ANNUAL REPORT OF CODERE, S.A.

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

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

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

TABLE OF CONTENTS

Page

USE OF CERTAIN DEFINITIONS

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

- "Argentine peso" or "AR$" are to the lawful currency of the Republic of Argentina;
- "AWP machines" are to amusement with prize machines, which pay out cash prizes as a percentage of total wagers over a pre-determined cycle of games, and are permitted in Spain (as "Type-B machines") and in Italy (as "Comma 6 machines") to be placed in bars, cafes, arcades and bingo halls;
- the "Codere Group", "Group", "Codere", "we", "us" or "our" are to Codere, S.A. and its subsidiaries;
- "Colombian peso" or "COP$" are to the lawful currency of Colombia;
- "Consolidated Financial Statements" means the audited consolidated financial statements of Codere, S.A. as of and for the years ended December 31, 2006 and 2007 prepared in accordance with IFRS and included in this Report;
- "dollars", "U.S. dollars", "U.S.$" or "$" are to the lawful currency of the United States of America;
- "EBITDA" (earnings before interest, tax, depreciation and amortization) are to operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment test;
- "EBT" are to Electronic Bingo Terminals installed in Mexico which are similar to U.S. Class II machines;
- "EU" are to the European Union;
- "euro" or "€" are to the lawful currency of the member states of the European Monetary Union;
- "Grupo Royal" are to Karmele S.A., Gallaecia S.A., Itapoan S.A., Cuatro Caminos S.A., C&K Internacional S.A., La Base S.A., Iberargen S.A., Interbas S.A., Samaná S.A. and Nanos S.A.
- "IFRS" are to International Financial Reporting Standards (formerly known as "International Accounting Standards", or "IAS") as adopted by the European Union;
- "Indenture" are to the indenture governing the Notes, as amended and supplemented from time to time, dated June 24, 2005 among the Issuer, the Guarantors and Deutsche Trustee Company Limited, as trustee;
- "IPLyC" are to the Instituto Provincial de Lotería y Casinos de la Provincia de Buenos Aires, the gaming regulator of the Province of Buenos Aires;
- "Mexican peso" or "Mex. Ps." are to the lawful currency of Mexico;
- "Notes" refers to the €660 million aggregate principal amount of 8¼% senior notes issued by Codere Finance (Luxembourg) S.A. on each of June 24, 2005, April 19, 2006 and November 7, 2006; and
- "Slot machines" are to gaming devices into which a player inserts a form of currency and, based on a set of probability variables, the player either loses the wager or is awarded a prize. In this Report, we use the term "slot machines" broadly to include traditional reel spinning slots, machines with video screens, progressive jackpot machines and video lottery terminals (VLTs), which would include the AWP machines operated in Spain, the Comma 6 machines operated in Italy and the slot machines operated in Argentina, Chile, Colombia and Uruguay, which are similar to U.S. Class III Machines, which are electronic gaming machines that are specifically defined under U.S. federal law as a Class III gambling device, as typically permitted in U.S. casinos.

PRESENTATION OF FINANCIAL AND OTHER DATA

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

We define "EBITDA" as operating profit plus period depreciation and amortization plus variation in provisions for trade transactions plus impairment test. EBITDA, Adjusted EBITDA 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 Adjusted EBITDA 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.

On March 14, 2007 the Board of Directors of Codere S.A. approved our Consolidated Financial Statements for the year ended December 31, 2006. However, in the context of the preparation of our Spanish Registration Statement with the CNMV in connection with the initial public offering of our shares, prior to the final approval by the General Shareholders' Meeting of the consolidated accounts initially approved by the Board of Directors, it was decided that, in accordance with IAS 8, "Accounting policies, changes in accounting estimates and errors," the corresponding consolidated accounts for the year ended December 31, 2006 would be reapproved for submission to the General Shareholders' Meeting to correct two errors that were detected as described further below. The restated consolidated accounts were approved at the General Shareholders' Meeting held on July 27, 2007.

The changes made with respect to the original amounts on our December 31, 2005 and 2006 consolidated balance sheets and income statement for the years ended December 31, 2005 and 2006, as prepared on March 14, 2007, are summarized as follows:

	2005	2005 as restated	Change
Balance sheet			
Profit (loss) attributable to equity holders of the parent	(23.3)	(61.0)	(37.7)
Other non trade payables	141.9	179.6	37.7
Income Statement			
Financial expenses	(60.0)	(97.7)	(37.7)

	2006	2006 as restated	Change
Balance sheet			
Goodwill on consolidation	248.3	240.9	(7.5)
Translation differences	3.5	(6.7)	(10.2)
Retained earnings	(78.3)	(73.0)	5.3
Profit (loss) attributable to equity holders of the parent	11.5	8.9	(2.6)
Income Statement			
Financial expenses	(59.7)	(62.3)	(2.6)

The above changes have been recorded as a consequence, first, of a change in the accounting treatment applied to the financial instrument (the "MCP Instrument") the Group had issued to Monitor Clipper Equity Partners, and second, of the recording of translation differences arising at December 31, 2006 with respect to Codere's goodwill.

The consolidated cash flow statements, in relation to the net change in cash, have not been affected by this restatement. Copies of the restated accounts can be found on our company's website www.codere.com, which does not form part of this Report, under "Restated 2006 Annual Accounts".

As a result of the above restatement, the 2006 IFRS-EU consolidated annual accounts of the Codere Group were also restated. The amounts included in our Consolidated Financial Statements, included as part of this Report, are those obtained from the audited restated 2006 IFRS-EU annual accounts.

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

FORWARD-LOOKING STATEMENTS

This Report includes forward looking statements that reflect our intentions, beliefs or current expectations and projections about our future results of operations, financial condition, liquidity, operating performance for 2008 and thereafter, prospects, anticipated growth, strategies, opportunities and the industry in which we operate. Forward looking statements involve all matters that are not historical fact. Forward looking statements may be found in sections of this Report entitled ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’, ‘‘Business’’ and elsewhere.

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

SELECTED FINANCIAL INFORMATION AND OTHER DATA

Our Selected Consolidated Financial Information and Other Data

The selected audited consolidated financial information as of and for the years ended December 31, 2006 and 2007 presented below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2006 and 2007 included elsewhere in this Report. See “Presentation of Financial and Other Data” for an explanation of our restatement of our consolidated financial statements as of and for the year ended December 31, 2006. The audited consolidated financial statements as of and for the years ended December 31, 2006 and 2007 have been prepared in accordance with IFRS and audited by Ernst & Young, S.L., our independent auditors.

	Year ended December 31,	
	2006	**2007**
	(audited) (€ in millions)	
Income statement data:		
Operating revenue	760.7	915.3
Operating expenses:		
Consumption and other external expenses	91.1	100.1
Personnel expenses	117.0	143.6
Depreciation	37.1	51.9
Amortization of intangible assets	12.6	18.8
Variation in provisions for trade transactions	6.6	10.8
Impairment test	–	11.3
Other operating expenses:	377.0	474.9
Gaming and other taxes	244.7	297.1
Machine rental costs	5.3	0.9
Other(1)(9)	127.0	176.9
Total operating expenses	641.4	811.4
Operating profit	119.3	103.9
Financial items:		
Financial expenses(2)(3)	62.3	66.0
Financial revenues	7.1	10.4
Exchange gains (losses), net	(4.3)	(5.1)
Profit before tax(2)	59.8	43.2
Corporate income tax	40.8	41.2
Minority interests	10.1	11.9
Net income (loss)(2)	8.9	(9.9)

	At December 31,	
	2006[4]	2007
	(audited)	
	(€ in millions)	
Balance sheet data:		
Cash and cash equivalents(5)	145.2	94.1
Working capital(6)	(5.7)	(64.5)
Total assets	1,020.7	1,276.4
Total debt(7)	696.0	749.9
Shareholders' equity	35.6	132.0
Minority interests	34.9	25.5

	Year ended December 31,	
	2006	2007
	(audited)	
	(€ in millions)	
Cash flow data:		
Net cash flow provided by operating activities	128.2	200.3
Net cash flow used in investing activities	(280.4)	(349.9)
Net cash flow provided by financing activities	236.5	98.4
Net increase (decrease) in cash	84.3	(51.2)

	Year ended December 31,	
	2006	2007
	(unaudited)	
	(€ in millions)	
Other financial data:		
EBITDA(8)	175.6	196.7
Adjustments:		
EBITDA(8)	175.6	196.7
Italy AWP and Colombia non-recurring provisions(9)	-	22.9
Adjusted EBITDA	175.6	219.6
Net income	8.9	(9.9)
Italy AWP and Colombia non-recurring charges(10)	-	42.2
Adjusted Net income	8.9	32.3

(1) Includes other services, such as professional services.

(2) Financial expenses, Profit before tax and Net income for the year ended December 31, 2006 differ from those previously reported as a result of the restatement of December 31, 2006 financial statements as described in more detail in "Presentation of Financial and Other Data".

(3) Includes principally financial expenses from payables to third parties and similar expenses.

(4) Goodwill on consolidation and Shareholders' Equity figures for December 31, 2006 differ from those reported in the results for that period as a result of the restatement of the December 31, 2006 financial statements as described in more detail in "Presentation of Financial and Other Data".

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

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

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

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

The reconciliation of EBITDA to operating profit is as follows:

	Year ended December 31,	
	2006	**2007**
	(unaudited)	
	(€ in millions)	
EBITDA	175.6	196.7
Depreciation and amortization	49.7	70.7
Impairment test	–	11.3
Variation in provisions for trade transactions	6.6	10.8
Operating profit	119.3	103.9

(9) The year ended December 31, 2007 includes non-recurring provisions of €16.0 million recorded in the Italy AWP business and non-recurring provisions of €6.9 million recorded in the Colombia business.

(10) The year ended December 31, 2007 includes non-recurring provisions and an impairment charge totaling €35.3 million recorded in the Italy AWP business, and non-recurring provisions of €6.9 million recorded in the Colombia business.

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

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

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

Overview

We are a leading gaming company engaged in the management of gaming machines (slots, AWPs and EBTs), bingo halls, horse racing tracks, casinos and off-track betting facilities in Spain, Latin America and Italy. As of December 31, 2007, we managed 51,616 slot machines and electronic bingo terminals, 128 bingo halls with an aggregate of 32,167 seats, 55 off-track betting facilities, three horse racing tracks and five casinos. In the year ended December 31, 2007, we generated operating revenue of €915.3 million and EBITDA of €196.7 million.

We are the second largest operator of AWP machines in Spain with 15,431 AWP machines in over 10,470 bars and restaurants as of December 31, 2007. We have over 25 years of experience in operating AWP machines in Spain, and have established a large portfolio of exclusive gaming sites for our AWP machines. In the year ended December 31, 2007, our Spain AWP business generated operating revenue of €204.2 million and EBITDA of €72.9 million.

Other than Spain, Argentina and Mexico are our most important markets. In the Province of Buenos Aires, as of December 31, 2007 we are the largest operator of bingo halls with 14 bingo venues in which we operate 4,605 slot machines. In the year ended December 31, 2007, our Argentina business generated operating revenue of €299.0 million and EBITDA of €98.5 million.

In Mexico, through ICELA (our joint venture with Corporación Interamericana de Entretenimiento, S.A.B. de C.V. (“CIE”)), and our management services agreement with Hipódromo de Agua Caliente, S.A. de C.V. (“Caliente”) and our participation in Promojuegos de México S.A. de C.V. (“Promojuegos”) and Mio Games, S.A. de C.V. (“Mio” or “Mio Games”), as of December 31, 2007 we are the largest operator of gaming sites with 94 bingo halls in which we operate 16,788 EBTs. As of December 31, 2007 we also operate 43 off-track betting sites, and since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Latin America. As of December 31, 2007, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 75 bingo halls. In the year ended December 31, 2007, our Mexico business generated operating revenue of €145.0 million and EBITDA of €57.9 million.

Our other operations, which generated operating revenue of €266.0 million and EBITDA of €(7.6) million for the year ended December 31, 2007, include (i) AWP machine and network operations and 12 bingo halls in Italy, (ii) a bingo hall in Spain, (iii) four casinos, one racetrack and OTBs in Panama, (iv) bingo halls, slot machines and a casino in Colombia, (v) a joint venture in horse racing, OTBs and slot machines in Uruguay, (vi) joint ventures in sports betting in Italy and Spain and (vii) a start-up OTB operation in Brazil.

Presentation of Financial Information

The financial statements contained in this Report include our audited consolidated financial statements as of and for the two years ended December 31, 2006 and 2007, prepared in accordance with IFRS.

Segment Reporting

In the discussion below we review our results of operations on a consolidated basis and on the basis of our three principal businesses, Spain AWP, Argentina and Mexico. We also have operations in Italy, Colombia, Uruguay, Panama and Brazil that are of a smaller scale or in initial stages of development, as well as bingo operations in Spain. A limited discussion of these operations has been included below under the heading "Other Operations". In the year ended December 31, 2007, our three principal businesses comprised 22.3%, 32.7% and 15.9%, respectively, of our consolidated operating revenue and 32.9%, 44.4% and 26.1%, respectively, of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses). Our operations discussed under Other Operations comprised 29.1% of our consolidated operating revenue and (3.4)% of our consolidated EBITDA (excluding, in each case, headquarters revenues and expenses) in the year ended December 31, 2007. The organization of our operations into our three principal businesses reflects the manner in which our management evaluates the performance of our various businesses and, on the basis of such information, makes financial and strategic decisions regarding our operations. We believe that the organization of our operations into the foregoing businesses also enhances our ability to adapt to the different market and regulatory environments of the countries in which we conduct our operations.

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

Factors Affecting the Comparability of Our Results of Operations

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

Latin American Currency Depreciation

We are exposed to foreign exchange rate risk in that our reporting currency is the euro, whereas the majority of our subsidiaries keep their accounts in other currencies, principally Argentine pesos and Mexican pesos and also Panamanian balboas (equivalent to the U.S. dollar), Colombian pesos, U.S. dollar (Uruguay) and Brazilian reais. If we continue to expand our operations in Latin America, we will increase the proportion of our operating revenue that we generate in currencies other than the euro. For the year ended December 31, 2007, 32.7% and 15.9% of our operating revenue (excluding in each case headquarters revenues) was denominated in Argentine pesos and Mexican pesos, respectively, and a total of 59.6% of our operating revenue was in non-euro currencies.

During the periods under review, Latin American currencies have generally depreciated against the euro and this has had a significant impact on our financial condition and results of operations when expressed in euro. As Latin American currencies and the U.S. dollar depreciate against the euro, when the results of operations of our Latin American subsidiaries are included in our Consolidated Financial Statements, the euro value of their results declines, even if, in local currency terms, their results of operations and financial condition have remained the same relative to the prior year. Accordingly, declining exchange rates may limit the ability of our results of operations, stated in euro, to fully describe the performance in local currency terms of our Latin American subsidiaries. Our Latin American subsidiaries generally generate revenues and incur expenses and liabilities in their local currency, which provides them with a natural hedge against foreign currency fluctuations.

The assets and liabilities of our subsidiaries which keep their accounts in currencies other than the euro have been translated to euro at the period-end exchange rates for inclusion in our Consolidated Financial Statements. In 2006 income statement items were translated at the average exchange rates for the period. However, in 2007 we changed the manner in which we translate the accounts so that results are translated into euro at the end of each month and these monthly results in euro are added to produce quarterly or annual results, as applicable.

The table below sets forth the exchange rates of the euro relative to the Mexican peso and the Argentine peso during the periods under review:

	Year ended December 31,		
	2006	2007	2006/2007 % change
Mexican peso/Euro (€1.00 = Mex. Ps.)			
Period end	14.32	16.05	12.1%
Argentine peso/Euro (€1.00 = Arg. Ps)			
Period end	4.03	4.64	15.1%

Source: Mexican Central Bank and Argentine Central Bank.

At March 31, 2008 the exchange rate of the euro to the Mexican peso was €1.00 = Mex. Ps. 16.92 and the exchange rate of the euro to the Argentine peso was €1.00 = AR$5.01.

At December 31, 2007, we had in place foreign exchange contracts to purchase a total of €48.6 million in exchange for Argentine pesos (€10.0 million, €12.8 million, €12.8 million and €13.0 million for the quarters ended March, June, September and December 2008, respectively) and €19.9 million in exchange for Mexican pesos (€6.3 million, €6.9 million, €3.2 million and €3.5 million for the quarters ended March, June, September and December 2008, respectively). Realized gains on the Argentine peso foreign exchange contract which matured during the year ended December 31, 2007 amounted to €0.9 million. Realized gains on the Mexican pesos foreign exchange forward contract which matured during the year ended December 31, 2007 amounted to €1.3 million. These realized gains have been recorded as other operating revenue in our Argentine and Mexico business. Unrealized gains and losses on outstanding forward contracts are recognized as a hedging reserve in consolidated shareholder's equity.

Acquisition of CIE Las Américas

On November 9, 2007 we closed various agreements with CIE, our joint venture partner in Mexico since 1999, pursuant to which we acquired 49% ownership of Impulsora de Centros de Entretenimiento de las Americas ("ICELA") in exchange for our 50% interest in the joint venture with CIE and a cash payment of US$175 million (financed in part by a dividend of $30 million). The purchase consideration also includes a deferred payment of US$25 million contingent on, and to be financed by, a dividend in 2008, and originally included two contingent payments of up to US$12.5 million each. Concurrent with the closing of the transaction, one of the contingent payment obligations was satisfied by a payment of US$5.4 million. As of the date of this Report, only one contingent payment of up to $12.5 million remains outstanding. ICELA is a CIE subsidiary which includes CIE's Las Américas division and holds certain gaming related assets previously held directly by CIE, including an exclusivity contract with IGT, which were contributed to ICELA in connection with the transaction. CIE Las Américas owns a 52 hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Latin America. The cash paid to CIE on closing was €99.7 million (US$145 million).

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

Italy AWP impairment charge and provision

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

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

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

We believe that the various charges against the networks reflect in large measure both a rapidly developing regulatory framework, and considerable political uncertainty and are entirely inconsistent both with the economic realities of the business, and with the ultimate objective of the Italian government to have a well-regulated AWP machine industry. We also believe that Codere Network is among the most compliant network concessionaires, and that the practical effect of the imposition of the foregoing potential fines and sanctions to any considerable degree would be to cause the immediate insolvency of all of the network concessionaires, and to make the provision of network services uneconomic. However, given that at the time of closing the 2007 accounts there remained considerable uncertainty as to how the sanctions under the 2007 Financial Law could be applied for 2007 and previous years, and under certain scenarios, Codere Network’s potential liability could substantially exceed the €18.3 million Codere Network AAMS Performance Bond.

