved in a tax dispute regarding gaming taxes. On 5 January 2009, Codere Network received a notice from the AAMS Lazio claiming that certain amounts were due for 2004 and 2005 in connection with the "liquidazione PREU", which is an estimate of gaming taxes owed by concessionaires based on the amounts spent by customers on slot machines ("AAMS PREU payments"). The amounts claimed were approximately: (i) EUR21.7 million as AAMS PREU payments; (ii) EUR2.0 million as penalties (which would be reduced if paid without dispute); and (iii) EUR2.8 million as interest. Codere Network subsequently received additional notices from the AAMS Lazio claiming AAMS PREU payments for 2006, 2007 and 2008. After Codere Network made various requests for recalculation of the AAMS PREU payments for the years 2004 through 2009, the AAMS Lazio concluded that Codere Network does not owe any AAMS PREU payments for the years 2004 through 2007. Regarding the AAMS PREU payments for the year 2008 the AAMS Lazio recognised Codere Network a credit of EUR3.6 million with a final settlement.

On 28 December 2011, Codere Network received a notice from the AAMS Lazio about the AAMS PREU payments for 2009, which stated that Codere Network does not owe any AAMS PREU payments for that year. Codere Network claimed a credit of approximately EUR3.9 million from the AAMS Lazio and submitted an application for review. On 27 January 2012, Codere Network sent a notice to the AAMS Lazio restating the amount of credit claimed to EUR393,322 as a result of having offset part of the credit against periodic PREU payments (in consultation with the AAMS Lazio). As of the date of this document, the AAMS Lazio has not issued its settlement with regard to the AAMS PREU payments for 2009.

On 3 January 2013, Codere Network received a notice from the AAMS Lazio stating that Codere Network does not owe any AAMS PREU payments for the year 2010, and recognising a credit of approximately EUR4.0 million in favor of Codere Network. On 29 January 2013, Codere Network sent a notice to the AAMS Lazio restating the amount of credit claimed to approximately EUR480,000 as a result of having offset part of the credit against periodic PREU payments (in consultation with AAMS Lazio). ADM (Agenzia delle Dogane e dei Monopoli, the entity which incorporated AAMS in 2012), did not reply to the note sent by Codere Network.

On 2 January 2014, Codere Network received a notice from ADM stating that Codere Network does not owe any amount for the PREU 2011. In addition to this, according to ADM's communication, Codere Network has a credit balance of EUR2.1 million. On 13 January 2014, Codere Network sent a notice to ADM asking for a rectification of the credit amount, and indicating as correct credit the amount of EUR588 thousands. A response from ADM is awaited as at the date of this document.

On 20 November 2014, Codere Network received a notice from ADM stating that Codere Network does not owe any amount for the PREU 2012 but also that is obliged to pay AAMS a fine of EUR 28.315,73 for two late payments of that tax. AAMS has overlooked that two years ago Codere Network informed the authority about a mistake in the payment of the PREU (Codere had paid the PREU but indicating the code of a different tax). On 16 December 2014 Codere Network sent a letter to ADM asking for the rectification of the notice.

Finally, on 12 May 2015 Codere Network received a notice from AAMS through which the administration accepted the rectification and measured Codere Network's credit in 1.199.296 euro, and annulled the fine of 28.316 euro.

The Group's bingo subsidiaries Bingo RE SRL (taken over by Operbingo Italia S.p.a. on 1 January, 2013) and Bintegral SpA are currently subject to 3 VAT claims in respect of the years 2003 and 2007 for Bingo RE and the year 2007 for Bintegral. The Italian Tax Authorities challenged the way in which the Group allocates expenses for VAT calculation purposes and claim an aggregate amount of approximately EUR400,000. The Group appealed against these claims.

On 15 December 2014 the hearing of Bintegral before the CTP of Rome (first instance authority "Commissione Tributaria Provinciale") was held, and on January 15th, 2015 the CTP notified the admission of the appeal. On 10 February 2015 the hearing of Bingo Re S.r.l. (now called Operbingo Italia S.p.A) before the CTR (second instance authority "Commissione Tributaria Regionale") was held. The CTR rule is awaited as of the date of this document.

