

Cirsa Gaming Corporation, S.A.



2013 Annual Report

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1. CERTAIN DEFINITIONS

In this annual report:

- “2012 Notes” refers to the 7.875% Senior Notes due 2012 issued by Cirsa Capital and fully redeemed in 2011;
- “Cirsa” refers to Cirsa Gaming Corporation S.A a *sociedad anónima* incorporated under the laws of Spain under Barcelona Commerce Register page number B-380, sheet 102 and volume 42002;
- “Cirsa Capital” refers to Cirsa Capital Luxembourg S.A., a *société anonyme* incorporated and existing under the laws of the Grand Duchy of Luxembourg, the issuer of the 2012 Notes having its registered office at 58, rue Charles Martel, L-2134 Luxembourg and registered with the Register of Trade and Companies of Luxembourg under number B 108008;
- “Cirsa Funding” or the “Issuer” refers to Cirsa Funding Luxembourg S.A., a *société anonyme* incorporated and existing under the laws of the Grand Duchy of Luxembourg, the issuer of the notes having its registered office at 58, rue Charles Martel, L-2134 Luxembourg and registered with the Register of Trade and Companies of Luxembourg under number B 149519;
- “EU” refers to the European Union;
- the “First Additional Notes” refers to the €280.0 million of 8.750% Senior Notes due 2018 issued by Cirsa Funding on January 18, 2011;
- “IFRS” refers to International Financial Reporting Standards, as adopted by the EU;
- the “Initial Notes” refers to the €400.0 million of 8.750% Senior Notes due 2018 issued on May 5, 2010;
- the “notes” or the “2018 Notes” refers to €900.0 million aggregate principal amount of the Initial Notes, the First Additional Notes, the Second Additional Notes and the Third Additional Notes except where the context otherwise requires;
- “Revolving Credit Facility” refers to the senior secured revolving credit facility dated May 5, 2010, among Cirsa, Deutsche Bank AG, London Branch and other parties thereto as amended, extended, restated or refinanced from time to time;
- the “Second Additional Notes” refers to the €100.0 million of 8.750% Senior Notes due 2018 issued by Cirsa Funding on February 5, 2013;
- “Spanish GAAP” refers to generally accepted accounting principles in Spain;
- the “Third Additional Notes” refers to the €120.0 million of 8.750% Senior Notes due 2018 issued by Cirsa Funding on January 14, 2014;
- “United States” or the “U.S.” refer to the United States of America;
- “VLT” refers to Video Lottery Terminals; and
- “we,” “our,” “us,” and other similar terms collectively refer to Cirsa and its consolidated subsidiaries, except where the context otherwise requires.

2. INDUSTRY AND MARKET INFORMATION

We have generally obtained the market and competitive position data in this annual report from industry publications and from surveys or studies conducted by third-party sources that we believe to be reliable. Unless otherwise noted, statistical data relating to the Spanish gaming market cited in this annual report has been published by the Spanish National Gaming Commission (*Comisión Nacional del Juego*). However, we cannot assure you of the accuracy and completeness of such information and we have not independently verified such market and position data. We do, however, accept responsibility for the correct reproduction of this information.

In addition, in many cases we have made statements in this annual report regarding our industry and our position in the industry based on our experience and our own investigation of market conditions. We cannot assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our internal surveys or information has been verified by any independent sources.

3. PRESENTATION OF FINANCIAL INFORMATION

This annual report includes our audited consolidated financial statements as of and for the years ended December 31, 2013 and December 31, 2012, along with the comparative financial information as of and for the year ended December 31, 2011. These consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (“IFRS—EU”) and were audited by our independent auditors, Ernst & Young S.L. and Cortés & Pérez Auditores y Asesores Asociados, S.L.

Some financial information in this annual report has been rounded and, as a result, the numerical figures shown as totals in this annual report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

4. CURRENCY PRESENTATION

In this annual report:

- “\$,” “U.S. dollar” or “dollars” refer to the lawful currency of the United States;
- “€” or “euro” refer to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- “Ps.” or “Argentine Peso” refer to the lawful currency of Argentina; and
- “Colombian Peso” refers to the lawful currency of Colombia.

5. FORWARD LOOKING STATEMENTS

This annual report includes forward looking statements. These forward looking statements can be identified by the use of forward looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will” or “should” or, in each case, their negative, or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this annual report, including without limitation in the sections captioned “Risk Factors,” “Business,” and “Operating and Financial Review and Prospects,” and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward looking statements contained in this annual report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward looking statements contained in this annual report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- the impact of the economic downturn in Spain and other markets in which we operate;
- risks associated with our other operations outside of Spain;
- adverse developments in our Argentine business;
- the actions of our counterparties in our strategic partnerships, joint ventures and alliances;
- impact of individual events or betting outcomes and the failure to determine accurately the odds at which we will accept bets in relation to any particular event or any failure of our risk management processes;
- our inability to block access to our online services by players in certain jurisdictions;
- our ability to comply with the current gaming regulatory framework and to adapt to any regulatory changes and increases in the taxation of gaming
- risks associated with unfavourable outcomes with respect to pending litigation;
- potential exposure to an unfavourable outcome with respect to pending litigation, which could result in substantial monetary damages;
- the impact of anti-smoking laws;
- our ability to comply with on-line gaming rules and regulations;
- our failure to keep current with technological developments in the on-line gaming market;
- our failure to comply with regulations regarding the use of personal data;
- risks associated with hacker intrusion, distributed denial of service attack, malicious viruses and other cyber crime attacks;
- our ability to manage growth in our business;