While we expect that the Italian government will eventually develop a global, political settlement of these issues, given the promulgation of the new regulations implementing the 2007 Financial Law and the high degree of continuing political and regulatory uncertainty surrounding all of these potential regulatory contingencies at the time, we elected to charge additional provisions of €14.1 million against these potential liabilities, so that total provisions against potential fines, penalties and other potential charges totals the €18.3 million guaranteed in respect of the Codere Network AAMS Performance Bond.

Since the publication of our results on February 28, 2008 there have been several positive developments in the Italian AWP sector. See “Business—Other Operations—Italy AWP”.

Key Factors Affecting Our Results of Operations

General Factors

Regulation

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

In addition, our results of operations are dependent upon the granting and timely renewal of the necessary licenses by the gaming authorities in the countries in which we operate. Gaming authorities in such countries have the authority to deny, revoke, suspend or refuse to renew licenses we or our partners or clients hold and impose fines or seize assets if we or our partners or clients are found to be in violation of any of these regulations, any of which could have a material adverse effect on our business, financial condition and results of operations. For example, the Italian Corte dei Conti (the "CdC"), the constitutional body charged with auditing the management and accounts of government departments, including the *Amministrazione Automoma dei Monopoli di Stato* ("AAMS"), alleged in July 2006, that the 10 concessionaires for the provision of network services in Italy, including Codere Network, have not complied with certain of their obligations to provide minimum levels of service and as a result owe significant penalties and fines to the AAMS. See "Business—Litigation—Other Litigation and Disputes—Italy—CdC Allegation".

Macroeconomic Factors and Demographics

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

Competition

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

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

Spain AWP

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

Argentina

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

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

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

Mexico

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

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

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

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

Critical Accounting Policies

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

Consolidation principles

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

The multigroup companies in which we have joint control of the company’s activities pursuant to a contractual agreement are consolidated by the proportional consolidation method, which involves recognizing a proportionate share of the joint venture’s assets, liabilities, income and expenses with similar items in our consolidated financial statements on a line-by-line basis. In 2006 and 2007, the companies we consolidated by the proportional consolidation method are listed in Note 2(b)(2)(3) to our Consolidated Financial Statements.

Companies in which we have a direct and/or indirect ownership interest of less than 50% and more than 20% and in which we do not hold a majority of the voting rights or exercise effective control over such companies’ management but over which we have significant influence are carried by the equity method. The investments in such companies would be recorded on our consolidated balance sheet at cost plus post-acquisition changes in the Group’s share of net assets of such companies, less any impairment in value. Our consolidated income statement would reflect the share of the results of operations of such companies.

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

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

Our intercompany purchases, sales and service transactions have eliminated in consolidation and our Consolidated Financial Statements do not include any results related to these transactions. The balances of intercompany accounts have duly eliminated in consolidation so as not to distort the figures in our Consolidated Financial Statements.

Intangible assets

Merger goodwill

The difference between the value of the investment and the assets received as a result of the merger is allocated to the assets for which such allocation is admissible with respect to the market value and the remaining difference is recorded as merger goodwill and is tested for impairment at year end.

Other intangible assets

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

The gaming licences relating to Hipódromo Las Américas are amortized during their useful lives. The principal intangible assets that the Group has with indefinite useful lives are our brands, which are not amortized.

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

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

Tangible fixed assets

Tangible fixed assets are carried at cost except for land and buildings, which are valued at fair value on independent appraisals using this value as cost. We regularly review the fair values recorded to ensure that the amounts do not differ significantly from current market values. Any revaluation increase arising on the revaluation of such land and buildings is recognized directly in equity. A decrease in carrying amount arising on the revaluation of such land and buildings is first charged against any revaluation reserve in equity relating to a previous revaluation of that asset. Any amount in excess of the reserve is charged as an expense on the income statement. Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. Leases under terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Subsequent expenditure on capitalized tangible fixed assets is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expended as incurred. Non-removable installations in bingo halls and casinos are depreciated over the shorter of the term of the related lease contracts or the depreciation period used for such assets.

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

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

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

Goodwill

All business combinations are accounted for by applying the purchase method of accounting. Goodwill represents the difference between the acquisition cost and the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment (see Note b.8.3 to our Consolidated Financial Statements). The goodwill is assigned to the Group's cash generating units which coincide, in general, with the operating segments, which correspond to geographical areas (except the division for activities in Spain), as the cash generating units which make up the lines of activity (slot machines, bingo and casinos), do not provide sufficiently detailed information for individual analysis, since normally several different kinds of operations coincide in the same location; for example, slot machines may be installed in bingo halls and casinos (Note 3 to our Consolidated Financial Statements).

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

Financial investments

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

Inventories

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

Impairment

See Note 2(b)(8) to our Consolidated Financial Statements for a discussion of our accounting policies relating to impairment.

Cash and Cash equivalents

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

Capital issuance cost

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

Treasury shares

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

Provisions and contingent liabilities

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

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

Financial liabilities

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

Foreign currency transactions

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

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

Income tax

Income tax in the consolidated profit and loss account includes both current and deferred taxes. Income tax expense is recognized in the consolidated income statement except to the extent that the tax relates to items directly recognized in equity, in which case the tax is also recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect to previous years. Deferred income tax is recorded, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes calculated at the consolidated balance sheet date. Deferred taxes relating to the following temporary differences are not recorded: goodwill not deductible for tax purposes and the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or loss. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates (and tax laws) that have been enacted at the consolidated balance sheet date. Deferred income tax assets are recognized for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

See Note 2(b)(15) to our Consolidated Financial Statements for additional details.

Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Revenues from the principal business divisions are recorded as follows:

- Slots: Revenues from slot machines are recorded as the net amount collected, including taxes payable, except in Uruguay where there are no direct 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 of the gross revenue.

- Casinos and others: Revenues are recorded at the net amount collected by the operator.

- Racetracks: the total amount wagered by players is recorded as revenue.

- Sports Betting: Revenues are recorded at the net amount collected by the operator.

Assets held for sale

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

Related parties

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

Foreign exchange hedges

The Group enters into hedge contracts to hedge foreign exchange rate changes affecting the operations of Mexico and Argentina, which account for a significant percentage of the Group's total revenues. See Note 2(b)(22) to our Consolidated Financial Statement.

Additional Critical Accounting Policies

See Note 2 to our Consolidated Financial Statements for additional critical accounting policies including in particular Notes 2(b)(19) ("Business Combinations") and 2(b)(22) ("Hedge Contracts").

Principal Consolidated Income Statement Line Items

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

Operating revenue

Operating revenue principally comprises revenue from gaming activities, including revenue from bingo cards sold at bingo halls less bingo prizes paid. We recognize revenue on an accrual basis, i.e., when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Revenues from the principal business divisions are recorded as follows:

- Slots: Revenues from slot machines are recorded as the net amount collected, including taxes payable, except in Uruguay where there are no direct taxes.
- Bingo: Revenues from bingo halls are recorded as the total amount of bingo cards sold, according to their face value, less bingo prizes.
- Casinos and others: Revenues are recorded as the net amount collected by the operator.
- Racetracks: Revenues are recorded as the net amount collected by the operator (net of prizes). Uruguay was recorded as amounts wagered in 2007 and will begin to be reflected as net win starting in 2008.
- Sports Betting: Revenues are recorded as the net amount collected by the operator (net of prizes).

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

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

Argentina. The Argentina business's operating revenue is principally derived from the sale of bingo cards and from the amount wagered on slot machines located in the Argentina business's bingo halls. Operating revenue from bingo hall operations in Argentina is recorded as the net amount played, such as the total amount of bingo cards sold, according to their face value, less bingo prizes. Operating revenue from our slot machine operations in Argentina is recorded as the total amount wagered, net of prizes paid. Revenues also include gains from the forward foreign exchange contract in Argentine pesos which matured during the period. See "—Market and Credit Risks—Foreign Currency Risks".

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

The following table summarizes the manner in which revenue is recognized in 2007 across our businesses and certain business lines within certain businesses under IFRS:

Main Gaming Income Statement Items	Recognition of Gaming Revenue
Amounts Wagered	Uruguay racetrack(2)
Less	
Prizes Payout	
Equals	Spain Bingo, Argentina Slots and Bingo, Italy
Net Box (Net Win)	Bingo, Brazil, Panama Casinos and racetrack, Colombia casino, Mexico CIE post-ICELA acquisition(3)
Less	
Site Owner(1)	
Equals	
Operator Revenues	Spain AWP, Colombia, Italy AWP
Less	
Gaming Taxes	
Equals	
Operator Revenues After Gaming Taxes	Uruguay slots
Less	
Operator Expenses	
Less	
Financial Expenses	
Equals	
Profit Before Tax	Mexico Caliente

Less	
Income Tax	
Equals	
Net Profit	Mexico CIE prior to ICELA acquisition

(1) Share of net box to site owners.
(2) In 2008, revenues from the Uruguay racetrack operations will be recorded as "Net win".
(3) ICELA acquisition closed November 1, 2007.

Operating Expenses

Operating expenses comprise:

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

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

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

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

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

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

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

Impairment test. Impairment test includes the amount by which asset values have been reduced at period end. See Note 2(b)(8).

Operating profit

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

Financial items

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

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

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

Corporate income tax

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

For Spanish tax purposes, 29 Spanish companies in our consolidated group file their tax returns as a consolidated tax group. Under Spanish tax legislation, we must have owned more than 75% of the capital stock of a company at the start of the tax year in order to include the company in our consolidated tax group. Spanish companies that are not part of our consolidated tax group pay tax on an individual basis (unless such companies belong to another tax group). Our non-Spanish subsidiaries are not included in our consolidated tax group and pay taxes in their local jurisdiction.

The statutory corporate income tax rate in Spain was 35% during the year ended December 31, 2006 and 32.5% during the year ended December 31, 2007. It will be decreased to 30% in 2008. We define our effective tax rate as our income tax expense over our income (loss) before tax plus amortization of goodwill in consolidation.

VAT taxes are generally not deductible for gaming companies and, accordingly, are recorded as an operating expense.

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

Minority interest

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

Results of Operations

The following table sets forth, by business and for our Other Operations, operating revenue, operating expenses, operating profit and EBITDA for the years ended December 31, 2006 and 2007 prepared in accordance with IFRS:

	Year ended December 31,		
	2006	2007	% change
	(€ in millions, except percentages)		
Operating Revenue:			
Spain AWP	183.2	204.2	11.5%
Argentina	241.5	299.0	23.8%
Mexico	101.4	145.0	43.0%
Other Operations:			
Spain Bingo	28.3	22.0	(22.3)%
Sports Betting	-	0.2	n.a.
Italy AWP	31.6	51.5	63.0%
Italy Bingo	83.9	91.6	9.2%
Brazil	0.4	1.5	n.a.
Panama	35.1	43.7	24.5%
Colombia	31.3	34.2	9.3%
Peru(1)	3.4	-	n.a.
Uruguay	20.0	21.3	6.5%
Corporate Overhead	0.6	1.1	83.3%
Total	760.7	915.3	20.3%

	Year ended December 31,		
	2006	2007	% change
	(€ in millions, except percentages)		
Operating Expenses:			
Spain AWP	146.8	159.5	8.7%
Argentina	166.3	212.2	27.6%
Mexico	61.3	94.4	54.0%
Other Operations:			
Spain Bingo	25.3	21.5	(15.0)%
Sports Betting	-	4.1	n.a.
Italy AWP	44.8	97.2	117.0%
Italy Bingo	81.3	88.2	8.5%
Brazil	4.6	8.3	80.4%
Colombia	31.7	40.4	27.4%
Panama	31.1	36.8	18.3%
Peru(1)	4.0	-	(100.0)%
Uruguay	19.7	20.8	5.6%
Corporate Overhead	24.5	28.0	14.3%
Total	641.4	811.4	26.5%

	Year ended December 31,		
	2006	2007	% change
	(€ in millions, except percentages)		
Operating Profit (Loss):			
Spain AWP	36.4	44.7	22.8%
Argentina	75.2	86.8	15.4%
Mexico	40.1	50.6	26.2%
Other Operations:			
Spain Bingo	3.0	0.5	(83.3)%
Sports Betting	-	(3.9)	n.a.
Italy AWP	(13.2)	(45.7)	n.a.
Italy Bingo	2.6	3.4	30.8%

	Year ended December 31,		
	2006	2007	% change
	(€ in millions, except percentages)		
Brazil	(4.2)	(6.8)	(61.9)%
Colombia	(0.4)	(6.2)	n.a.
Panama	4.0	6.9	72.5%
Peru(1)	(0.6)	-	100.0%
Uruguay	0.3	0.5	66.7%
Corporate Overhead	(23.9)	(26.9)	(12.6)%
Total	119.3	103.9	(12.9)%

	Year ended December 31,		
	2006	2007	% change
	(unaudited)		
	(€ in millions, except percentages)		
EBITDA:			
Spain AWP	56.6	72.9	28.8%
Argentina	85.9	98.5	14.7%
Mexico	43.4	57.9	33.4%
Other Operations:			
Spain Bingo	3.3	0.9	(72.7)%
Sports Betting	-	(3.8)	n.a.
Italy AWP	(9.3)	(21.3)	(129.0)%
Italy Bingo	6.6	8.4	27.3%
Brazil	(3.9)	(6.2)	(59.0)%
Colombia	5.5	(0.1)	n.a.
Panama	7.5	11.7	56.0%
Peru(1)	0.5	-	(100.0)%
Uruguay	2.7	2.8	3.7%
Corporate Overhead	(23.2)	(25.0)	(7.8)%
Total	175.6	196.7	12.0%

(1) In December 2006 we sold our Peruvian business. As of the date of this Report we have no gaming interests in Peru.

Group Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating revenue

Operating revenue increased by €154.6 million, or 20.3%, to €915.3 million in 2007 from €760.7 million in 2006. The increase was principally attributable to the increase in the number of slot machines and in the net win per slot seat per day in Argentina (€57.5 million); the increase in the Mexican business reflecting an increase in the number of EBTs and the consolidation of the new licensees (Promojuegos and Mio Games) and ICELA (€43.6 million); an increase in the net win per AWP per day and in the number of AWP machines, including the consolidation of Recreativos MAE ("MAE"), in Spain (€21.0 million); and an increase in Italy AWP (€19.9 million) due to the consolidation of AWP operators purchased in 2007 and the increased contribution of Codere Network. This increase has been partially offset by lower revenues in Spain Bingo as a result of the temporary closure of the Canoe bingo hall (€6.3 million).

Operating expenses

Operating expenses increased by €170.0 million, or 26.5%, to €811.4 million in 2007 from €641.1 million in 2006. The increase was principally attributable to the increased costs in Italy AWP (€52.4 million) driven by the recording of €35.3 million non-recurring charges and higher expenses resulting from the consolidation of AWP operators purchased in 2007 and Codere Network; increases in certain costs in Argentina, mainly gaming taxes (including the canon tax surcharge), as well as an increase in other costs resulting from higher commercial activity (€45.9 million); an increased costs in Mexico as a result of the growth of the business, including the consolidation of the new licensees (Promojuegos and Mio Games) and ICELA (€33.1 million); the increase in certain costs in Spain AWP, mainly gaming taxes and personnel expenses, partially attributable to the consolidation of MAE (€12.7 million); cost increases in Colombia (€8.7 million), including non-recurring provisions amounting to €6.9 million recorded in 2007, and to the increased costs in Italy Bingo (€7.7 million) due to the halls added in 2006 and 2007, as well as the introduction of AWPs in the halls.

Operating profit

Operating profit decreased by €15.4 million to €103.9 million in 2007 from €119.3 million in 2006 primarily as a result of the €42.2 million non-recurring charges recorded in the Italy AWP and Colombia businesses. Operating margin decreased to 11.4% in 2007 from 15.7% in 2006. Excluding the aforementioned non-recurring charges, operating profit would have been €146.1 million, which would have resulted in an increase of 22.5% compared to 2006, and the operating margin would have been 16.0% in 2007.

EBITDA

EBITDA increased by €21.1 million, or 12%, to €196.7 million in 2007 from €175.6 million in 2006. The increase in EBITDA was principally attributable to the increase in the number of AWP machines and in the net win per AWP per day, as well as the change in the machine framework agreement in the Spain AWP business (€16.3 million); an increase in Mexico resulting from an increase in the number of EBTs and the consolidation the new licensees and ICELA (€14.5 million); an increase in the number of slot machines and in the net win per slot seat per day in Argentina (€12.6 million); an increase in the number of slot machines in the casinos and in a new machine hall opened at the racetrack in Panama (€4.2 million); an increase in Italy Bingo primarily as a result of the consolidation of halls opened or acquired in 2006 and 2007, and the introduction of AWP machines in the bingo halls (€1.8 million). This increase has been partially offset by the increased losses in our Italy AWP and Colombia businesses (€12.0 and €5.6 million, respectively), as well as increased losses in our start-up Sports Betting business in Spain and Italy (€3.8 million). EBITDA margin decreased to 21.5% in 2007 from 23.1% in 2006 primarily as a result of the above.

Financial revenues

Financial revenues increased in 2007 by €3.3 million to €10.4 million from €7.1 million in 2006, principally due to higher levels of cash and to the accrual of the difference between the present value and the nominal value of the accounts receivable from Caliente.

Financial expenses

Financial expenses increased by €3.7 million to €66.0 million in 2007 from €62.3 million in 2006. The increase was principally attributable to higher aggregate debt levels following the issuance of Senior Notes in April and November 2006, partially offset by the absence of interest expense corresponding to the Monitor Instrument (which was cancelled in Q1 2006) and other debts repaid.

Corporate income tax

Corporate income tax increased by €0.4 million to €41.2 million in 2007, from €40.8 million in 2006 due primarily to higher profits in Argentina, partially offset by a decrease in profits in Colombia and Italy Bingo compensating Bingo Palace profits against Operbingo Italia, S.p.A.'s ("Operbingo") tax credits.

Minority interest

Minority interest increased by €1.8 million to €11.9 million in 2007 from €10.1 million in 2006. This increase is primarily attributable to the increase in profits in the businesses with minority shareholders in Argentina, Spain AWP and Mexico.

Net income

As a result of the foregoing, net income decreased by €18.8 million to a loss of €9.9 million in 2007 from a profit of €8.9 million in 2006. Excluding the €42.2 million non-recurring charges recorded in Italy AWP and Colombia, net income would have been €32.3 million in 2007.