Other Tax Disputes

In Bogota, Colombia, the Group resolved a dispute with local tax authorities regarding certain gaming taxes on slot machines operated by it at locations owned by third parties in the second half of 2009. Codere Colombia S.A. paid approximately COP\$1.678.3 million (equivalent to approximately EUR0.6 million as of 9 March 2015) in resolution of that dispute. The tax authorities have since ceased the related judicial process and confirmed that the Group has complied with applicable regulations. On 12 May 2010, the Constitutional Court of Colombia declared that the law under which that dispute was resolved and by which the Congress authorised the resolution of tax disputes by way of payment of agreed amounts with local tax authorities was unconstitutional. Unexpectedly, and without notification to Codere Colombia S.A., the Colombia's Council of State decided to reopen the judicial process. On 26 September 2013, Colombia's Council of State issued its sentence against Codere Colombia S.A.

On 19 December 2013, Codere Colombia S.A. presented an appeal for review (Recurso Extraordinario de Revisión) before the Colombia's Council of State. The notification of the appeal admission was issued on October 2014.

The Group has taken charges against this contingent tax liability in an amount of COP\$4,300 million (equivalent to approximately €1.5 million).

In March 2015, Secretaría de Hacienda del Distrito Capital (the tax authority) sent to Codere Colombia S.A. an invitation to accept the possibility contained in Law 1739, December 2014 (and Decree 25, 2015), which implies the payment of the total amount of tax before May 31st 2015, and obtaining a discount of 80% over the interests and penalties. On May 2015 Codere Colombia S.A. accepted that possibility and paid COP\$3,543.2 million. According to our legal advisors this payment doesn't imply a resignation on our appeal of review. If our appeal is successful we could request the refund of the amount paid.

In Panama, since January 2014, the Group has been involved in a dispute with the Panama National Tax Authority, regarding the income tax and the VAT. The Group has filed a few reconsiderations and an appeal against the authority decision and the Group is waiting for the new decision. If this dispute is determined adversely, the Group estimates that it will be required to pay USD1.5 million (income tax) and USD1.1 million (VAT).

Other Litigation and Disputes

Spanish Stock Market Sanction

On March 2015, the Official State Bulletin (BOE) has published the Spanish Stock Market Regulator (CNMV) Resolution dated January 21, 2015 by which Codere and those Board Members that were members of the Audit Committee in 2013 (Mr. Juan José Zornoza Pérez, Mr. Eugenio Vela Sastre, Mr. Joseph Zappala and Mr. José Ramón Romero Rodríguez) are sanctioned for committing an infraction due to the reporting to the CNMV of the Consolidated Annual Accounts of 2012 containing inaccurate information. The Company and Board Members consider that these sanctions are without merit, so have presented an appeal to the appropriate Court asking for the cancellation of this penalty

Argentina

Central Bank of Argentina Litigation

The Central Bank of Argentina has initiated several proceedings against the Group under foreign exchange control laws and regulations. The applicable laws and regulations impose fines in the range of 1 to 10 times the amount of the alleged infraction, but the fines are normally levied in the minimum amount. The Central Bank of Argentina is investigating alleged infractions for inaccurate disclosure in sworn statements made by the Group with respect to transfers abroad for a total amount of USD4.1 million and EUR0.3 million, on account of "foreign portfolio investments" and "payment of loans received from foreign lenders." With respect to approximately USD3.1 million of such amounts, the Group argues that the statute of limitations has expired, and has obtained a final Court decision that applies to a portion of such amounts, and the Group will request its extension to the total amount mentioned. As for the remaining million and EUR0.3 million of such amounts, although the Group believes that the transactions in question were carried out in compliance with the applicable foreign exchange regulation at the time, the Group has provisioned EUR1.0 million for potential contingencies.

In addition, on 1 December 2014, the Group was served notice of a new proceeding initiated by the Central Bank of Argentina for an alleged excess of US\$0.4 million in the purchase of foreign currency during October 2008. Although the Group believes that the transactions were carried out in compliance with applicable foreign exchange regulation applicable at that time, the Group has provisioned US\$0.4 million for potential losses. A similar process was initiated by the Central Bank of Argentina arguing the same facts and laws mentioned before. In order to prevent double jeopardy on February 2015, the Group argues the expiration by statute of limitations. If the Central Bank or Argentina dismisses the argument mentioned before, the Group will argue the double jeopardy defence. There are not necessary additional provisions regarding this new process.

Mexico

Monterrey and General Escobedo, Nuevo León

Between 27 February and 13 March 2013, the local authorities of the cities of Monterrey and General Escobedo, both in the State of Nuevo León, closed the following gaming venues:

Gonzalitos, Monterrey operated by Operadora Cantabria, S.A. de C.V.;

- (1) Valle Oriente, Monterrey operated by Operadora Cantabria, S.A. de C.V.;
- (2) Jacales, Monterrey operated by Libros Foráneos, S.A. de C.V.;
- (3) Cumbres, Monterrey operated by Administradora Mexicana de Hipódromo, S.A. de C.V.;
- (4) Valle Oriente, Monterrey operated by Administradora Mexicana de Hipódromo, S.A. de C.V.;
- (5) Sendero, General Escobedo operated by Administradora Mexicana de Hipódromo, S.A. de C.V.