Results of Operations by Business

Spain AWP

	Year ended December 31,		
	2006	**2007**	**% change**
	(unaudited)		
	(€ in millions, except percentages)		
Operating revenue	183.2	204.2	11.5%
Operating expenses:			
Consumption and other external expenses	17.8	14.3	(19.7)%
Personnel expenses	30.8	35.6	15.6%
Depreciation	8.2	13.7	67.1%
Amortization of intangible assets	9.3	12.0	29.0%
Variation in provisions for trade transactions	2.7	2.5	(7.4)%
Other operating expenses	78.0	81.4	4.4%
Gaming and other taxes	56.1	60.3	7.5%
Rental of machines	4.9	0.1	(98.0)%
Others	17.0	21.0	23.5%
Total operating expenses	146.8	159.5	8.7%
Operating profit	36.4	44.7	22.8%
EBITDA	56.6	72.9	28.8%

Operating Revenue. Spain AWP's operating revenue increased by €21.0 million, or 11.5%, to €204.2 million in 2007 from €183.2 million in 2006, which was principally attributable to an increase in the number of AWP machines and in the net win per AWP per day, as well as the consolidation of MAE.

We had 15,431 AWP machines in operation in Spain as of December 31, 2007, compared to 13,995 as of December 31, 2006. In 2007 the Spain AWP business entered into new contracts to install 1,974 AWP machines in bars, restaurants and other establishments and acquired AWP machine operators with a total of 693 AWP machines. In 2007 1,238 machine contracts expired or otherwise terminated. The average daily net box per AWP machine was €59.3 in 2007, compared to €57.6 in 2006, an increase of 3.0%. We believe that this increase resulted from the improved performance of our existing portfolio and of the machines recently added through site and operator acquisitions, the introduction of new machine models, as well as the incorporation of AWP machines adapted to new regulations in Andalucia, Valencia, Castilla La Mancha, Cantabria, Aragon, La Rioja, Navarra, and the Balearic Islands. Operating revenue in 2007 was also impacted by the absence of €7.2 million in revenues recorded in 2006 resulting from the manner in which inventory were accounted in 2006 (increases in inventory were included in revenues and the decreases were included in expenses). In 2007 the accounting was changed so increases or decreases in inventory are netted and the result included in expenses. Excluding this effect, operating revenue in 2006 would have been €176.0 million, resulting in a revenue increase of 16.0% in 2007 compared to 2006.

Operating Expenses. Operating expenses increased by €12.7 million, or 8.7%, to €159.5 million in 2007 from €146.8 million in 2006. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses.* Consumption and other external expenses include payments to certain AWP operators with whom we enter into collaboration agreements, costs related to ancillary services provided to site owners and machines purchased for resale. Consumption and other external expenses decreased by €3.5 million, or 19.7%, to €14.3 million in 2007 from €17.8 million in 2006.

- *Personnel Expenses*. Personnel expenses increased by €4.8 million, or 15.6%, to €35.6 million in 2007 from €30.8 million in 2006. The main reason for the increase in personnel expenses was personnel increases, partially attributable to the acquisition of Recreativos MAE in December 2006.

- *Depreciation.* Depreciation increased by €5.5 million or 67.1%, to €13.7 million in 2007 from €8.2 million in 2006. The main reason for the increase is that following the change in the AWP machine framework agreement (July 2006), we now own the machines and therefore depreciate them, whereas we previously leased such machines.

- *Amortization.* Amortization increased by €2.7 million, or 29.0%, to €12.0 million in 2007 from €9.3 million in 2006 reflecting principally an increase in exclusivity rights payments to site owners associated with an increase in machines installed, as well as an increase in renovations of exclusivity contracts in Madrid.

- *Other Operating Expenses*. Spain AWP's other operating expenses increased by €3.4 million, or 4.4%, to €81.4 million in 2007 from €78.0 million in 2006, principally due to an increase in gaming taxes as a result of an increase in the number of AWP machines and the integration of MAE, as well as cost increases associated with the move to the new headquarters. This increase was partially offset by the absence of machine rental costs as a result of the aforementioned change in the machine framework agreement.

Operating Profit. The unit's operating profit increase by €8.3 million, or 22.8%, to €44.7 million in 2007 from €36.4 million in 2006. Operating margin was 21.9% in 2007 compared to 19.9% in 2006.

EBITDA. Spain AWP's EBITDA increased by €16.3 million, or 28.8%, to €72.9 million in 2007 from €56.6 million in 2006. EBITDA margin increased to 35.7% in 2007 from 30.9% in 2006.

Argentina

	Year ended December 31,		
	2006	**2007**	**% change**
	(unaudited) (€ in millions, except percentages)		
Operating revenue	241.5	299.0	23.8%
Operating expenses:			
Consumption and other external expenses	3.8	4.9	28.9%
Personnel expenses	28.0	35.3	26.1%
Depreciation	7.8	9.7	24.4%
Amortization of intangible assets	1.0	2.0	100.0%
Variation in provisions for trade transactions	1.9	—	(100.0)%
Other operating expenses	123.8	160.3	29.5%
Gaming and other taxes	95.4	128.4	34.6%
Machine rental costs	0.3	0.1	(66.7)%
Others	28.1	31.8	13.2%
Total operating expenses	166.3	212.2	27.6%
Operating profit	75.2	86.8	15.4%
EBITDA	85.9	98.5	14.7%

Operating Revenue. Argentina's operating revenue principally comprises revenue from sales of bingo cards after prize payouts and revenue collected from slot machines located in its bingo halls after prize payouts. Operating revenue increased by €57.5 million, or 23.8%, to €299.0 million in 2007 from €241.5 million in 2006, which was principally attributable to an increase in the net win per slot seat per day and an increase in the number of slot machines and bingo seats. At a constant exchange rate, revenues would have been €329.7 million in 2007 which would have resulted in an increase of 36.5% compared to 2006.

Operating expenses. Operating expenses increased by €45.9 million, or 27.6%, to €212.2 million in 2007 from €166.3 million in 2006. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses principally include food and beverage cost of sales. Consumption and other external expenses increased by €1.1 million, or 28.9% to €4.9 million in 2007 from €3.8 million in 2006 resulting from an increase in food and beverage sales, as well as in the prices of goods sold due to inflation.

- *Personnel Expenses*. Personnel expenses increased by €7.3 million, or 26.1%, to €35.3 million in 2007 from €28.0 million in 2006 due to increases in payroll, resulting from inflation, as well as personnel increases.

- *Depreciation.* Depreciation increased by €1.9 million to €9.7 million in 2007 from €7.8 million in 2006, as a result of the increase in the number of slot machines and the hall expansions.

- *Amortization.* Amortization increased by €1.0 million in 2007 reflecting the amortization of the license renewal fee.

- *Other Operating Expenses*. Other operating expenses include gaming and other taxes, marketing expenses and payments to the non-profit organizations that nominally hold the licenses to operate the bingo halls. The Argentina business's other operating expenses increased by €36.5 million, or 29.5%, to €160.3 million in 2007 from €123.8 million in 2006. The main reason for this increase was higher gaming taxes related to the increase in operating revenues, as well as to the canon tax surcharge (€12.9 million in 2007).

Operating Profit. Argentina's operating profit increased by €11.6 million or 15.4%, to €86.8 million in 2007 from €75.2 million in 2006. The operating margin decreased to 29.0% in 2007 from 31.1% in 2006 primarily as a result of the impact of the canon tax surcharge.

EBITDA. EBITDA increased by €12.6 million, or 14.7%, to €98.5 million in 2007 from €85.9 million in 2006. At a constant exchange rate EBITDA would have been €108.5 million in 2007, which would have resulted in an increase of 26.3% compared to 2006. EBITDA margin decreased to 32.9% in 2007 from 35.6% in 2006.

Mexico

	Year ended December 31,		
	2006	**2007**	**% change**
		(unaudited)	
	(€ in millions, except percentages)		
Operating revenue	101.4	145.0	43.0%
Of which sales of halls to Caliente	*29.7*	*21.3*	*(28.3)%*
Operating expenses:			
Consumption and other external expenses(1)	50.1	57.3	14.4%
Of which sales of halls to Caliente	*29.3*	*25.5*	*(13.0)%*
Personnel expenses	—	3.6	n.a.
Depreciation	2.9	6.3	n.a.
Amortization of intangible assets	0.4	1.0	n.a.
Other operating expenses	7.9	26.2	n.a.

Gaming and other taxes	—	(0.5)	n.a.
Rental of machines	—	0.3	n.a.
Others	7.9	26.4	n.a.
Total operating expenses	61.3	94.4	54.0%
Operating profit	40.1	50.6	26.2%
EBITDA	43.4	57.9	33.4%

Operating Revenue. Our Mexico business's operating revenue includes our participation in the operating companies of ICELA (our joint venture with CIE), and the new licensees (Promojuegos and Mio Games), as well as revenue from our bingo hall management services agreement with Caliente. As mentioned earlier, we have proportionally consolidated ICELA since November 2007, following the purchase of a 49% stake. Prior to this purchase, our revenues reflected our approximately 50% participation in the net profit of bingo halls under our previous joint venture with CIE. In the case of Caliente we record operating revenue equal to 50% of the profit before tax of the bingo halls we manage. The Mexico business's operating revenue also includes sales to Caliente of bingo halls, improvements, and equipment including EBTs, as well as reimbursement of costs incurred on Caliente's behalf, such as bingo hall managers' salaries and fees paid in connection with the use of EBTs. In 2007 we changed the revenue recognition policy for sales of bingo halls to Caliente. Since January 1, 2007, revenue recognized in connection with these sales is the net present value of the five-year receivable from Caliente. The costs associated with these sales are recorded at nominal value in Consumption and Other External Expenses, and the difference between the present value and the nominal value is reflected as interest income over the five-year period. In 2006, and in previous years, the receivables were recorded at nominal value in both revenues and expenses.

Operating revenue increased by €43.6 million to €145.0 million in 2007 from €101.4 million in 2006 reflecting principally an increase in the number of EBTs and the consolidation of the new licensees and ICELA, the latter which has a particularly significant impact in revenues as a result of the change in the accounting for the bingo hall business, as well as the addition of other businesses such as the racetrack and the convention center. At a constant exchange rate revenues would have been €159.1 million in 2007, which would have resulted in an increase of 57.0% compared to 2006.

Operating expenses. Mexico operating expenses increased by €33.1 million to €94.4 million in 2007 from €61.3 million in 2006. The key changes in operating expenses were as follows:

- *Consumption and Other External Expenses*. Consumption and other external expenses include the cost of building out and equipping the bingo halls sold to Caliente, fees paid in connection with the use of electronic bingo terminals, expenses primarily in connection with the roll-out of electronic bingo terminals, and personnel costs related to the salaries of bingo hall managers whom we provide for Caliente's bingo halls. Consumption and other external expenses increased by €7.2 million to €57.3 million in 2007 from €50.1 million in 2006, reflecting primarily an increase in costs incurred on Caliente's behalf (bingo hall manager salaries and fees paid in connection with the use of EBTs).

- *Personnel Expenses*. Personnel expenses increased to €3.6 million in 2007 from nil due to the consolidation of the new licensees and ICELA.

- *Depreciation.* Depreciation increased by €3.4 million to €6.3 million in 2007 from €2.9 million in 2006, primarily associated with the increase in the assets in our joint venture with CIE (pre-ICELA), as well the consolidation of ICELA.

- *Other Operating Expenses*. The unit's other operating expenses increased by €18.3 million to €26.2 million in 2007 from €7.9 million in 2006. The principal reason for this increase is higher costs associated with the growth of the business, including the consolidation of the new licensees and ICELA. Additionally, included in this line item is the reversal of a provision for potential tax contingencies amounting to €3.5 million in the CIE business. The reversal of this provision in December is included through line item proportional consolidation of ICELA, while previously gaming taxes for the CIE joint venture were reflected in the revenue line (reflecting the consolidation of 50% of the net profit of the halls), resulting in negative gaming taxes in Mexico in 2007.

Operating Profit. Mexico's operating profit increased by €10.5 million, or 26.2%, to €50.6 million in 2007 from €40.1 million in 2006. Operating margin decreased to 34.9% in 2007 from 39.5% in 2006. The principal reason for this difference is due to the aforementioned change in the revenue recognition policy for sales to Caliente.

EBITDA. Mexico's EBITDA increased by €14.5 million, or 33.4%, to €57.9 million in 2007 from €43.4 million in 2006. Applying the 2006 constant exchange rate to 2007, EBITDA would have been €63.5 million in 2007, which would have resulted in an increase of 46.4% compared to 2006. The Mexico business's EBITDA margin was 39.9% in 2007 compared to 42.8% in 2006, partly attributable to the new accounting policy for Caliente hall sales, which reduced both revenues and EBITDA by €4.2 million in 2007.

Other Operations

Other operations includes the results of our operations in Panama, Uruguay, Italy AWP, Italy Bingo, Colombia, Brazil, Spain Bingo, Sports Betting and Peru (which was sold in December 2006), but excludes corporate overhead.

Operating revenue. Operating revenue of our Other Operations increased by €32.0 million, or 13.7%, to €266.0 million in 2007 from €234.0 million in 2006, which was principally attributable to revenue growth in the Italy AWP business (€19.9 million) resulting from the consolidation of AWP operators and the greater contribution of Codere Network; the increase in the number of slot machines in the casinos and in a new machine hall opened at the racetrack in Panama (€8.6 million); an increase in Italy Bingo primarily as a result of the consolidation of bingo halls purchased or opened in 2006 and 2007 (Bingo Palace, Bingo Regina, Maxibingo S.r.l ("Maxibingo") and Mortara) and the introduction of AWP machines in the halls (€7.7 million). This increase has been partially offset by lower revenues in Spain Bingo as a result of the temporary closure of the Canoe bingo hall (€6.3 million).

Operating expenses. Operating expenses for our Other Operations increased by €74.8 million, or 30.8%, to €317.3 million in 2007 from €242.5 million in 2006. This is mainly attributable to increased expenses in: Italy AWP (€52.4 million) resulting from the €35.3 million non-recurring charges recorded in 2007, and increased costs in that business, including those associated with the consolidation of AWP operators acquired in 2007 and from the consolidation of Codere Network; Colombia (€8.7 million) due primarily to €6.9 million in non-recurrent provisions recorded in 2007; Italy Bingo (€6.9 million) due to the consolidation of the halls purchased or opened in 2006 and 2007, and costs associated with the introduction of AWP machines; Panama (€5.7 million) principally related to the increase in the number of slots; and in Brazil associated with the growth of that start-up operation (€3.7 million).

Operating loss. Operating loss in Other Operations increased by €42.8 million to a loss of €51.3 million in 2007 compared to a loss of €8.5 million in 2006, attributable to the aforementioned non-recurring charges recorded in the Italy AWP and Colombia businesses which resulted in losses in these businesses, as well as losses recorded in our Brazil and Sports Betting start-up operations.

EBITDA. Other Operations's EBITDA decreased by €20.5 million to €7.6 million in losses in 2007 from €12.9 million in profits in 2006.

Liquidity and Capital Resources

Liquidity

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

The following table provides a profile of our liabilities under IFRS at December 31, 2006 and 2007.

	At December 31,	
	2006	2007
	(audited)	(unaudited)
	(€ in millions)	
Short term debt payable to credit institutions	11.8	48.7
Other current liabilities(1)	179.2	245.2
Total current liabilities	191.0	293.9
Long term debt payable to credit institutions	30.8	44.4
Other long term liabilities(2)	763.3	806.1
Total long term liabilities	794.1	850.5
Total liabilities	985.1	1,144.4

(1) Other current liabilities consist of commercial creditors, other non-commercial obligations and period adjustments.

(2) Other long-term liabilities consist of the Notes, amounts owed to joint venture partners, negative consolidation differences, earnings to be distributed in subsequent years and provisions.

Historical Cash Flows

The following is our consolidated cash flow statement under IFRS for the years ended December 31, 2006 and 2007.

	Year ended December 31,	
	2006	2007
	(audited)	
	(€ in millions)	
Operating profit	119.3	103.9
Expenses that do not represent cash movements:		
Depreciation and amortization	49.7	82.0
Other operating expenses	10.9	33.8
Income that does not represent cash movements	(0.9)	(2.6)
Changes in working capital from operating activities:	(24.1)	27.0
Inventories	(1.8)	(0.2)
Receivables	(11.4)	18.4
Prepaid expenses	(0.6)	(0.3)
Accounts payable	(5.8)	9.7
Deferred income	(0.5)	0.2
Deferred expenses	(1.0)	1.1
Others	(3.0)	(1.9)
Corporate income tax	(26.7)	(43.8)
Net Cash from Operating Activities	128.2	200.3
Capital expenditures(1)	(136.1)	(117.0)
Long term loans and receivables(2)	(43.2)	(31.1)
Investments(3)	(101.1)	(201.8)
Net Cash Used in Investing Activities	(280.4)	(349.9)
Redemption of MCP Instrument(4)	(80.3)	–
Senior Notes issue	325.0	–
Senior Notes issue premium and accrued interest	31.8	–
Net change in financial debt(5)	(40.0)	35.7
Net change in other bank loans	(11.0)	(6.9)
Dividends (net)	(2.6)	(6.5)
Net change in other debt and contingent payments(6)	39.2	(5.2)
Increase of share capital	39.9	140.6
Sale of treasury shares	9.4	–

Interest income	10.0	8.8
Interest expense	(84.9)	(68.1)
Net Cash from Financing Activities	236.5	98.4
Net Change in Cash Position	84.3	(51.2)
Reconciliation		
Cash at beginning of period	61.0	145.3
Cash at end of period	145.3	94.1
Change in cash position	84.3	(51.2)

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

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

(3) Investments include expenditures relating to acquisitions.

(4) Includes the principal amount of the instrument, €40 million, plus the redemption value of €40.3 million. The latter was recorded as interest expense following the restatement of the financial statements €37.7 million and €2.6 million in 2005 and 2006, respectively.

(5) Net change in financial debt includes our Senior Credit Facilities, the Bridge Facility which was repaid in April 2006, and 50% of Notes issued by Hipica Rioplatense Uruguay, our joint venture in Uruguay.

(6) Net change in other debt reflects movements in temporary financial investments as well as the portion of the cash flow used in investments which is financed by the vendor, and contingent payments.

Cash Requirements Related to Operations

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

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

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

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

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

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

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

We used cash for capital expenditures relating to intangible and fixed assets (€117.0 million); to fund receivables from Caliente (€27.4 million, receivables generated of €46.1 million, net of repayments of €18.7 million), for long-term loans provided to Spain AWP site owners (€3.7 million, net of repayments); and for investments totaling €201.8 million which consist principally of the acquisition of 49% of Icela Group (€143.6 million), the acquisition of minority interests in Mexico (€21.0 million), capitalization of the Operbingo AWP machine option (€11.0 million) acquisition of AWP operators in Spain (€12.9 million) and payments related to the acquisitions of Maxibingo, Italian AWP operators (Cristaltec Service srl, Vasa e Azzena Services srl and Seven Cora Services srl), and Mio Games in Mexico (€13.3 million).

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

During the year ended December 31, 2006, we had a net cash increase of €84.3 million. We generated cash from operating and non-operating activities of €128.2 million and from financing activities of €236.5 million, the principal drivers of which were as follows:

- Raised cash from the two issuances of Notes in April and November 2006. The total amount of funds raised amounted to €356.8 million, including €165.0 million and €160.0 million of nominal value, €10.3 million and €11.6 million of issue premium and €4.7 million and €5.2 million of interest accrued from the previous interest due dates.

- Payments in connection with the redemption of the MCP Instrument totaling €104.8 million. This includes €64.5 million for principal and accrued interest (€40.0 million and €24.5 million, respectively), recorded as a liability on the balance sheet, and repaid with the proceeds of the bridge facility; and an additional €40.3 million reflecting the MCP Instruments' redemption value repaid with the proceeds of the capital increase and the sale of treasury shares.

- Cash used to refinance senior debt of €40.0 million.

- Net change in other bank loans of €11.0 million (used funds).

- €49.3 million obtained from the capital increase and sale of treasury shares.

- Dividends paid to minorities of €2.6 million, financial expenses of €84.9 million (which includes €24.5 million in respect of the MCP Instrument) and financial income of €10.0 million.

- Net change in other financial debt of €39.2 million, net uses of funds received due to an increase in temporary investment of €6.8 million, €15.6 million of costs associated with the Notes issues and the financed portion of cash flows used in investment activities of €61.6 million (including the fixed renewal fee payment associated with the renewal of the Argentine licenses, deferred payments for the machines purchased pursuant to the change in the AWP machine framework agreement, the purchase of the minority interests in Italy and deferred payments related to the MAE acquisition).

We used cash during 2006 for capital expenditures relating to intangible and fixed assets (€136.1 million, including €30.6 million corresponding to the fixed renewal fee payment associated with the renewal of the Argentine licenses), for investments in the acquisitions of MAE in Spain (€31.2 million), Codere Network in Italy (€19.7 million), Bingo Palace in Italy (€13.3 million), Promojuegos in Mexico (€10.6 million), other AWP Spain operators (€9.4 million), acquisition of minority shareholders' interests in Italy (€6.5 million), and Royal (€10.2 million), other investments in Italy (€0.5 million); to fund receivables from Caliente (€35.8 million, receivables generated of €47.8 million and recoveries of €12.0 million) and loans to Spain AWP site owners (€5.9 million), the deposit paid for the rental of office space at our new corporate headquarters (€1.4 million) and other issues (€0.1 million).

Working Capital Requirements

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

	Year ended December 31,	
	2006	2007
	(unaudited)	
	(€ in millions)	
Variations in:		
Receivables	(11.4)	18.4
Inventories	(1.8)	(0.2)
Payables	(5.8)	9.7
Accruals, net	(1.5)	1.3
Other	(3.6)	(2.2)
Total	(24.1)	27.0

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

During the periods under review, our working capital needs have been principally driven by receivables and inventories in our Mexico business as well as receivables from clients of Codere Network.

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

Capital Expenditures and Investments

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

	Year ended December 31,	
	2006	2007
	(unaudited)	
	(€ in millions)	
Spain AWP	86.8	59.4
Maintenance	45.0	39.7
Growth	41.8	19.7
Argentina	57.1	21.3
Maintenance	7.8	9.2
Growth	49.3	12.1
Mexico	60.5	203.1
Maintenance	0.5	0.5
Growth	60.0	202.6
Holding Company	36.5	3.9
Maintenance	3.5	3.9
Growth	33.0	—
Italy	22.5	30.8
Maintenance	1.7	3.5

	Year ended December 31,	
	2006	2007
	(unaudited)	
	(€ in millions)	
Growth	20.8	27.3
Spain Bingo	0.5	6.2
Maintenance	0.5	6.2
Growth	—	—
Spain Sports Betting	—	1.7
Maintenance	—	—
Growth	—	1.7
Panama	7.9	12.7
Maintenance	0.9	2.5
Growth	7.0	10.2
Colombia	5.4	6.2
Maintenance	3.6	5.7
Growth	1.8	0.5
Uruguay	0.1	3.1
Maintenance	—	1.9
Growth	0.1	1.2
Peru	0.1	—
Maintenance	0.1	—
Growth	—	—
Brazil	3.0	1.5
Maintenance	—	0.9
Growth	3.0	0.6
Total Maintenance	63.6	74.0
Total Growth	216.8	275.9
Total Capex	280.4	349.9

We invested an aggregate amount of €630.3 million, excluding capitalized expenses, during 2006 and 2007. Our investing activities during the periods under review included the following capital expenditures, long-term loans and receivables and investments:

	Year ended December 31,	
	2006	2007
	(unaudited)	
	(€ in millions)	
Spain AWP	86.8	59.4
Capital expenditures	40.3	42,8
Long term loans and receivables	5.9	3.6
Investments	40.6	13.0
Argentina	57.1	21.3
Capital expenditures	51.6	21.3
Long term loans and receivables	—	—
Investments	5.5	—
Mexico	60.5	203.1
Capital expenditures	14.0	9.5
Long term loans and receivables	35.9	27.4
Investments	10.6	166.2
Holding Company	36.5	3.9
Capital expenditures	4.6	3.9

	Year ended December 31, 2006	2007
	(unaudited) (€ in millions)	
Long term loans and receivables	1.3	—
Investments	30.6	—
Italy	22.5	30.8
Capital expenditures	8.7	8.2
Long term loans and receivables	—	—
Investments	13.8	22.6
Other	17.0	31.4
Capital expenditures	16.9	31.3
Long term loans and receivables	0.1	0.1
Investments	—	—
Total capital expenditures	136.1	117.0
Total long term loans and receivables	43.2	31.1
Total investments	101.1	201.8
Total cash invested excluding capitalized expenses	280.4	349.9

We expect to invest approximately €158 million to €198 million in our existing businesses during the course of 2008, including approximately €59 million to €74 million in Spain AWP, €23 million in Mexico (gross investments of €46 million net of recoveries from Caliente of €23 million), €24 million to €34 million in Italy (including AWP machines and bingo operations), €22 million to €27 million in Argentina and €30 million to €40 million in other markets including Brazil, Colombia, Uruguay, Spain Bingo, Sports Betting and corporate headquarters. We expect these investments will help us to achieve at the end of 2008 a portfolio of approximately 15,930 to 16,580 AWP machines in Spain, 4,740 slot machines in Argentina, over 108 bingo halls and 22,390 electronic bingo terminals in Mexico, 5,110 to 8,160 AWP machines and additional bingo halls in Italy (including AWP machines in bingo halls), and 11,350 to 11,710 slot machines in other markets including Brazil, Colombia, Uruguay, Spain Bingo, Sports Betting and corporate headquarters.

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

Contractual Obligations

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

Our consolidated contractual obligations as of December 31, 2007 were as follows:

	Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	After 4 years
	(unaudited) (€ in millions)			
Long term debt(1)	714.5	2.8	22.4	689.3
Capital lease agreements (short term)	32.6	10.2	21.9	0.5
Other obligations (short term)(2)	29.0	29.0	—	—

Purchase obligations (trade account payables)(3) ...	89.6	89.6	—	—
Payable to credit entities	90.3	45.9	39.5	4.9
Total contractual obligations..................................	956.0	177.5	83.8	694.7

(1) Includes the Notes and the HRU bond (€660.0 million and €4.4 million, plus accrued interest of €2.3 million on the Notes and €0.5 million on the HRU bond), the long-term portion of the deferred payment of machines purchased from Recreativos Franco (€6.0 million), the deferred portion of the purchase price of AWP Spain operators (€5.1 million), deferred payables in certain Latin American jurisdictions in which we operate (€2.4 million), long term payables for investments in Argentina (€1.1 million), Mexico (€16.9 million), Panama (€2.1 million) and Operbingo (€2.9 million) and obligations to suboperators (€3.5 million). All such amounts are recorded at their nominal value.

(2) Includes a fraction of the short-term portion of the deferred payment of machines purchased from Recreativos Franco (€6.1 million).

(3) Includes a fraction of the short-term portion of the deferred payment of machines purchased from Recreativos Franco (€0.2 million).

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

Market and Credit Risks

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

Interest Rate Risks

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

Foreign Currency Risks

Our principal exchange rate exposures relate to the euro-Mexican peso and euro-Argentine peso exchange rates for translation related exposure. We also have translation related exposures arising from our operating revenue generated in the local currencies of Colombia, Uruguay, Panama and Brazil.

At December 31, 2007, we had in place foreign exchange contracts to purchase a total of €48.6 million in exchange for Argentine pesos (€10.0 million, €12.8 million, €12.8 million and €13.0 million for the quarters ended March, June, September and December 2008, respectively) and €19.9 million in exchange for Mexican pesos (€6.3 million, €6.9 million, €3.2 million and €3.5 million for the quarters ended March, June, September and December 2008, respectively). Realized gains on the Argentine peso foreign exchange contract which matured during the year ended December 31, 2007 amounted to €0.9 million. Realized gains on the Mexican pesos foreign exchange forward contract which matured during the year ended December 31, 2007 amounted to €1.3 million. These realized gains have been recorded as other operating revenue in our Argentine and Mexico business. Unrealized gains and losses on outstanding forward contracts are recognized as a hedging reserve in consolidated shareholder's equity.

BUSINESS

Overview

We are a leading gaming company engaged in the management of gaming machines (slots, AWPs and EBTs), bingo halls, horse racing tracks, casinos and off-track betting facilities in Spain, Latin America and Italy. As of December 31, 2007, we managed 51,616 slot machines and electronic bingo terminals, 128 bingo halls with an aggregate of 32,167 seats, 55 off-track betting facilities, three horse racing tracks and five casinos. In the year ended December 31, 2007, we generated operating revenue of €915.3 million and EBITDA of €196.7 million.

We are the second largest operator of AWP machines in Spain with 15,431 AWP machines in over 10,470 bars and restaurants as of December 31, 2007. We have over 25 years of experience in operating AWP machines in Spain, and have established a large portfolio of exclusive gaming sites for our AWP machines. In the year ended December 31, 2007, our Spain AWP business generated operating revenue of €204.2 million and EBITDA of €72.9 million.

Other than Spain, Argentina and Mexico are our most important markets. In the Province of Buenos Aires, as of December 31, 2007 we are the largest operator of bingo halls with 14 bingo venues in which we operate 4,605 slot machines. In the year ended December 31, 2007, our Argentina business generated operating revenue of €299.0 million and EBITDA of €98.5 million.

In Mexico, through ICELA (our joint venture with CIE), and our management services agreement with Caliente and our participation in Promojuegos and Mio, as of December 31, 2007 we are the largest operator of gaming sites with 94 bingo halls in which we operate 16,788 EBTs. As of December 31, 2007 we also operate 43 off-track betting sites, and since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Latin America. As of December 31, 2007, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 75 bingo halls. In the year ended December 31, 2007, our Mexico business generated operating revenue of €145.0 million and EBITDA of €57.9 million.

Our other operations, which generated operating revenue of €266.0 million and EBITDA of €(7.6) million for the year ended December 31, 2007, include (i) AWP machine and network operations and 12 bingo halls in Italy, (ii) a bingo hall in Spain, (iii) four casinos, one racetrack and OTBs in Panama, (iv) bingo halls, slot machines and a casino in Colombia, (v) a joint venture in horse racing, OTBs and slot machines in Uruguay, (vi) joint ventures in sports betting in Italy and Spain and (vii) a start-up OTB operation in Brazil.

The following table sets forth the number of gaming machines (AWP, EBTs and slots), bingo halls and other gaming facilities we operated as of December 31, 2007 and the contribution of each of our businesses to our consolidated operating revenue and EBITDA (before corporate headquarters revenues and expenses) for the year ended December 31, 2007.

	AWP/Slot Machines/EBTs	Bingo halls/ Off track Betting Facilities	Casinos	Horse Racing Tracks	Revenue(1)	EBITDA(1)	Percent of EBITDA
				(€ in millions)			
Spain AWP	15,431	—	—	—	204.2	72.9	32.9%
Argentina	4,605	14/0	—	—	299.0	98.5	44.4%
Mexico	16,788	94/43	—	1	145.0	57.9	26.1%
Other Operations:							
Italy	3,467	12/0	—	—	143.1	(12.9)	(6.4)%
Spain Bingo	—	1/0	—	—	22.0	0.9	0.4%
Sports Betting	—	—	—	—	0.2	(3.8)	(1.1)%
Panama	1,339	0/4	4	1	43.7	11.7	5.3%
Colombia	8,463	7/0	1	—	34.2	(0.1)	(0.1)%
Uruguay	1,523	0/4	—	1	21.3	2.8	1.3%

Brazil	—	0/4	—	—	1.5	(6.2)	(2.8)%
Total	51,616	128/55	5	3	914.2	221.7	100%

(1) Revenue and EBITDA do not reflect revenues and expenses relating to corporate services provided to each of our three principal businesses and Other Operations by our Group headquarters (€1.1 million and €25 million, respectively, in the year ended December 31, 2007).

History

Codere, S.A. was founded in December 1980 by the Martínez Sampedro family, Jesús Franco and Joaquín Franco. Jesús Franco and Joaquín Franco own Recreativos Franco, S.A. ("Recreativos Franco"), one of the largest gaming machine manufacturers in Spain. At that time, Jesús Franco, Joaquín Franco and the Martínez Sampedro family had established businesses in the operation and distribution of non-prize entertainment games, such as flipper and pinball. These businesses formed the basis of what is now the Codere Group. Codere, S.A. began AWP operations in 1981, mainly in Madrid, and grew rapidly. In 1983, we began our expansion outside Madrid by adding operations in the Spanish provinces of Catalonia and Valencia and in the following year, we commenced AWP machine operations in Colombia. As the Spanish AWP market began to mature, we continued our strategy of expansion in Latin America, diversifying into bingo, sports betting and casinos. We added bingo halls to our operations in the early 1990s by opening several bingo halls in Argentina, primarily in the province of Buenos Aires. We continued to diversify our gaming operations with the opening of a casino in Latin America in Cali, Colombia in 1997. In 1998, we began bingo operations in Mexico with Caliente. In 1999, we entered the Spanish bingo market with our acquisition of the Cartaya bingo hall in Valencia and expanded operations in Mexico with CIE. In 2000, our AWP machine operations continued to grow in Spain with our acquisition of Operibérica S.A.U., which had 3,500 AWP machines, from Jesús Franco and Joaquín Franco, and we have acquired many additional smaller AWP machine operators since then. We also acquired Bingo Canoe in Madrid in 2000 which is the largest bingo hall in Spain and added casinos in Chile. In 2002, our Uruguayan joint venture obtained a license to reopen the historic Hipódromo de Maroñas horse racing track in Uruguay and operate off-track betting agencies and slot machines and we entered the Italian bingo market through a management contract.

In September 2002, Monitor Clipper Equity Partners L.P. ("MCP") purchased a €40 million investment instrument issued by Codere, S.A. convertible into Codere, S.A. shares (the "MCP Instrument"). In 2003, we reorganized our business along geographic lines by establishing new intermediate holding companies for our Spanish operations and our international operations. Codere España, S.L.U., the intermediate holding company for our Spanish operations, entered into a €135 million mezzanine loan facility, €45 million of senior credit facilities and a €15 million senior guarantee facility with several financial institutions in 2003. Also in 2003, in connection with our entering into the mezzanine loan facility, Intermediate Capital Investment Ltd. ("ICIL"), a private equity firm, purchased 1,104,361 Codere, S.A. shares from Jesús Franco for €10 million. In 2004, we launched an AWP machine business in Italy and continued the expansion of our operations in Mexico and began to install electronic bingo terminals in several of our bingo halls. On June 24, 2005, our wholly owned subsidiary Codere Finance (Luxembourg) S.A. issued €335 million principal amount of $8^1/_4$% Notes to institutional investors. We used the proceeds from the Notes offering to fund our acquisition of Grupo Royal in Argentina and Operbingo in Italy and to pay off the then existing senior credit facilities and the senior guarantee facility. Contemporaneous with the issuance of the notes in June 2005 we entered into a new €45 million senior credit facility and a new €30 million senior performance bond facility. In 2005 we acquired the Grupo Royal bingo halls in Argentina, Operbingo in Italy and entered the Panamanian market through the acquisition of a horse racing track. In January 2006 we exchanged our minority interest in four casinos in Chile for full ownership of four casinos in Panama. In April 2006 we acquired Rete Franco, one of the 10 government licensees for the provision of AWP network services in Italy and in August 2006 opened the first of the five off track betting facilities we currently operate in Brazil in conjunction with the major jockey clubs.

In addition, in March and April 2006, Masampe Holding B.V., a Dutch special purpose vehicle (the "SPV") that is controlled by José Antonio Martínez Sampedro, borrowed €135.0 million from Credit Suisse, London Branch (the "2006 SPV Financing") to finance a series of transactions in our shares, including the purchase of approximately 46.1% of our shares from Jesús Franco, Joaquín Franco and ICIL. On April 19, 2006 and November 7, 2006, Codere Finance (Luxembourg) S.A. issued €165 million and €160 million principal amount of additional $8^1/_4$% Notes to institutional investors, respectively, the proceeds of which were used, among other uses, to redeem the MCP Instrument and to acquire Recreativos MAE. On June 29, 2007, Masampe Holding B.V. borrowed €340.0 million from Credit Suisse, London Branch (the "2007 SPV Financing") and used the proceeds to repay the 2006 SPV Financing and to finance the payment of the second installment payment to Jesús Franco, Joaquin Franco and ICIL in connection with the purchase of our shares described above.

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

Recent Developments

Initial Public Offering

On October 17, 2007 Codere priced its IPO at €21 per share. The size of the Offering was 10,780,469 million shares of which 6,693,698 were offered by the Company and 4,086,771 were offered by the selling shareholders. The offer was increased by 455,822 following the exercise of the overallotment option. After the Offering, the number of shares outstanding is 55,036,470. Our shares are listed and quoted on the Spanish Stock Exchanges under the symbol "CDR". Net proceeds to the Company, estimated at approximately €129.1 million, were used primarily to fund our purchase of 49% of Impulsora de Centros de Entretenimiento de Las Americas ("ICELA") (US$145 million, or €99.7 million at the exchange rate obtained on the closing date) which was completed on November 9, 2007 and to finance the initial consideration payable in connection with the purchase of our minority shareholder's aggregate stake of approximately 10% in certain subsidiaries of Codere Mexico, S.A. (€20.3 million), which was closed on October 31, 2007.