The authorities closed the gaming venues, based on the supposed lack of "use of land certificates" for casino, in accordance with the current city ordinances of those municipalities, disregarding the fact that all of the gaming

venues operate with the necessary permits and licenses required both by the Ministry of the Interior (Secretaría de Gobernación), and those required by the local authorities at the time the venues were first open to the public.

In such regard, the pertaining permit holders have filed "Amparo lawsuits", identified under Mexican law as challenge lawsuits, where certain governmental agencies are challenged to prove their rightful application of the law in a particular case (habeas corpus), claiming the illegality of the foreclosures, as well as the allegation that the venues were opened to the public before the zoning catalog was amended and therefore the new catalog of activities should not be applied, as no law or regulation shall be retroactively applied.

These "Amparo lawsuits" have been resolved adversely to the interests of the Group, regarding the following permit holders and locations:

- (6) Gonzalitos, Monterrey operated by Operador Cantabria, SA de CV.
- (7) Valle Oriente, Monterrey operated by Operadora Cantabria, SA de CV.
- (8) Jacales, Monterrey operated by Libros Foráneos, SA de CV.
- (9) Cumbres, Monterrey operated by Administradora Mexicana de Hipódromo, SA de CV.
- (10) Valle Oriente, Monterrey operated by Administradora Mexicana de Hipódromo, SA de CV.

In accordance to the Amparo Lawsuit Resolution regarding the General Escobedo venue operated by Administradora Mexicana de Hipódromo, S.A. de C.V., the local authority has begun an administrative procedure, regarding the use of land certificate.

Tuxtla Gutierrez, Chiapas

On 31 January 2013, the gaming venue operated by Promojuegos de México, S.A. de C.V., located in the city of Tuxtla Gutierrez, State of Chiapas, was closed by several State authorities, specifically by the Civil Protection Agency of the State and the State of Chiapas Prosecutor Agency, under the supposed accusation that the alcoholic beverages were altered. The accusation complaint is under litigation, and presently pending resolution.

Benito Juárez, México City

On 24 September, 2014, the gaming venue operated by Operadora Cantabria, S.A. de C.V., located in the county (delegación) Benito Juárez in Mexico City, was closed by the local authority, based on the supposed lack of "use of land certificate" for a casino. In such regard, the pertaining permit holder has initiated a regulatory administrative proceeding before the authority that closed the gaming venue. This is currently pending resolution. As of 31 December, 2014 the hall was operating under a preliminary injunction issued by the judge.

Italy

Stability Law Litigation before TAR Lazio

Stability Law enacted in Italy on 29 December 2014 includes the implementation of a new fee for 2015 on gaming companies in Italy amounting to 500 million euros per annum. The annual payment, as from 2015, will be distributed among the 13 network concession holders based on the number of interconnected machines of each operator. Codere Network, S.p.A will be required to pay 22 million euros according to a Decree published by the ADM dated 15 January 2015. This amount will be distributed among all participants in the value chain of Codere Network, S.p.A. On February 2015 Codere Network (and twelve other concessionaires) challenged the Decree of ADM before the TAR Lazio, asking for a suspension on the execution as a precautionary measure and the submission of the proceeding to the Constitutional Court. On April 1st 2015 TAR Lazio rejected the suspension and set the hearing for July 1st 2015. This resolution may be appealed before the Council of State.

Consiglio di Stato Allegation (the IV penalty)

On 17 June 2013 Tar Lazio published its ruling upholding the appeal brought by Codere Network. The ruling declared null and void the IV penalty (2.730.620,74 euro) imposed by AAMS for the concessionaire's failure to keep the minimum levels of services set forth in the concession agreement. On 28 January 2014 Codere Network was notified of the AAMS's appeal against the Tar Lazio's ruling. The hearing before the Consiglio di Stato will be held on 26 May 2015

Gaming Operators Litigation

Codere Network is currently a party to various proceedings pursuant to which it is claiming an aggregate of EUR1.0 million (as of the date of this document) from various gaming operators relating to unpaid network interconnection fees and gaming taxes which Codere Network collects on behalf of the AAMS. Codere Network interconnects the machines for such operators.