Acquisition of CIE Las Américas

On November 9, 2007 we closed various agreements with CIE, our joint venture partner in Mexico since 1999, pursuant to which we acquired 49% ownership of Impulsora de Centros de Entretenimiento de las Americas ("ICELA") in exchange for our 50% interest in the joint venture with CIE and a cash payment of US$175 million (financed in part by a dividend of $30 million). The purchase consideration also includes a deferred payment of US$25 million contingent on, and to be financed by, a dividend in 2008, and originally included two contingent payments of up to US$12.5 million each. Concurrent with the closing of the transaction, one of the contingent payment obligations was satisfied by a payment of US$5.4 million. As of the date of this Report, only one contingent payment of up to $12.5 million remains outstanding. ICELA is a CIE subsidiary which includes CIE's Las Américas division and holds certain gaming related assets previously held directly by CIE, including an exclusivity contract with IGT, which were contributed to ICELA in connection with the transaction. CIE Las Américas owns a 52 hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Latin America. The cash paid to CIE on closing was €99.7 million (US$145 million).

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

Acquisition of shares from Mexican minority shareholder

On October 31, 2007 we closed the purchase of a 10% aggregate stake in certain subsidiaries of Codere Mexico S.A., from our Mexican partner for an initial consideration of €20.3 million.

New Senior Credit Facility

On October 19, 2007, Codere, S.A., as Borrower, and the subsidiaries that guarantee the Notes, as Subsidiary Guarantors, entered into a senior multicurrency revolving credit facilities agreement (the "New Senior Credit Facility") up to an aggregate principal amount of €100,000,000 in two tranches, comprising (i) a senior revolving credit line that may be utilized through revolving loans and letters of credit up to an aggregate principal amount of €60,000,000, which was made available by Barclays Capital (the investment banking division of Barclays Bank PLC) ("Barclays Capital"), Credit Suisse International and Banco Bilbao Vizcaya Argentaria, S.A. (collectively, the "Banks") and (ii) a letter of credit facility of up to an aggregate principal amount of €40,000,000, which was to be made available by Barclays Capital and Credit Suisse.

Barclays Bank PLC (London Branch) is the senior agent under the New Senior Credit Facility and Deutsche Trustee Company Limited is the Security Trustee. In addition to the guarantees to be provided by the Subsidiary Guarantors, the obligations of Codere, S.A. under the New Senior Credit Facility are secured by pledges of the share capital of Codere España, S.L.U. and Codere Internacional, S.L.U. The New Senior Credit Facility has a term of three years.

The interest rate applicable to amounts drawn under the senior revolving credit facility is LIBOR or EURIBOR plus a margin of 1.75% per year. In addition, a commitment fee of 0.65% per year is payable on amounts available but undrawn under the senior revolving credit facility, calculated on a quarterly basis in arrear.

The interest rate applicable to the letter of credit facility is 2.75% per year.

The New Senior Credit Facility includes restrictive covenants applicable to Codere S.A. and members of the Codere Group that are consistent in all material respects with the limitations on Codere S.A. and the Codere Group members under the Indenture, including limitations on investments, no modifications to the Codere Group structure, financing of third parties, financial debt, changes in business, prohibition on issuances of guarantees, asset disposals, mergers, payment restrictions with some differences as are customary for senior credit facilities in the UK leveraged loan market and other requirements requested by Codere, S.A.

In addition, the New Senior Credit Facility imposes certain financial covenants on the Codere Group during the life of the New Senior Credit Facility:

Net financial debt of the Codere Group/EBITDA*	<4.25x
Bank debt/EBITDA*	<1.5x
Minimum interest coverage	>2.5x

* EBITDA as defined in this Report, subject to certain adjustments.

In addition, minimum interest coverage must exceed the EBITDA that the Codere Group generates in certain countries, less maintenance capital expenditures.

Argentina

The Platense bingo hall is being operated under a three month extension to its license (granted on February 14, 2008) extendible for a further three months pending this review. The upfront payment relating to this renewal (Argentine pesos $28.4 million, equivalent to €6.1 million as of December 31, 2007) was calculated on the basis of 2005 gaming taxes paid under the license. This amount remains in a bank account designated for the purpose, and has been amortized since July 1, 2006 over the anticipated 15-year life of the renewal license, and we have accrued but not paid the extraordinary canon tax payable in connection with the renewal since January 1, 2007. We expect that the license will be renewed in accordance with the provisions of Decree 3198 and Resolution 456/06. However, regulatory developments are subject to change and we cannot assure you that this license will be renewed or that it will be renewed on satisfactory terms. See "—Argentina".

Purchase of Mexican bingo licenses

In December 2006 we purchased Promojuegos, a Mexican company which owns a license to operate 10 bingo halls and sports books in Mexico, for approximately €10.2 million. Promojuegos was consolidated in our December 31, 2006 balance sheet and has been consolidated in our income statement beginning January 1, 2007. Similarly, Promojuegos is reflected in Mexico operating data beginning January 1, 2007.

In addition, in June 2007 we completed the purchase, directly and via a 50% joint venture with Caliente, of 74.5% of Mio, a Mexican company which owns a license to operate two bingo halls in Mexico. The purchase consideration, which valued 100% of Mio at approximately €3.7 million, consisted of a payment of approximately €2.7 million at closing, and contingent payments of €0.9 million. Mio was consolidated in our June 30, 2007 balance sheet and has been consolidated in our income statement beginning June 30, 2007. Similarly, Mio is reflected in Mexico operating data beginning June 30, 2007.

Acquisition of Italian AWP Operators

In April 2007 we purchased 51% of Cristaltec Service S.r.l. ("Cristaltec"), an AWP operator which manages approximately 390 machines in the Lazio region of Italy, of which approximately 70% are connected to Codere Network, for a purchase price of approximately €1.1 million, subject to an adjustment based on Cristaltec's results for 2007. The purchase of Cristaltec is consistent with our previously announced strategy to acquire a majority participation in existing AWP operators in order to strengthen our competitive position in the Italian AWP market.

In August 2007 we purchased 51% of Vasa & Azzena Service S.r.l. ("Vasa & Azzena") for a purchase price of approximately €1.0 million, subject to an adjustment of up to €1.0 million based on the company's operating results for 2007. Vasa & Azzena is an AWP operator which manages 263 machines in Northern Sardinia, all of which are connected to Codere Network.

In December 2007 we purchased 60% of Seven Cora S.r.l. ("Seven Cora") for a purchase price of approximately €4.4 million, subject to an adjustment based on Seven Cora's operating results for 2008. Seven Cora is an AWP operator which manages 825 machines in Piamonte.

Acquisition of Maxibingo S.r.l.

On June 21, 2007 we acquired 100% of Maxibingo S.r.l. ("Maxibingo") for a purchase price of approximately €2.5 million in cash and contingent payments in an aggregate amount of up to €1.0 million. Maxibingo is the owner of a bingo hall located in Salerno, Italy which has 534 bingo seats and capacity to install up to 50 AWP machines.

Our Competitive Strengths

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

- *Leadership Positions in Major Markets with Significant Barriers to Entry*. We were one of the first companies to operate AWP machines when the Spanish market was opened to licensed operators in the early 1980s. We have grown rapidly and have become a market leader in several of the most populous and affluent regions of Spain, including Madrid, Catalonia and Valencia, in terms of the number of AWP machines as of December 31, 2007. We are now the second largest operator of AWP machines in Spain, with 15,431 AWP machines in over 10,470 points of sale as of December 31, 2007. As a market leader in Spain, we are often given the opportunity to test the most attractive AWP machines produced each year, which permits us to select the highest producing AWP machines for our portfolio. Our access to high producing AWP machines enhances our ability to obtain the most attractive points of sale. In addition, our size allows us to spread many of our required costs and investments, such as those relating to designing and building information systems, cash collection controls and hiring and training personnel, across our operations, which results in lower costs for each of our businesses. In Argentina we are the largest operator of bingo halls in the Province of Buenos Aires with 14 bingo halls in operation as of December 31, 2007. We are the largest operator of gaming sites in Mexico through our joint venture with CIE, our management services agreement with Caliente and the licenses we own directly from our purchase of Promojuegos and Mio. In Italy we now own and operate 12 bingo halls and we believe we are the leader in the Rome (Lazio) and Piamonte markets in terms of bingo cards sold. Our presence in the markets in which we operate creates a barrier to entry for other operators that lack the resources or know-how to compete. Most of the markets in which we operate are characterized by a small number of large operators and a large number of small operators with limited numbers of new entrants. Our successful expansion has been achieved through partnerships with strong local players and a close and cooperative relationship with gaming regulators.

- *Proven and Attractive AWP Business Model*. Our Spanish AWP machines produce average daily net box revenues that are substantially higher than the industry average according to the Spanish National Gaming Commission. Our strong net box performance is principally attributable to our business model, which is focused on obtaining the most attractive points of sale and the highest producing AWP machines, which in turn increases the likelihood that site owners will renew their contracts with us. We are able to obtain the highest producing AWP machines by leveraging our position as a leader in the Spanish AWP machine market, which permits us to test a significant percentage of new AWP machine models produced each year. We also optimize the performance of our AWP machine portfolio by rotating AWP machines among numerous locations and by replacing poorly performing AWP machines with new models. This is facilitated by our framework purchase agreement with Recreativos Franco, pursuant to which we may put the AWP machines back to Recreativos Franco after one year. In addition, we maintain a low average age of our AWP machines. As of December 31, 2007, the average age of our AWP machine portfolio was approximately 30 months, compared to our estimate of the market average of approximately 35 months. We believe that we will be able to continue to apply our Spain AWP business model successfully to other markets in which we have operations, such as Colombia and Italy, and thereby strengthen our competitive position in such markets.

- *Significant Experience Interacting With Gaming Regulators*. We are a diversified international gaming company with established operations in eight countries throughout the world and a gaming portfolio that includes gaming machines, bingo halls, off-track betting, horse racetracks and casinos. The breadth and longevity of our operations has enabled us to acquire valuable experience in working with gaming regulators in a diverse range of countries and regional jurisdictions. In several cases, we have collaborated with gaming regulators in the development of new gaming regulations or markets. We believe that our strong market positions and close and cooperative relationships with gaming regulators provide us with a competitive advantage over most of our competitors and make us an attractive partner with whom to develop new gaming businesses.

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

- *Experienced Management Team*. Our senior management team has an average of nine years of industry experience. Our Chief Executive Officer, José Antonio Martínez Sampedro, was a co-founder of the company and has overseen the growth of our company from several dozen AWP machines in Spain to a geographically diversified operator with a broad gaming product offering. Luis Javier Martínez Sampedro, the brother of José Antonio Martínez Sampedro and a member of our Board of Directors, is head of our Latin American operations and has been with us for over 18 years. In addition, our key operations in Spain, Mexico and Argentina are managed by executives with extensive gaming industry experience. We have further strengthened our senior management team in the past several years by bringing in talented executives with proven track records of success in related or complementary industries.

- *Strong and Active Board of Directors with Extensive Gaming and Related Experience*. Our Board of Directors includes prominent individuals with extensive government and gaming expertise, including José Ignacio Cases Mendez, who served as the head of the Spanish National Gaming Commission from 1994 to 1998, Joseph Zappala, who served as U.S. Ambassador to Spain from 1989 to 1992 and has interests in the gaming sector in the United States, and José Ramón Romero Rodríguez, who has been our outside legal counsel since July 2002 and has specialized in gaming legislation since 1978. Their government and gaming experience is important to our ability to establish and maintain good relationships with regulators in the markets in which we operate, which we believe serves to distinguish us from our smaller competitors.

Our Strategy

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

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

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

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

Mexico. In Mexico, we continue to build new bingo halls and deploy EBTs to capitalize on and maintain our first mover advantage in this rapidly growing market. Through our joint venture with CIE, management services agreement with Caliente, and our Promojuegos and Mio operations as of December 31, 2007, we had licenses to operate 75 bingo halls that we have yet to exploit. We expect to continue to build halls to fully exploit these licenses in the coming years.

Italy. In Italy, we are considering additional selective bingo acquisitions, such as our acquisition of Bingo Palace, a bingo hall with 850 seats in Turin, in March 2006 and Maxibingo in June 2007, to enhance our position as the country's leading bingo hall operator. In our AWP machine business, we believe that the acquisition of Codere Network in 2006, provide us with an attractive platform to consolidate our market position through acquisitions such as Cristaltec in April 2007, Vasa & Azzena in August 2007 and Seven Cora in December 2007. We also believe that our existing operations in the bingo and AWP machine businesses provide a base for growth as new regulations are enacted to improve the economics and permit additional activities.

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

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

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

- *Continue to strengthen management and improve internal controls*. We believe that strengthening our corporate governance policies and procedures, management capabilities, and effective internal controls has been and will continue to be critical to our growth and success and to the enhancement of our reputation in the gaming industry. We will continue to pursue a program to strengthen our management team by attracting experienced executives to complement the skills of our founding members, as demonstrated by the hiring of Robert A. Gray, as Chief Financial Officer, who has over 23 years of investment banking experience, Rafael Catalá, as Chief Legal Officer, who has over 18 years of legal experience in various Spanish regulatory positions, and Serafín Gómez Rodríguez as Chief Compliance Officer, who has over 16 years of investigative and enforcement experience, and the appointment of Javier Encinar, as Internal Audit Officer, who has over 10 years of internal audit and compliance experience with us. We continually review and strengthen our internal controls and procedures, particularly those relating to compliance, money laundering, the handling of cash, large prize payouts and transaction authorization, and have undertaken a series of initiatives designed to strengthen our corporate governance and internal controls.

Spain AWP Machines

Our main business in Spain is the management and operation of AWP machines. We install, maintain, service and collect cash from over 15,431 AWP machines throughout Spain in over 10,470 bars and restaurants. Our installed base of AWP machines has increased through organic growth and acquisitions. We had 15,431 AWP machines in operation in Spain as of December 31, 2007 compared to 13,995 as of December 31, 2006. In 2007, the Spain AWP business entered into new contracts to install 1,974 AWP machines in bars, restaurants and other establishments and acquired AWP machine operators with a total of 693 machines. In 2007 1,238 machine contracts expired or otherwise terminated. We have also been successful in increasing the average daily net box per AWP machine, which grew at a compound annual rate of 4.5% from 2001 to 2007. We believe that this increase resulted from a combination of our efforts to place machines in the most attractive points of sale, our ability to obtain high production machines and our frequent rotation or retirement of underperforming machines as well as regulatory changes. In the year ended December 31, 2007, our Spanish AWP machine business generated operating revenue of €204.2 million and EBITDA of €72.9 million, representing 22.3% of our consolidated operating revenues and 32.9% of our consolidated EBITDA (before corporate headquarters), respectively.

We are a market leader in the highly fragmented AWP machine market in Spain and have become a market leader in terms of the number of AWP machines in certain regions of Spain, including Madrid, Catalonia and Valencia. The following table sets forth the number of AWP machines we operated in the five autonomous regions where we have the greatest number of AWP machines and our market share throughout Spain, as of December 31, 2006, which is the latest date for which the Spanish National Gaming Commission has published data regarding the number of AWP machines in such regions:

	Madrid	**Catalonia**	**Valencia**	**Castilla-La Mancha**	**Andalucía**	**Spain**
Number of AWP machines in region(1)	30,244	38,920	31,364	9,842	40,359	248,796
Number of our AWP machines in region(2)	3,799	2,442	1,923	1,238	1,949	15,431
Market share	12.6%	6.3%	6.1%	13.0%	4.8%	6.2%

(1) Source: *Spanish National Gaming Commission Annual Reports (2006)*.
(2) Codere figures as of December 2007.

Operations and the Economics of the AWP Machine Business

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

	Year ended December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
AWP machines					
Number of AWP machines operated (at year end)	12,314	12,847	13,398	13,995	15,431
Average daily net box per AWP machine (in €)(1)					
Spanish market average(2)	29.2	29.1	30.3	30.5	n.a.
Our average(3)	53.0	54.4	54.8	57.6	59.3

(1) Average daily net box per AWP machine is calculated as average daily amount wagered less prize payout per AWP machine.
(2) Based on the latest available information at the date of this Report provided by the Spanish National Gaming Commission and certain Spanish autonomous regions.
(3) Based on our installed AWP machines, which excludes our AWP machines in storage.

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

Amounts Wagered (100%)	Amounts wagered represents the total amount of money wagered on AWP machines by gaming customers
Less	
Prizes Payout (75%)	Prize payouts represents the percentage of amounts wagered that is required to be paid out to players on a AWP machine over a cycle of a certain number of games, as specified in applicable regulation. Certain regions have passed regulations that change the payout to 70%
Equals	
Net Box (Net Win) (25%)	Net box represents amounts wagered less prize payouts
Less	

Site Owner (10.5%)	Site owner represents the percentage of amounts wagered that is paid to the owner of the site in which the AWP machine is located
Equals	
Operator Revenues (14.5%)	Operator revenues represents the percentage of amounts wagered we retain as AWP machine operator, prior to payment of applicable gaming taxes. We recognize this amount as operating revenue under IFRS
Less	
Gaming Taxes (4.9%)	Gaming taxes represents our estimate, based on historical experience, of the percentage of amounts wagered represented by legally mandated tax payments per AWP machine. AWP machine taxes are established by regulation in each Spanish region in which we operate as a fixed yearly amount per machine
Equals	
Operator Revenues After Gaming Taxes (9.6%)	Operator revenues after gaming taxes represents the percentage of amounts wagered that we retain as AWP operator

Relationship with Site Owners

We have established relationships with over 10,470 bars and restaurants through installation agreements. These agreements generally give us the exclusive right to place one or more of our AWP machines in the owner's establishment for a period of up to five years (in the Basque region and in Asturias, this period is up to six years and 10 years, respectively). In return, the owner typically receives 50% of the net box per machine (which equals 10.5% of net box per machine after deducting gaming taxes). We are responsible for paying applicable AWP machine taxes to the regulatory authority in each Spanish region in which we operate.

In addition to revenue sharing, we often make interest-free loans or cash payments to owners to induce them to enter into or extend contracts and grant us exclusive rights to install AWP machines in their establishments. Site owners typically repay these loans over a 12-24 month period through an offset against their share of revenues.

Upon reaching an agreement with a site owner, we install and maintain the AWP machines. Working with the site owner, we also ensure that each AWP machine complies with regional and national regulations. We pay any required gaming taxes and, where required, post monetary guarantees with the relevant regulator. For the year ended December 31, 2007, these guarantees amounted to €19.0 million.

Although we prefer to enter into agreements directly with site owners, if there is a strong relationship between a gaming machine operator and site owners in an area in which we are interested, it is often preferable, and occasionally necessary, for us when we acquire that operator's business to agree that the operator will continue to maintain his or her relationship with the site owner in exchange for a percentage of the revenues. Typically, we pay the operator ("*colaborador*") 50% of our share of the net box per AWP machine after deducting gaming taxes and operating and depreciation costs due to us from the site owner. In order to get a toehold in a particular area and develop a relationship with local site owners, occasionally we also enter into another type of collaboration agreement (*aportación* agreements) with local operators in which we operate the AWP machines in exchange for a fee from the operator. We receive 50% of net box after all costs and expenses other than rental costs. As of December 31, 2007, we had *aportación* agreements and *colaborador* agreements covering approximately 1% and 12.0% of our Spanish AWP machines, respectively. Payouts to operators under *colaborador* agreements totaled approximately €4.8 million and fees earned under *aportación* agreements totaled approximately €0.3 million for the year ended December 31, 2007.

AWP Machines

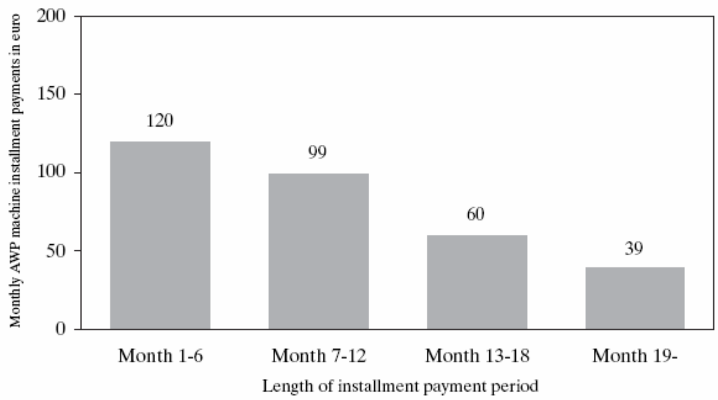
Prior to July 1, 2006, the vast majority of the AWP machines we obtained from Recreativos Franco were rented pursuant to a framework rental agreement. Recreativos Franco is owned by Jesús Franco and Joaquín Franco, who until April 2006 were two of our principal shareholders and members of our Board of Directors. As of July 1, 2006, pursuant to a new framework purchase agreement, we agreed to purchase the AWP machines we operated as of that date, together with any machines that we may acquire from Recreativos Franco in the future, on an installment basis. The installments payable under the new framework agreement are identical to the rental payments we would have made under the previous rental arrangement, and we believe this change in the form of our agreement has no effect on our flexibility to rotate or to return to Recreativos Franco machines that do not perform to our expectations. We have made this change because we believe that the installment purchase form continues to reflect the nature of the agreement, and makes our financial reports more closely comparable to those of other slot machine operators.

We test substantially all of the AWP machines produced for the Spanish market by six to eight manufacturers each year to identify those that will perform best in our market. Although we have chosen in recent years to obtain most of our machines from Recreativos Franco, we are not obliged to do so and are subject to no contractual restrictions over the ability to purchase or rent other manufacturer's machines. The balance of our AWP machines were purchased from other manufacturers, including Cirsa, Unidesa, Europea Invest and Sega. The average purchase price for an AWP machine ranges from €2,600 to €3,600 depending on the model. The useful life of an AWP machine is approximately five years.

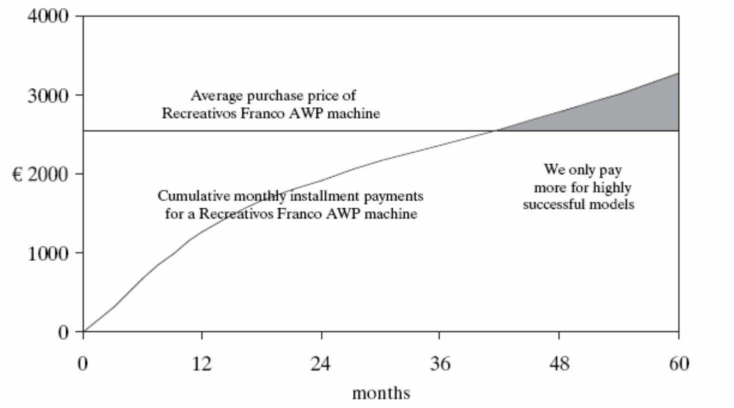
We believe that our right to return AWP machines purchased from Recreativos Franco provides us with significant operational and financial flexibility. In recent years Recreativos Franco has been producing the best performing AWP machines in the Spanish market (in particular the Gnomos and Santa Fe machines),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

Our AWP machine purchase agreement with Recreativos Franco generally provides for a monthly installment payment which decreases after each six-month period. We may put an AWP machine back to Recreativos Franco after one year. Sales prices are renewed or changed by Recreativos Franco on a yearly basis, but the monthly installment payments are the same as the monthly rental payments over the past four years and we retain our right to terminate the agreement after the initial one-year period in any event. Recreativos Franco also provides us with prototype AWP machines on a risk-free basis for up to six months before we are required to make any installment payments. If the prototype is successful, we agree to purchase it and pay Recreativos Franco for the six-month trial period. If the prototype is not successful, we return it to Recreativos Franco without any obligation to pay. Our framework purchase agreement with Recreativos Franco expires in June 2008, but is automatically renewed for successive two year periods unless we or Recreativos Franco provide written notice to the other party.

The following chart describes how AWP machine installment payments per month change over the life of the payment term:



The following chart compares the economics of purchasing and paying via installment payments versus paying once, up front for AWP machines:



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

Coin Collection and Information and Collection Controls System

In Spain, we have a collections department that is responsible for carrying out coin collection from our AWP machines. Each of our collectors carries an electronic portable device that details the latest cash balances for the AWP machines and the pending balances with the site owners on their route, obtained from our proprietary computerized information and control system. The software that we use has been developed by our information technology department. The portable devices provide our collectors with a significant amount of information, including the share of the cash balance in the AWP machines payable to us and to the site owner, prize payout, the time during which the AWP machine was in use and the payment conditions established in the applicable installation agreement. The electronic portable devices read two sets of counters in the AWP machines, one electronic and one mechanical. The electronic counter controls in the case of a conflict due to its enhanced security. In addition, counters within the AWP machines record the physical entrance and exit of coins. This provides a cross check on the number of coins collected from each machine. On average, each AWP machine is visited by one of our collectors once per week. As of December 31, 2007, we employed 160 collectors in Spain. The collectors are based in each Spanish region in which we have operations and report each day to our regional headquarters.

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

Each AWP machine contains a "hopper," which holds cash to ensure the AWP machine always has a sufficient amount of cash to pay out prizes. The amount of the hopper is approximately €198 per AWP machine contributed approximately equally by us and the site owner.

Approximately 50% of the site owners keep a key to the AWP machine on the premises, in which case they will collect the cash on the basis of the AWP machine's counter. When the site owner does not have a key to the

AWP machine, our collector will count and divide up the cash with the site owner in accordance with the installation agreement. The collection report issued by the electronic portable device is signed and accepted by the site owner.

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

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

Expansion of AWP Machine Portfolio

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

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

Sales and Marketing

In Spain, our sales force of approximately 80 people, together with our approximately 86 *colaboradores*, is responsible for maintaining our relationships with site owners and identifying new locations to install AWP machines and acquisition opportunities. Our sales force is spread throughout the country and is generally based out of our regional headquarters. Our sales employees' salaries comprise fixed and variable components, the latter of which is based on commissions related to the value of contracts they are able to close.

Although government regulations on advertising have become more relaxed in recent months, the current regulations limit the extent and manner by which we and our competitors can advertise. In particular, government regulation prohibits certain kinds of direct and indirect advertisements to potential AWP machine players. However, alongside the new sports betting legislation, the government has recently eased some of the restrictions that existed for gaming related advertisements. Due to such restrictions, our marketing and public relations expenditures tend to be modest and totaled approximately €0.5 million in the year ended December 31, 2007.

Argentina

In Argentina, we are focused on the development and management of bingo halls with slot machines. As of December 31, 2007, our Argentina business owned and operated 14 bingo halls with a total of 8,051 bingo seats and 4,605 slot and other gaming machine seats. In the year ended December 31, 2007, our Argentine business generated operating revenue of €299.0 million and EBITDA of €98.5 million, representing 32.7% of our total consolidated revenues and 44.4% of our consolidated EBITDA (both before corporate headquarters).

Operations

Through the combination of the operations we started in Argentina in 2003, and the acquisition of Grupo Royal in 2005, we have become the industry leader in the bingo and the slot machine markets in the Province of Buenos Aires, each in terms of operating revenue in the year ended December 31, 2007.

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

	2005	2006	2007
Number of bingo halls	14	14	14
Number of bingo halls seats	6.233	7.524	8.051
Number of slot machine seats	3.546	4.352	4.605
Amounts wagered per day per bingo hall seat (in Argentine pesos)	121.3	120.6	120.5
Amounts wagered per day per bingo hall seat (in euro)	33.5	31.1	28.3
Net win per slot seat per day (in Argentine pesos)	475.6	536.8	681.1
Net win per slot seat per day (in euro)	131.4	138.3	159.1

The following table sets forth certain information regarding our Argentina business's bingo halls as of December 31, 2007. All of the bingo halls are located in the Province of Buenos Aires.

Name	Opening Date	Concession Expiration Date	Number of bingo seats	Slot Machine Seats	2007 Revenues (Argentine pesos in millions)(1)	Company
Bingo Sol	Feb. 1991	June 2021	470	216	27.97	Intermar Bingos S.A.
Bingo Platense	June 1992	June 2007(3)	920	539	78.23	Bingos Platenses S.A.
Bingo San Miguel	May 1999	May 2014	602	345	63.45	Interjuegos S.A.
Bingo del Mar	Sep. 1991	June 2021	498	225	24.14	Intermar Bingos S.A.
Bingo Lomas de Zamora	July 1991	June 2021	460	270	40.15	Bingos del Oeste S.A.
Bingo Peatonal	Jan. 1991	June 2021	244	121	12.69	Intermar Bingos S.A.
Bingo Puerto	Jan. 1994	Jan. 2009	219	113	9.95	Intermar Bingos S.A.
Bingo Temperley	Aug. 2001	Aug. 2016	214	127	9.47	Bingos del Oeste S.A.
Bingo Lanús(2)	Apr. 1992	June 2021	856	504	75.57	Iberargen, S.A.
Bingo San Martín(2)	Oct. 1994	Oct. 2009	960	575	106.87	Iberargen, S.A.
Bingo Morón(2)	June 1998	June 2013	640	399	84.34	Iberargen, S.A.
Bingo Ramos Mejía(2)	Apr. 1999	Apr. 2014	200	233	49.60	Interbas, S.A.
Bingo Lomas del Mirador(2)	July 2006	Sep. 2014	1,000	529	88.42	Interbas, S.A.
Bingo San Justo(2)	Oct. 1999	Oct. 2014	768	409	77.82	Interbas, S.A.
Total			8,051	4,605	748.70	

(1) Revenues consist of total amounts wagered at bingo halls, net win for the slot machines, food and beverage sales and other revenues.

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

(3) This hall is currently being operated under a three month extension to its license (granted on February 14, 2008) extendible for a further three months.

Bingo played in Argentina is a pari-mutuel gaming activity whereby players wager against one another and not against the gaming operator. The gaming operator collects wagers on a specific event and takes a commission for handling such wagers. The amount remaining after the gaming operator receives a commission is distributed to the players in the form of winnings. Slot machines that are installed in bingo halls, however, are different from AWP machines in Spain, in that they permit higher wager amounts, allow for higher maximum prize payouts and are similar to the Class III machines present in the United States. In addition, the Argentine bingo halls contain a limited number of non-slot gaming machines, such as a simulated roulette-type machine and a simulated horse race machine. These machines are regulated in the same manner as slot machines. For the year ended December 31, 2007, operating revenue generated from slot machines accounted for 86.6% of our consolidated operating revenue in Argentina.

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

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

Six of the 14 gaming licenses we operate in Argentina were due to expire before the end of 2007. On December 1, 2006 the Province of Buenos Aires published its Decree 3198, which ratified the application of Resolution N^{o} 456/06 of the IPLyC to those bingo licenses which expired in 2006 or are due to expire prior to the end of 2007. Resolution N^{o} 456/06 provides to license operators the option to extend expiring licenses through June 30, 2021, subject to a fixed renewal fee based on the average monthly canon tax paid under the relevant license in 2005, multiplied by the number of years for which the license will be extended. In accordance with the terms of Resolution N^{o} 456/06, we applied to extend the six licenses eligible for renewal and, as of the date of this Report, five of the licenses (Peatonal, Lanús, Sol, Mar and Lomas de Zamora) have been renewed until 2021. The IPLyC under the newly elected Provincial administration is currently analyzing the conditions under which the renewal will be issued for the remaining license (Platense, which originally expired in June 2007). The Platense bingo hall is being operated under a three month extension to its license (granted on February 14, 2008) extendible for a further three months pending this review. The upfront payment relating to this renewal (Argentine pesos $28.4 million, equivalent to €6.1 million as of December 31, 2007) was calculated on the basis of 2005 gaming taxes paid under the license. This amount remains in a bank account designated for the purpose, and has been amortized since July 1, 2006 over the anticipated 15-year life of the renewal license, and we have accrued but not paid the extraordinary canon tax payable in connection with the renewal since January 1, 2007. We expect that the license will be renewed in accordance with the provisions of Decree 3198 and Resolution 456/06. However, regulatory developments are subject to change and we cannot assure you that this license will be renewed or that it will be renewed on satisfactory terms. The total up-front fees related to the renewal of the six licenses are AR$118.8 million (equivalent to approximately €25.6 million as of December 31, 2007). The renewals are further subject to a canon tax surcharge, also determined for each license on the basis of the canon tax it paid in 2005. The total canon tax surcharge attributable to these six licenses is approximately AR$277.0 million or AR$55.4 million annually (equivalent to approximately €59.7 million or €11.9 million annually as of December 31, 2007), which has been and will be accrued and paid monthly over a five-year period starting January 2007.

Main operating projects

Our Argentine operations' principal operating project in the near-term is the continued general refurbishment and updating of our bingo halls and slot machines. In particular, we are currently in the process of introducing ticket in/ ticket out (TITO) machines in our bingo halls. TITO machines are designed to accept a card from the player which contains credit purchased at the cashier. The introduction of TITO machines in bingo halls is expected to increase the average net win per machine as it increases the productivity of the machine. We also believe that there is unmet demand in the slot machine market in the geographical areas where we operate and in order to meet this demand, Codere Argentina is currently implementing an investment plan which will increase the number of slot machine seats.

Sales and Marketing

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

Mexico

Our operations in Mexico are conducted through a joint venture with CIE (currently ICELA), a management services agreement with Caliente as well as through Promojuegos and Mio which we acquired in December 2006 and June 2007, respectively. In the year ended December 31, 2007, our Mexican operations generated operating revenue of €145.0 million and EBITDA of €57.9 million, representing 15.9% of our total consolidated revenues and 26.1% of our consolidated EBITDA (both before corporate headquarters). In Mexico, the development and management of bingo halls, in which we operate EBTs as well as traditional (paper-based) bingo, is our most significant activity. As of December 31, 2007, our Mexico business managed and operated 94 bingo halls in which we operated 16,788 EBTs and 43 off-track betting sites. Since the acquisition of 49% of ICELA in November 2007, we operate a 52 hectare gaming complex in Mexico City which includes the Las Americas racetrack, an amusement park and the largest convention center in Latin America. As of December 31, 2007, CIE, Caliente, Promojuegos and Mio held licenses to build and operate an additional 75 bingo halls.

Competition

We began our operations in Mexico in 1988 through our management services agreement with Caliente and then grew them in 1999 through our joint venture with CIE. In both cases we participated in the development of the halls where we offered traditional bingo products pursuant to licenses which these parties owned. Until 2004, when the Mexican government granted additional licenses, we estimate that halls operated under Caliente and CIE’s licenses constituted the majority of the private gaming offered in Mexico. Beginning in 2005, the Mexican government has granted additional licenses to operate gaming facilities throughout the country. We estimate that approximately 22 licenses to operate a total of 413 gaming facilities have been granted by the Mexican government as of December 31, 2007. Of these, 11 licenses for approximately 169 facilities are associated with Codere (CIE, Caliente, Promojuegos and Mio), and an additional 12 for approximately 244 facilities have been granted to third parties. One of these third party licenses was granted to Grupo Televisa, a large Mexican media company, which makes it a competitor of ours in Mexico. At December 31, 2007, Codere, through CIE, Caliente, Promojuegos and Mio, operated 94 halls and we estimate that there were approximately 31 halls in Mexico opened and operated by third parties.

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

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

We believe the Mexican gaming market has significant growth potential in light of the fact that total amounts wagered represent a relatively low percentage of GDP compared to other European or Latin American countries. As such, we have been focused on securing our first mover advantage in this market and have been increasing our market position primarily through the deployment of EBTs both in existing halls, as well as in new halls.