CdC Allegation

On 29 May 2007, the Italian Corte dei Conti ("CdC"), the constitutional body charged with auditing the management and accounts of governmental departments, including the AAMS, claimed that the AAMS had failed to seek EUR3.0 billion in penalties from Codere Network for the alleged noncompliance with certain obligations, such as the terms for the activation and management of the AWP network and minimum levels of service (the "CdC Letter"). The CdC Letter was addressed to official representatives of the AAMS and to Codere Network as an AWP network concessionaire, which the CdC considered to be jointly responsible. The CdC Letter was also sent to nine other concessionaires that had provided AWP network services in Italy and claimed an aggregate amount of EUR98.0 billion in penalties and fines, of which EUR3.0 billion was allegedly attributable to Codere Network. On 26 June 2007, the AAMS requested that Codere Network pay the penalties and fines per the CdC Letter (the "AAMS Letter").

Codere Network responded to the CdC Letter and the AAMS Letter, both directly and in coordination with the other affected concessionaires and also challenged the AAMS Letter before the TAR Lazio. AAMS has, since 2007, sent additional demand letters to Codere Network, claiming further penalties. Codere Network also filed a defense motion before the CdC, claiming the penalties were not owed, which the CdC rejected in 2008 (along with a subsequent appeal).

In February 2012, contrary to expectations, the Regional Section of the CdC ruled against all 10 AWP network concessionaires, including Codere Network. The ruling sentenced the concessionaires to pay a total of EUR2.5 billion, of which Codere Network is liable for EUR115 million plus interest.

Codere Network together with the other concessionaires appealed the ruling of the Regional Section of the CdC before the Central Section of the CdC.

On 11 November 2013 the CdC offered all network concessionaries the possibility to settle their longstanding dispute, by paying 30% of the amount of the claim, plus legal interests. In the case of Codere Network, such settlement would be EUR34.5 million (30% of the total EUR115 million), plus legal interests. The first concessionaries to join the definizione agevolata to close their cases were Lottomatica Videolot Rete, Sisal, Cirsa, Cogetech, Snai and Gamenet. Later on Codere Network and Gmatica. The hearing was held on 15 October 2014. As announced on 16 and 17 October 2014, the judicial proceeding was finalised through the payment of an amount equal to EUR34.5 million (plus interest accrued since the date of the first instance judgment). The amount paid by Gmatica was euro 47.3 million including interests. In order to be able to fund the settlement, the Existing SFA Lenders agreed to increase the available amount under the Existing SFA by up to EUR35 million.

On 6 February 2015 the CdC ruled the exclusion of Codere Network (and Gmatica) from the process, sentencing the concessionaire to pay EUR 1.808 as court costs.

HBG was sentenced to pay the 36% of the amount of the first instance claim (EUR 72 million) + court costs and BPLUS was sentenced to pay the 39% of the amount of the first instance claim (EUR 335 million) + court costs.

Spain

In 2011 some Spanish subsidiaries took legal actions against some Internet Gambling Operators. The actions were based on the Law of Unfair Competition, given the lack of gaming license of these online operators to carry out gaming activities in Spain. Some of those proceedings are currently ongoing. Up to date, there are four Court decisions against our interests (two of them condemn us to pay legal costs), three of which have been appealed and are currently pending at the Audiencia Provincial de Madrid, and the other one is currently pending before the Supreme Court. In addition, there is one proceeding still pending before the Commercial Court of Madrid. In this last proceeding (which hearing is near to be held) we obtained an interim measure and consequently the defendant's website was temporarily closed. The defendant appealed that injunction before the Audiencia Provincial of Madrid, and the Court condemned us to pay damages and the legal costs of the injunction. We have appealed that ruling, as well as the appraisal of the legal costs (which amount to 0.6 million EURO) made by the defendant.

Panama

Pardini & Asociados, a civil association organised under the laws of Panama, filed a lawsuit of USD150,000 against Thunderbird in the Thirteenth Circuit Civil Court in 2001 and a lawsuit of USD5.0 million in the Eleventh Circuit Civil Court in 2011. Both claims relate to payment of fees in the form of a bonus pursuant to a letter agreement between Juan Raúl de la Guardia and Thunderbird dated 8 August 1997 (the "Letter Agreement"). Juan Raúl de la Guardia is requested to join the procedure as a third party.

Thunderbird has filed a separate lawsuit in which it seeks a statement that Pardini & Asociados is not a party to the Letter Agreement. The lawsuit asks that Pardini & Asociados pay Thunderbird USD2.0 million in respect of damages for recklessness and bad faith, and also pay costs, expenses and interest earned on account of the process.

On 16 May 2011, Pardini & Asociados was granted an injunction of USD2.2 million against bank accounts, properties and money owned by Thunderbird. In June 2011, Thunderbird appealed the injunction and provided a bond to lift the injunction. The Court permitted the appeal in favour of Thunderbird and has sent the case to the First Superior Court for resolution.

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

On 9 April 2014, a withdrawal was filed before the Court, and all the parties in the process signed an escrow for which the plaintiff terminates the process and its pretensions.

On 30 April 2014 the Court admitted the withdrawal and issued official letters to the banks ordering the release of the seized accounts. Most of the accounts have been released, and the Group is waiting for the release of some seized accounts, which amounts to USD8,000.

Uruguay

On 28 July 2010, Dongara Investment Inc. requested the annulment of the concession of the Carrasco hotel and casino project awarded to the Carrasco Nobile S.A. consortium. Dongara Investment was the runner up in the concession process. In addition, the plaintiff requested a preliminary injunction to cease the remodelling of the Carrasco hotel and casino's building. Notwithstanding that the petitions were filed against the Municipal Government of Montevideo, which granted the concession, Carrasco Nobile S.A. voluntarily intervened in these proceedings to contribute evidence and facts supporting the conclusion that the concession process complied with applicable laws and regulations. An adverse judgment would mean the annulment of the bidding process and the resolution awarding the concession to the Carrasco Nobile S.A. consortium, in which event the Municipality of Montevideo would be required by law to provide Carrasco Nobile S.A. compensation for the annulment of the concession.

As a result of the financial difficulties undergone by Carrasco Nobile, S.A. and pursuant to Uruguayan law, on 29 October 2014 said company's shareholders approved the requisite capital reduction as the company's equity had fallen below the figure required by Uruguayan legislation. The amount finally approved in at the shareholders'

meeting to restore the financial position of Carrasco Nobile, S.A. required a subsequent capital increase to restore the balance between capital and equity. Therefore, at said meeting a capital increase was proposed for a total amount of 525 million Uruguayan pesos (17.7 million euros approx. at 31 December 2014), in order to restore the financial position of Carrasco Nobile, S.A. On 23 January 2015, the Board of Directors of Carrasco Nobile S.A. was formally informed that Codere Mexico SA de CV subscribed the capital increase in Carrasco Nobile, S.A. proposed at the Extraordinary General Meeting of 29 October 2014, in an amount of 267.7 million Uruguayan pesos (8.9 million euros approx. at 31 December 2014). As a result of the capital increase, in which the minority shareholder Sikeston S.A. decided not to take part in, Codere Mexico SA de CV increased its interest in Carrasco Nobile, S.A. from 51% to 73.7%. Sikeston S.A. has filed for an ordinary procedure, in order to challenge the Shareholder Meeting decision in regard to the company's capital stock and losses. The procedure has recently been formally notified to Carrasco Nobile S.A, and to Codere Mexico S.A. de C.V.

Real Property

The Group's principal executive offices are located at Avenida de Bruselas 26, Alcobendas, Spain. The majority of the Group's offices and gaming facilities are leased and the leases generally run for at least as long as the relevant gaming license in the relevant jurisdiction.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of December 31, 2014, the authorized share capital of Codere, S.A. was €11,007,294, consisting of 55,036,470 fully paid-up ordinary shares, forming part of the same series, each with a par value of €0.20. The following table sets forth information regarding the beneficial ownership of Codere, S.A. shares as of December 31, 2014. No Company shares were sold by senior managers on the market in 2014.

Owner	As of December 31, 2014	
	Number of shares beneficially owned	Percent
Masampe Holding B.V. ⁽¹⁾	28,259,088	51.3%
José Antonio Martínez Sampedro ⁽²⁾	6,838,261	12.4%
Luis Javier Martínez Sampedro ⁽³⁾	1,396,035	2.5%
Encarnación Martínez Sampedro ⁽⁴⁾	1,202,000	2.2%
Other board members	349,456	0.6%
Other members of management	396,337	0.7%
Public float	16,595,293	30.2%
Total	55,036,470	100.0%

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

SPV Financings

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

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

As of March 31, 2015, the outstanding principal amount under the PIK Term Loan Facility was €687.2 million. Amounts outstanding under the PIK Term Loan Facility accrue interest at a rate per annum equal to EURIBOR for debt with a 3-month maturity plus 750 basis points. The maturity date of the PIK Term Loan Facility is December 15, 2015.