Operations

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

	Year ended December 31,				
	2003	2004	2005	2006	2007
Number of off track betting sites (at period end):					
With sports books and bingo	19	26	32	42	42
With sports books only	5	5	5	2	1
With bingo only	13	17	28	40	52
Number of bingo halls opened	10	14	17	24	14
Number of bingo halls closed	1	3	—	3	5
Average amount wagered per day per bingo hall seat (in Mexican pesos)	663	550	365	535	567
Gross amounts wagered for bingo halls (in millions of Mexican pesos)	4,286	4,935	4,738	3,965	3,593
Number of EBTs	—	—	4,539	10,630	16,788
Average net win per day per EBT (in Mexican pesos)	—	—	974	862	958
Gross amounts wagered for EBTs (in millions of Mexican pesos)	—	—	1,620	8,083	14,966

Mexico CIE—Background and Operations

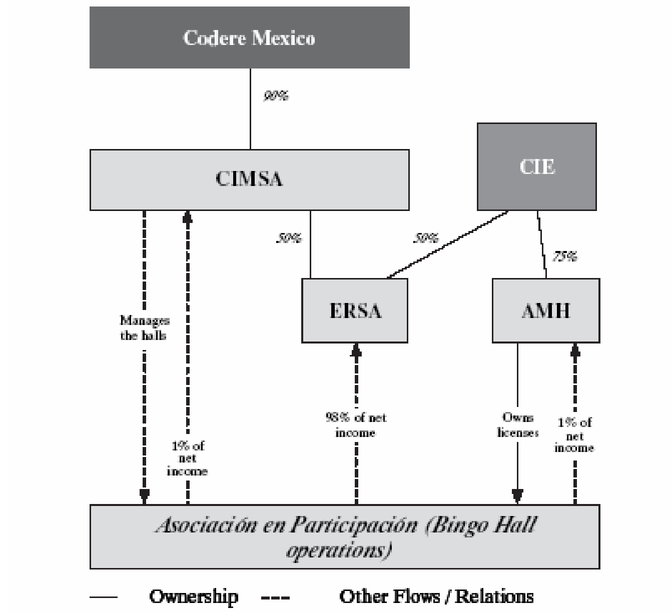
CIE is a leading live entertainment company, which serves the Spanish and Portuguese-speaking markets in Latin America, the United States, and Spain. CIE has interests in companies that offer the following recreational and entertainment products and services: the operation of entertainment venues and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

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

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

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

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

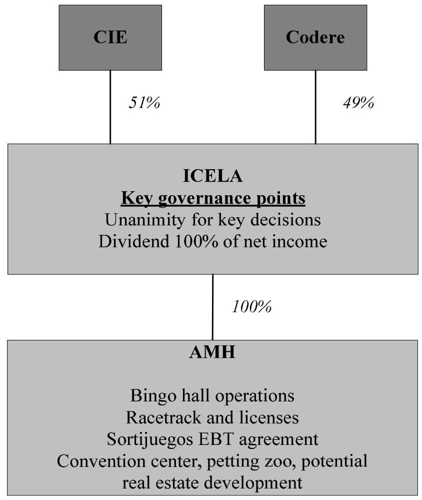


On November 9, 2007 we closed various agreements with CIE pursuant to which we acquired 49% ownership of Impulsora de Centros de Entretenimiento de las Americas ("ICELA") in exchange for our 50% interest in the joint venture with CIE and a cash payment of US$175 million (financed in part by a dividend of $30 million). The purchase consideration also includes a deferred payment of US$25 million contingent on, and to be financed by, a dividend in 2008, and originally included an aggregate amount of contingent payments of up to US$25 million, which has since been reduced to US$12.5 million following a payment of US$5.4 million. ICELA is a CIE subsidiary which includes CIE's Las Américas division and holds certain gaming related assets previously held directly by CIE, which were contributed to ICELA in connection with the transaction. CIE Las Américas owns a 52 hectare gaming complex in Mexico City including the Las Américas horse racetrack, licenses to operate up to 65 gaming locations, including the existing locations, an amusement park and the largest convention center in Latin America. The cash paid to CIE on closing was €99.7 million (US$145 million).

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

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

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

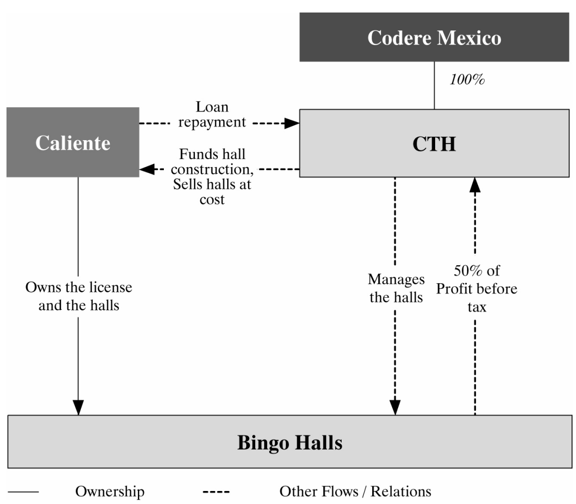


As of December 31, 2007, our Mexico CIE business operated 41 bingo halls with a total of 9,865 seats.

In addition, our Mexico CIE business includes off-track betting operations where customers can bet on horse and dog races and on sporting events which occur principally in Mexico and the United States. Broadcasts of live horse and dog races or sports events are available through a simulcast provided by Caliente and are displayed on televisions located in the off-track betting areas of the bingo halls. The Mexico CIE business does not assume any financial risk for the bets placed at its off-track betting sites. The financial risk is assumed by Caliente; Mexico CIE business acts only as agent and collects a commission of approximately 11% to 12% of amounts wagered, regardless of the outcome of the bets. In the year ended December 31, 2007, gross amounts wagered at Mexico CIE's off-track betting sites were 1,394 million Mexican pesos (€93.0 million), resulting in a commission of 187.6 million Mexican pesos (€12.4 million) for Mexico CIE.

Mexico Caliente—Background and Operations

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



Our management services agreement with Caliente focuses on the development and management of bingo halls at its off-track betting sites. Caliente is owned by the Hank family, a prominent Mexican family whose members have held various political offices in Mexico over the past 30 years, including Jorge Hank who was elected mayor of Tijuana in August 2004. Caliente is a Mexican company that started operations on January 1, 1916 with a horse racetrack in Tijuana, Mexico. Since 1950, Caliente has operated a greyhound track, with daily racing all year round. Caliente has developed a network of over 165 off-track betting sites located in Mexico, as well as Latin

America and Europe. In connection with its license to operate the track, Caliente has been awarded a license to operate and additional 92 off-track betting sites, which are also authorized to include bingo halls, throughout Mexico. Pursuant to the management services agreement with Caliente described below, as of December 31, 2006, our Mexico Caliente business operated 49 bingo halls with a total of 5,127 seats. Our Mexico Caliente business does not operate any sports books. Caliente's licenses to operate the off-track betting sites and bingo halls expire between 2014 and 2022. In 1998 we entered into the management services agreement with Caliente in May 1998 to develop and manage bingo halls at Caliente's off-track betting sites.

Under the management services agreement, Complejos Turísticos Huatulco S.A. de C.V. ("CTH") identifies locations for bingo halls, negotiates leases, constructs or refurbishes the halls, provides equipment, trains all bingo hall employees, and provides managers for the bingo halls. Caliente owns the licenses and the bingo halls and pays the salaries of the bingo hall managers. Upon completion of the construction of a bingo hall, CTH sells the hall to Caliente at cost, fixed in U.S. dollars at the time of transfer. Caliente repays CTH the construction or refurbishment costs of bingo halls over a five-year period in 60 equal monthly payments in U.S. dollars. As of December 31, 2007, payments to us by Caliente of €19.9 million, €16.7 million and €32.9 million relating to completed halls will become due in 2008, 2009 and beyond, respectively. Under the management services agreement, CTH receives 50% of the income before taxes and depreciation of start-up expenses, less a contribution to a contingency fund (which is used to fund prizes during special promotions and to provide capital expenditure for start-up expenses at new bingo halls) generated by all of the bingo halls we manage, excluding off-track betting activities as CTH does not participate in these activities. CTH and Codere America have provided loans in an aggregate of U.S.$18.2 million to Caliente in the past, U.S.$10.0 million of which is outstanding as of December 31, 2007. These loans have three and four year terms and interest rates of 8%. CTH, Codere America or one of our other affiliates may loan money to Caliente in the future. Our management services agreement with Caliente may be terminated upon the expiration of Caliente's concession to operate the Hipódromo de Agua Caliente racetrack or upon noncompliance by either party with its obligations under the management services agreement, including the failure by Caliente to pay principal and interest when due on the loans described above.

Electronic Bingo

On September 17, 2004, the Mexican government enacted new regulations under the FGLA. With respect to the bingo games we operate under CIE and Caliente's licenses, the regulations confirmed that the electronic versions of such games could be deployed. In the second half of 2004 we began to install in several Caliente bingo halls EBTs that permit clients to play a basic version of electronic bingo displayed on a computer screen. Since then, we and our partners have entered into agreements with suppliers of EBTs and have significantly increased the pace of the roll-out of EBTs in Mexico and as of December 31, 2007 had 16,788 EBTs installed. We install these EBTs in existing space in our bingo halls as well as in terminal-only halls that have approximately 150-200 machines at a cost of approximately €1.3 million per hall, excluding the cost of machines. In the year ended December 31, 2007, amounts wagered from EBTs installed in Mexico represented approximately 80.6% of the total amounts wagered in the halls we operate under our joint venture with CIE and management contract with Caliente which represents a significant increase from approximately 67% for the year ended December 31, 2006.

On August 25, 2005, CIE entered into an agreement with International Game Technology ("IGT") under which IGT agreed to supply CIE with an advanced version of EBTs. The agreement has minimum purchase requirements and provides that CIE makes a fixed payment per EBT. The IGT EBTs have two screens: the top screen contains the bingo game and the bottom screen shows a schematic representation of the game and is similar to a Class II machine screen. Deployment of the IGT EBTs began in August 2005. On September 13, 2005, Codere México entered into an agreement with Bally Gaming ("Bally") under which Bally agreed to provide Codere México with similar EBTs and a player terminal system that links and controls the EBTs. The agreement provides that Codere México would purchase the EBTs from Bally for a fixed price plus a percentage of the average net win of such EBTs and would pay an additional percentage of average net win for the player terminal system. Under the agreement, Codere México agreed to purchase a minimum of 2,000 of the Bally EBTs and we agreed to guarantee all payments by Codere México. The Bally EBTs have been installed principally in Caliente bingo halls and are very similar to the IGT EBTs. In the traditional bingo business, we intend to explore the potential to electronically interlink our bingo halls to create larger jackpots and, as permitted by the new regulations, to selectively open new bingo halls ("remote bingo halls"). At remote bingo halls, all games will be electronically linked to an existing larger hall, allowing us to offer attractive prizes from the date on which we open the hall and to reduce our start-up costs, which is permitted by the new regulations.

Sales and Marketing

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

Other Operations

Italy Bingo

We have been present in the Italian gaming industry since 2001, when we entered the bingo market. Initially, our activities were focused on providing management services to bingo halls owned by Operbingo, which was in turn owned by our affiliate Francomar, due to regulations which initially prevented ownership of bingo halls by privately-held companies. We have owned and operated these bingo halls since our acquisition of Operbingo on December 15, 2005, and have since acquired Bingo Palace, Mortara and Maxibingo, each with one hall, and opened a greenfield bingo hall in Bologna, so that today we believe we are the industry leader in terms of bingo revenues with 12 owned and operated halls. Operbingo was consolidated in our December 31, 2005 balance sheet and has been consolidated in our income statement since January 1, 2006. In addition to the traditional bingo game available in our bingo halls, pursuant to new legislation, we have begun installing AWP machines in our bingo halls. As of December 31, 2007, we had 480 AWP machines installed in our bingo halls. In the year ended December 31, 2007, our Italy Bingo business generated operating revenue of €91.6 million and EBITDA of €8.4 million, representing 10.0% of our consolidated revenues and 3.8% of our consolidated EBITDA (both before corporate headquarters).

The following table sets forth certain information regarding Operbingo's operations as of December 31, 2007 and for the periods indicated:

Name of Bingo Hall	City/Region	Opening Date	Concession Expiration Date(2)	Seating Capacity	No. of Seats	2007 Revenues (in millions of €)(3)
Palace(1)	Turin, Piemonte	Jan. 2002	Jan. 2014	854	850	27.9
Re	Rome, Lazio	Feb. 2002	Feb. 2014	900	861	57.6
Modernissimo	Salerno, Campania	Mar. 2002	Mar. 2014	470	449	14.7
Living	Bologna, Emilia Romagna	Apr. 2002	Apr. 2014	404	388	6.4
Marconi	Vigevano, Lombardia	May 2002	Apr. 2014	372	350	6.7
Garbini	Viterbo, Lazio	Aug. 2002	Aug. 2014	506	506	12.0
Ariston	Lecce, Puglia	Sep. 2002	Sep. 2014	650	650	21.8
Vittoria	Parma, Emilia Romagna	Apr. 2004	Apr. 2016	476	476	15.1
Cola di Rienzo	Rome, Lazio	Dec. 2004	Dec. 2016	525	525	18.2
Regina	Bologna, Emilia Romagna	May 2006	Sep. 2014	576	480	5.5
Mortara	Mortara, Lombardia	Mar. 2002	Mar. 2014	378	378	0.6
Maxibingo(4)	Salerno, Campania	Mar. 2002	Mar. 2014	534	534	4.4

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

Italy AWP

Codere has also been active in the AWP machine market since the 2004 regulation which was intended to reform the Italian slot machine industry. We entered the market as an operator of AWP machines and subsequently acquired a network concessionaire. In the year ended December 31, 2007, our Italy AWP business generated operating revenue of €51.5 million and EBITDA of (€21.3) million, representing 5.6% of our consolidated revenues and (9.6)% of our consolidated EBITDA (both before corporate headquarters).

In the AWP machine business, AWP operators enter into agreements with site owners under which the operator places its AWP machines at the sites and provides maintenance services for such AWP machines in exchange for a variable fee that is generally equal to 50% of net box after deducting prizes, gaming taxes and the cost of the network provision.

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

Given the network's role in the industry structure, we have believed from the outset that participation in ownership and operation of a network is critical to profitable growth in the Italian AWP sector, and have sought to achieve this strategic position via acquisition or joint venture. This objective was achieved through our acquisition of Codere Network (previously Rete Franco) on April 28, 2006. Codere Network is one of ten government concessionaires for the provision of AWP network services and had 10,825 machines under its supervision as of December 31, 2007. With this acquisition, and following the restructuring of our direct machine business (as described in more detail below), we believe we now have the strategic platform for profitable growth, which we intend to achieve through the acquisition of existing operators.

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

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

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

Restructuring of direct AWP machine activity

On March 17, 2008, we disposed of our Italian direct AWP business by means of the sale of our Italian subsidiaries Gaming Services and Gaming Re to Mr Giovanni Gargelli, the former chief operating officer of Codere Italia, for cash consideration of €10,000 plus the assumption of various debts and payables to Codere. We also announced that our results for the quarter ended March 31, 2008 would reflect losses taken in connection with this transaction of approximately €3.0 million, and our consolidated accounts will reflect receivables from Gaming

Services and Gaming Re totaling approximately €12.1 million. Of this amount, €3.5 million in favor of Codere Network is cash collateralized; and €3.0 million has been fully provisioned and included as a loss on disposal, as it may be forgiven under certain circumstances, including that Mr. Gargelli retains 100% of his interest in the business, complies with all applicable labor legislation, and meets certain conditions in respect of maintaining machine connections to Codere Network. The remaining exposure in the Codere consolidated accounts to debts and payables from Gaming Services and Gaming Re is approximately €5.6 million.

Simultaneously, we announced a restructuring of the management and administrative functions in the remaining AWP machine segment (which after the divestiture consists of Codere Network and the indirect AWP machine operations), which will result in costs of approximately €3-4 million to be reflected as restructuring charges in our results for the quarter ended March 31, 2008.

Following the restructuring, our strategy for expanding our operations in Italy AWP is based on the acquisition or creation of joint ventures with established AWP operators. We have recently completed three acquisitions of AWP operators, Cristaltec, Vasa & Azzena and Seven Cora and are currently in advanced negotiations with other operators which are clients of Codere Network.

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

We believe that the various charges against the networks reflect in large measure both a rapidly developing regulatory framework, and considerable political uncertainty and are entirely inconsistent both with the economic realities of the business, and with the ultimate objective of the Italian government to have a well-regulated AWP machine industry. We are particularly encouraged by events in recent weeks, including: the April 1, 2008 TAR decision (See "—Litigation—Other Litigation and Disputes—Italy—CdC Allegation") as well as the amendment to the network concession and the likely implementation of the additional network service fee described below.

Amendment to the Network Concession Agreements

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

- Clarifications to the technical requirements in respect of AWP connection and network communication requirements, eliminating important ambiguities which have resulted in potential fines and claims under the previous concession agreement.
- An amended basis for calculation of the performance bond required under the concession, which is to be based on the number of "nulla ostas" (machine permits) managed by the concessionaire, adjusted semi-annually. For Codere Network, we estimate that this will result in a slight reduction of our existing performance bond from €18.3 million.
- Inclusion in the Concession of a service fee up to 0.5% of total amounts wagered on machines connected to the Network, as introduced by the 2006 Finanziaria law of December 23, 2005.

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

Following legal proceedings by all ten network concessionaires, AAMS has complied with a court order to implement this law, through a draft decree which defines the parameters which will be used to calculate the service fee in question, up to a maximum of 0.5% of total amounts wagered on machines connected to the Network as from January 1, 2007. The draft decree has been notified to the European Commission for review, following which we expect this measure will be implemented.

Italy Sports Betting

In partnership with William Hill, we participated in the auction for sports and horse betting licenses conducted by the Italian government on October 20, 2006. Following the tendering process, we were jointly awarded 55 concessions by the Italian regulatory authority, comprising 20 concessions to operate horse racing betting shops, seven concessions to operate sports betting shops and 28 concessions relating to sports betting points as well as remote licenses relating to these activities. In February 2008, we commenced operations through our remote licenses. In January 2007 we jointly paid €4.7 million in connection with the concessions award. Since then, the joint venture has been working on establishing these outlets and preparing them to start operations (the remote license has been operational since February 2008). At the same time, the joint venture is evaluating a number of possible opportunities to develop its presence in Italy.

We believe that our acquisitions of Operbingo, Bingo Palace, Codere Network, Cristaltec, Maxibingo, Vasa & Azzena, Mortara and Seven Cora have strengthened our position in the Italian gaming market, and that these acquisitions and related reorganizations will lead to cost synergies by allowing us to share headquarters expenses across our Italian operations. We also believe that favorable regulatory changes may provide us with additional opportunities for revenue growth, such as through the lowering of AWP machine tax, the introduction of more attractive AWP machines, by permitting us to interlink our bingo halls and increasing fees paid to network concessionaires.

Spain Bingo

We entered the Spanish bingo market in 1999 with the acquisition of Cartaya, a regional mid-sized bingo hall with 250 seats located in southeast Spain. In March 2000, we acquired Bingo Canoe, the largest bingo hall in Spain, with 1,040 seats, and Star, with 592 seats, both located in Madrid. Our lease to the premises on which Bingo Canoe is located expires in October 2012. We closed the Cartaya and Star bingo halls in 2003 and 2005, respectively, due to low profitability so that as of December 2007 our Spain Bingo business is limited to the Canoe hall. In the year ended December 31, 2007, our Spanish bingo business generated operating revenue of €22.0 million and EBITDA of €0.9 million, representing 2.4% of our consolidated revenues and 0.4% of our consolidated EBITDA (both before corporate headquarters).

Operations

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

	Year ended December 31,				
	2003	**2004**	**2005(1)**	**2006(1)**	**2007(2)**
Number of halls (at period end)	2	1	1	1	1
Number of seats (at period end)	1,732	935	935	1,024	770
Number of visitors (in thousands)	664	484	485	516	389
Average amount wagered per visitor	€125	€149	€153	€148	€153
Average number of employees	221	138	143	157	155

(1) Given the closure of the Star bingo hall in May 2005, the information included is only for the Canoe bingo hall.

(2) The reduction in the number of seats was due to refurbishment of the hall in order to host the sports betting site and a potential increase in the number of machines. The seating capacity is now 1,140.

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

We are currently focusing on cost control with the aim of improving further the profitability of our Canoe bingo hall. We offer certain Spanish bingo employees compensation based in part on revenue sharing, which we believe positively aligns the employees' economic interests with those of management and shareholders. To improve the productivity of our sales force, we have reassigned work shifts to allow us to staff our Canoe bingo hall in the event of employees out of work due to illness or vacation with fewer resources and reorganized our floor space to allow each employee who sells cards to cover more of the bingo hall floor. We are also focusing on reducing other expenses of our bingo hall operations by managing our food and beverage purchases more efficiently.

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

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

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

Sales and Marketing

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

Panama

In October 2005 we purchased a 90% interest in the Hipódromo Presidente Remón horse racetrack in Panama City, Panama, which is the only racetrack in Central America. The remaining 10% is held by the Motta family. We currently hold licenses to open betting points and are permitted to install up to 500 slot machines and a bingo hall at the racetrack. At December 31, 2007 the racetrack had 339 machines and we were operating four OTBs in Panama.

On January 24, 2006, we completed the purchase of Alta Cordillera, the owner of Crown Casinos in Panama. This acquisition is part of the Sale Exchange Agreement signed on July 28, 2005 between the Antonio

Martínez Group and Codere, pursuant to which Codere agreed to exchange its minority interest in four Chilean casinos for 100% of Crown Casinos. At December 31, 2007, Crown Casinos, a leading player in the local casino market, operated four casinos in Panama with a total of 73 tables and 1,000 slot machines. Additionally, Crown Casinos has plans to open another casino in 2008, upon receipt of the necessary authorizations. In the year ended December 31, 2007, our Panama business generated operating revenue of €43.7 million and EBITDA of €11.7 million, representing 4.8% of our consolidated revenues and 5.3% of our consolidated EBITDA.

Colombia

Our Colombia business focuses on the ownership and operation of slot machines. As of December 31, 2007, we operated 8,463 slot machines located in our casino as well as in bars, restaurants and salons in major cities throughout Colombia. In addition, as of December 31, 2007, we operated seven bingo halls with an aggregate of over 1,503 seats. In the year ended December 31, 2007, our operations in Colombia generated operating revenue of €34.2 million and EBITDA of €(0.1) million, representing 3.7% of our consolidated revenues and (0.1)% of our consolidated EBITDA (both before corporate headquarters).

We estimate that the total number of licensed AWP machines in Colombia is approximately 78,000. In addition, we estimate there are an additional 20% unlicensed AWP machines currently in operation in Colombia. The AWP machines in the Colombian market are generally type-C machines, similar to U.S. Class III machines which differ from Spanish machines in that they do not have maximum wager and prize limits. The Colombian machine market (excluding machines located in casinos), with over 500 legal operators, is highly fragmented. Our main competitors in the licensed market are Unidelca, with approximately 4,366 slot machines, Winner Group, which is affiliated with Cirsa, our main competitor in Spain, with approximately 2,052 slot machines, and Aladin, with over 930 slot machines, each as of December 2007.

Operations

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

	2003	2004	2005	2006	2007
Number of AWP machines (at period end)	11,581	11,366	12,099	11,578	8,463
Amounts wagered per day per slot machine (in Colombian pesos)	12,313	14,254	15,380	25,374	28,757

Uruguay

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

As of December 31, 2007, our Uruguay business operated the Maroñas horse racing track and four off-track betting sites with slot machine parlors (with a total of 1,523 slot machines seats installed). In addition, we also had off-track betting agencies at which there were no slot machines and we simulcast horse racing at the Maroñas horse racing track in Latin America and Austria. In the year ended December 31, 2007, our Uruguay business generated operating revenue of €21.3 million and EBITDA of €2.8 million, representing 2.3% of our consolidated revenues and 1.3% of our consolidated EBITDA (both before corporate headquarters).

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

Brazil

Currently, regulated gaming in Brazil is restricted to lottery games run by the Brazilian government, local pari-mutuel horse racing and international pari-mutuel and fixed odds horse racing, operated exclusively under jockey club licenses that are issued and regulated by the Ministry of Agriculture. Although there are over 20 jockey clubs in the country, wagered amounts are concentrated in only four institutions: Jockey Clube Brasileiro ("JCB") in Rio de Janeiro, Jockey Clube de São Paulo in São Paulo, Jockey Clube do Parana ("JCPR") in Curitiba and Jockey Clube do Rio Grande do Sul ("JCRGS") in Porto Alegre. In 2007, the estimated total amount wagered for Brazil was approximately €132 million.

In 2004 and 2006, Codere signed ten-year exclusivity agreements with three of the four major Jockey Clubs (JCB, JCRGS and JCPR) to offer all forms of betting permitted under their licenses throughout Brazil. Recently, the Ministry of Agriculture issued permits to certain jockey clubs for betting on international simulcast races. Until that time, only pari-mutuel wagering on local races was permitted. As a result of this change, and pursuant to the exclusivity agreements with JCB and JCRGS, we have opened four off-track betting facilities—two in Rio de Janeiro, one in Niterói and one in Porto Alegre (to which there is a small corner shop associated) to offer betting alternatives for local and international races. In the year ended December 31, 2007, our Brazil business generated operating revenue of €1.5 million and EBITDA of €(6.2) million, representing 0.2% of our consolidated revenues and (2.8)% of our consolidated EBITDA (both before corporate headquarters).

Employees

The tables below set forth the average number of our permanent employees during 2006 and 2007 and the breakdown of those employees by activity and geographically.

Category of Activity	2006	2007
Managers and supervisors	601	896
Specialists	231	324
Sales personnel	1,745	3,375
Collectors	261	471
Mechanics	368	491
Clerical staff	735	1,593
Assistants	520	1,034
Other personnel	3,502	5,606
Total(1)	7,963	13,790

Geographic Area	2006	2007
Spain	1,029	1,370
Argentina	3,309	3,911
Mexico(1)	—	4,651
Italy	837	883
Panama	1,137	1,392
Colombia	787	661
Uruguay	778	802
Brazil	86	120
Total	7,963	13,790

(1) The increase in the staff corresponds mainly to the incorporation of the ICELA Group in Mexico, which had approximately 4,570 employees. 100% of the staff have been considered despite the fact that we consolidate only 49% of ICELA. Prior to this acquisition, and in other Mexican operations, as a result of provisions of Mexican labor law that require employees to participate in the profits of

their employer, employees in Mexico are provided by an unaffiliated third party that bills the Mexican business's companies for such services.

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

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

Licenses and Trademarks

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

Litigation

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

Ballesteros Transaction

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

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

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

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

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

Tax Contingencies

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

Income Tax Dispute

We are 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 our Argentine affiliates. Section 73 also generally applies to loans to third parties and we have argued that the Argentine companies involved in the questioned loans are part of a single economic group. If this dispute is determined adversely to us, we estimate that we would be required to pay AR$13.9 million (equivalent to approximately €3.0 million) as of December 31, 2007.

Other Tax Disputes

We are involved in several disputes with state tax authorities in Mexico concerning the payment of value added taxes and the application of state lottery taxes to our bingo hall operations. These disputes arose following the recognition by regulations enacted under the Mexican Federal Law of Games and Lotteries on September 17, 2004, of bingo as a form of lottery, which technically empowered the Mexican states to tax bingo activity. Caliente and CIE have each disputed the Mexican state governments' right to impose taxes on bingo activity, claiming that only the federal government is constitutionally empowered to take such action. Caliente and CIE have obtained injunctions absolving them of the obligation to pay such taxes in several states but the disputes are ongoing in other states. If these disputes are determined adversely to us, we could be required to pay approximately €19.3 million as of December 31, 2007.

We are also involved in disputes with local tax authorities in Bogotá and Cali, Colombia regarding the application of gaming taxes to certain arrangements we enter into to operate slot machines in locations owned by third parties. Such gaming taxes generally apply only to the company that controls the slot machines and we have argued that since we do not control these slot machines we should not be responsible to pay such gaming taxes. Additionally, on January 31, 2007, pursuant to Law 1066/06, we paid COP$1.4 million (equivalent to approximately €478 thousand as of December 31, 2007) to the local tax authorities in these jurisdictions. On July 31, 2007 we settled three of these disputes by paying 80% of the amounts claimed. As of the date of this Report, there is one outstanding dispute with the local tax authority in Bogotá and we estimate that if the dispute is determined adversely to us we would be required to pay COP$10.0 billion (equivalent to approximately €3.4 million as of December 31, 2007), plus interest and penalties as of December 31, 2007.

Other Litigation and Disputes

Argentina

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

Codere is the subject of two criminal investigations in Argentina, one in relation to money laundering activities, in which several other Argentine gaming companies are also named, and another in relation to the illegal importation and exploitation of slot machines, which was initially directed at all Argentine slot machine operators. The investigations are at a preliminary stage and we have been cooperating fully with the authorities. No director, officer or employee of Codere has been subpoenaed in either investigation. We do not believe the investigations, insofar as they relate to Codere, have merit.

Civil and criminal proceedings have been initiated against us by an individual in Argentina, who claimed that we owed such individual approximately AR$35.7 million (equivalent to approximately €8.6 million as of December 31, 2007), in connection with a prize in that amount displayed on the screen of a slot machine such individual played in our Lomas del Mirador bingo hall in the Province of Buenos Aires. We believe that due to a presumed machine malfunction the prize displayed reflected incorrect information provided by the slot machine after a bet on such machine was placed by such individual. The criminal allegations were filed in October 2006 and we have fully cooperated with the ongoing investigation. The criminal proceedings are still in a preliminary stage and expert testimony will be heard in connection with the investigation of the slot machine in question to determine the cause of the incorrect prize display. The maximum prize payable by the machine, as notified to the IPLyC and stipulated in notices displayed on the machine under applicable regulations, was approximately AR$37,000, which amount has been paid to the complainant. The slot machine in question was a new model, which was leased on a trial basis from Recreativos Franco, under an agreement under which they assume responsibility for the proper function of the machine. Following the incident, we have removed this new model from all locations. We believe this individual's claim is without merit, but expect that such individual may pursue her claim in civil proceedings.

Italy

Piano di Rientro

In connection with our acquisition of Codere Network in April 2006, we entered into a "Piano di Rientro" or repayment plan, with the AAMS in May 2006 which provided for Codere Network to satisfy €19.9 million in past due payables related to the payment of certain taxes and concession fees in connection with the provision of network connectivity services. As of the date of this Report, Codere Network has paid €17.8 million of such amount to the AAMS. We are currently in negotiations with the AAMS with regard to the remaining €2.1 million which is attributable to certain AWP machines for which the AAMS permissions to operate were never granted and for which gaming taxes are not payable in our view. We await formal confirmation that the AAMS concurs.

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

CdC Allegation

The Italian Corte dei Conti (the "CdC"), the constitutional body charged with auditing the management and accounts of government departments, including the AAMS, has recently alleged that the 10 concessionaires for the provision of AWP network services in Italy, including Codere Network, have not complied with certain of their obligations to complete, activate and manage the AWP network and to provide minimum levels of service and as a result owe penalties and fines to the AAMS in the aggregate amount of €98 billion. On June 26, 2007, Codere Network received notice from the AAMS requiring Codere Network to respond within 30 days to allegations that Codere Network has not complied with certain of its obligations to complete, activate and manage the AWP network and to provide minimum levels of service, or to pay fines and penalties (the "AAMS Letter"). The AAMS alleges fines and penalties attributable to Codere Network totaling €3.0 billion, based on the investigation outlined by the CdC in a letter dated May 29, 2007 (the "CdC Letter"). Codere has since responded to these allegations, both directly and in co-ordination with the industry association of network concessionaires, and on July 25, 2007 we and the other concessionaires were notified that the Lazio II division regional administrative tribunal issued an order requiring the temporary suspension of the AAMS claim dated June 22, 2007 containing the allegations against Codere Network. This temporary suspension applies only to the part of the document in which AAMS asks for the payment of certain fines and penalties. Moreover, the Court confirmed that the request for payment brought by the AAMS is not enforceable prior to the completion of administrative and judicial proceedings. The AAMS had 120 days (or 60 days from notification by an appellant) to appeal the Lazio II regional administrative tribunal's resolution.

We were notified on April 1, 2008 of the sentence of the Lazio Regional Administrative Court ("TAR") (the "Sentence"), pursuant to an appeal brought by Codere Network together with six other network concessionaires, that it has annulled the claim for payment of the fines and penalties imposed by the AAMS following the CdC allegations, on the basis that the AAMS has not conducted an appropriate process including the opportunity for the network respondents to present arguments in their defense. This request for payment had previously been suspended by the TAR on July 25, 2007. The TAR has also confirmed that this dispute between the administration and the regulated concessionaires falls under its jurisdiction.

Although in the absence of an appropriate process the TAR has not made any judgment with respect to the underlying claims, the Sentence includes a number of comments with important implications for the future of the case, including in particular, that the AAMS has not followed appropriate procedures including proper notice to concessionaires, which has caused delays; that the concessionaires' responses to the claims must be evaluated under principles of proportionality with respect to compliance with regulation and the levels of damages actually caused, and criticizes the AAMS for having failed to observe the principle of proportionality in imposing penalties.

It is not possible at this time to determine whether the AAMS will appeal the Sentence, or will alternatively pursue its claims under the procedural principles established by the TAR. Also, while the CdC claims remain outstanding, and Codere Network remains scheduled to appear before the CdC on December 4, 2008, the Sentence has clear implications for this and other claims brought against Codere Network and the other network concessionaires.

We have owned Codere Network since it was acquired with AAMS approval in April 2006, and the amounts claimed relate to operations since the inception of the network in September 2004. For the period since its acquisition by us to December 31, 2007, Codere Network has generated operating revenue of €12.5 million and incurred negative EBITDA of €16.1 million. Codere Network's net book value in our 2007 Consolidated Financial Statements was €14.6 million. In addition, Codere S.A. has provided a guarantee of Codere Network's performance bond in favor of the AAMS in the amount of €18.3 million.

AAMS Resolution

On July 5, 2007, the AAMS notified all AWP network concessionaires, including Codere Network, of a judicial resolution issued in Venice recommending that several gaming operators including one of our Italian AWP operators, withdraw certain slot machine models which are alleged to be in violation of Italian gaming regulation, in particular maximum prize payout. According to the judicial resolution, the authorizations to operate these slot machines are invalid on the grounds that they were improperly obtained by the manufacturer and the judicial resolution provides that those machines which are not voluntarily withdrawn be seized immediately or operators risk fines of €2,000 to €6,000 per non-compliant machine.

We are respecting the terms of the resolution and have withdrawn, as of December 31, 2007, all of our non-compliant machines from the market while 333 of the non-compliant machines we were operating remain seized by the authorities. Between July and December we have modified, replaced or discarded 4.285 AWP machines (including 818 of Seven Cora, an operation we acquired in December 2007, which had previously been made compliant with the regulation). The cost incurred to modify or replace non-compliant machines has been €1.5 million, the losses incurred due to the total or partial write-offs of non-compliant machines have been €0.7 million in 2007 and €0.1 million in 2008. We do not expect to make further investments or account additional write-offs related to this resolution in 2008.

General

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

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

Real Property

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

Other than the bingo halls we acquired when we purchased Grupo Royal, the majority of our offices and gaming facilities are leased and the leases generally run for at least as long as the relevant gaming license in the relevant jurisdiction.

PRINCIPAL SHAREHOLDERS

Principal Shareholders

As of December 31, 2007, our authorized and issued share capital was approximately €11.0 million, consisting of 55,036,470 fully paid-up ordinary shares, forming part of the same series, each with a par value of €0.20. The following table sets forth information regarding the beneficial ownership of our shares as of December 31, 2007.

	As of December 31, 2007	
Owner	**Number of shares beneficially owned**	**Percent**
Masampe Holding B.V.(1)	28,254,326	51.3%
José Antonio Martínez Sampedro(2)	7,971,518	14.5%
Luis Javier Martínez Sampedro(3)	1,350,000	2.5%
Encarnación Martínez Sampedro(4)	1,300,000	2.4%
Other members of the Martínez Sampedro family(5)	1,694,778	3.1%
Other members of management	661,238	1.2%
Public float	13,804,610	25.1%
Total	55,036,470	100.00%

(1) Masampe Holding B.V., a Dutch special purpose vehicle, is owned by José Antonio Martínez Sampedro, Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro.

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

(3) Luis Javier Martínez Sampedro is the Executive Director of Codere América Latina, a member of our Board of Directors and the brother of José Antonio Martínez Sampedro and Encarnación Martínez Sampedro, both of whom are members of our Board of Directors.

(4) Encarnación Martínez Sampedro is the Executive Director of Codere, a member of our Board of Directors and the sister of José Antonio Martínez Sampedro and Luis Javier Martínez Sampedro, each of whom are members of our Board of Directors.

(5) Shares held by (i) Encarnación Sampedro Valdivia, who is the mother of José Antonio Martínez Sampedro and his siblings and (ii) Carmen Martínez Sampedro, who is the sister of José Antonio Martínez Sampedro, Luis Javier Martínez Sampedro and Encarnación Martínez Sampedro, each of whom are members of our Board of Directors.

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

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

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

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

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

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

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

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

The Martínez Sampedro family's obligation to pay the third installment (amounting to €187.2 million) of the aggregate purchase price is due on April 30, 2008. Any amount that is not paid when due on April 30, 2008 will accrue interest at a weekly rate of 0.25% during a six-month cure period. If the Martínez Sampedro family fails to pay the third installment at the relevant installment payment date or during the six-month cure period thereafter, either the Martínez Sampedros, on the one hand, or Jesús Franco, Joaquín Franco and ICIL, on the other hand, may elect to initiate the sale of all shares held by the Martínez Sampedros (either directly or indirectly, including through Masampe Holding B.V.). The sale process would be conducted by a leading investment bank. This sale process is the sole recourse of Jesús Franco, Joaquín Franco and ICIL in respect of non-payment of the third installment on the part of the Martínez Sampedros and, if the sale process is initiated, the Martínez Sampedros' obligations in respect of the third installment payment are replaced by the sale process. Jesús Franco, Joaquín Franco and ICIL may not require the sale if the proceeds from the sale of our shares held by Masampe Holding B.V. would not be sufficient to satisfy its obligations under the 2007 SPV Financing (unless the lenders under the 2007 SPV Financing agree otherwise). In the context of a sale process as described above, the sale proceeds would be divided among Jesús Franco, Joaquín Franco and ICIL, on the one hand, and the Martínez Sampedros, on the other hand, in proportion to the percentage ownership (approximately 43%) held by Jesús Franco, Joaquín Franco and ICIL in our shares in March 2006, subject to certain adjustments; in addition, settlement of the sale proceeds would reflect credit for the payment to Jesús Franco, Joaquín Franco and ICIL of the first and second installments payments of approximately €203 million.