- our ability to provide secure gaming products and services and to maintain the integrity of our employees in order to attract customers;
- competition from other companies in our industry and our ability to retain our market share;
- changes in consumer preferences in relation to our gaming offerings;
- our dependence on maintaining and enhancing our brand;
- risks associated with a failure to detect money laundering or fraudulent activities of our customers or third parties;
- our dependence on credit card payment service providers and other financial institutions to process payments and handle cash generated by our business;
- risks associated with a disruption of operations at our manufacturing facilities;
- risks relating to taxes;
- our dependence on our founder, principal shareholder and chairman, Manuel Lao Hernández;
- risks associated with security issues in the countries in which we operate;
- risks associated with terrorist attacks and other acts of violence or war;
- risks associated with negative perceptions and negative publicity surrounding the industry in which we operate; and
- our significant leverage, which may make it difficult to operate our business.

We urge you to read the sections of this annual report entitled “Risk Factors,” “Operating and Financial Review and Prospects” and “Business” for a more complete discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward looking events described in this annual report may not occur.

We provide a cautionary discussion of risks and uncertainties under “Risk Factors” contained elsewhere in this annual report. These are factors that we think would cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. Investors are cautioned not to play undue reliance on these forward looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or publicly revise any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this annual report.

6. SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following selected profit and loss account data, balance sheet data and other data as of and for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011.

You should read this selected financial data in conjunction with our consolidated financial statements and the related notes and “Operating and Financial Review and Prospects.”

Our consolidated financial statements have been prepared in accordance with IFRS-EU.

The comparability of our results of operations and financial position as of and for the years ended December 31, 2013, 2012 and 2011 have been affected by the factors described in “Operating and Financial Review and Prospects—Overview.”

| | Year ended December 31, | | |
|--|-------------------------|----------------|----------------|
| | 2011 | 2012 | 2013 |
| | (€ in millions) | | |
| Selected Profit and Loss Account Data: | | | |
| Operating revenues⁽¹⁾ | 1,746.8 | 1,576.3 | 1,585.0 |
| Bingo prizes | (247.7) | | |
| Variable rent..... | (241.9) | (226.3) | (222.0) |
| Net operating revenues | 1,257.2 | 1,350.0 | 1,363.0 |
| Consumption | (86.7) | (81.6) | (67.2) |
| Personnel..... | (224.8) | (242.2) | (241.8) |
| Gaming taxes..... | (410.4) | (437.7) | (493.5) |
| External supplies and services..... | (245.2) | (266.4) | (258.4) |
| Depreciation, amortization and impairment | (149.6) | (159.5) | (168.4) |
| Earnings before interest and taxes | 134.9 | 162.5 | 133.7 |
| Financial results | (96.8) | (90.5) | (93.6) |
| Foreign exchange results..... | (6.2) | (6.3) | (7.3) |
| Results on sale of non-current assets..... | (5.2) | 0.1 | (3.3) |
| Profit before tax | 26.8 | 65.7 | 29.5 |
| Income tax..... | (43.7) | (56.1) | (28.5) |
| Minority interest..... | (8.5) | (9.4) | (14.1) |
| Net profit | (25.4) | 0.2 | (13.1) |
| Selected Balance Sheet Data (at end of period): | | | |
| Cash and cash equivalents..... | 66.7 | 55.2 | 58.4 |
| Total assets..... | 1,389.6 | 1,340.7 | 1,318.2 |
| Total debt ⁽²⁾ | 936.7 | 923.5 | 966.9 |
| Total net debt ⁽³⁾ | 870.0 | 868.3 | 908.5 |
| Total shareholders' equity..... | 35.6 | 14.1 | (31.6) |
| Other Financial Data: | | | |
| EBITDA ⁽⁴⁾ | 290.0 | 322.0 | 302.1 |
| Adjusted EBITDA ⁽⁴⁾ | — | — | 338.1 |
| Capital expenditures ⁽⁵⁾ | 160.1 | 144.8 | 118.1 |

(1) In accordance with IFRS, with effect from January 1, 2013, operating revenues are recorded net of Bingo prizes. Bingo prizes refers to the prizes payable on Bingo cards. Operating revenues for 2012 have been restated. Operating revenues for 2013 are presented net of Bingo prizes for the entire period. Operating revenues for other periods have not been restated.

(2) Total debt of €966.9 million as of December 31, 2013 was comprised of (i) bank debt of €145.5 million recorded under “Credit institutions” as non-current liabilities and current liabilities, (ii) capital lease obligations of €21.6 million recorded under “Credit institutions” as non-current liabilities and current liabilities, (iii) gaming tax deferrals of €12.5 million recorded under “Tax authorities” as non-current liabilities and under “Other creditors” as current liabilities, (iv) promissory notes and other loans of €17.3 million recorded under “Other creditors” as non-current liabilities and current liabilities

and high yield notes of €770.0 million recorded under “Bonds” as non-current liabilities and current liabilities.

(3) We define total net debt as total debt less cash and cash equivalents.

(4) EBITDA represents profit before tax, depreciation, amortization and impairment, financial results, foreign exchange results and loss on sale of non-current assets. Adjusted EBITDA (as presented in this annual report) represents EBITDA absent the one-time settlement payment to the CdC of €36.0 million made on November 15, 2013. For accounting purposes, the CdC payment adjustment was allocated solely to the Slots Division (see table below). We believe that it is widely accepted that EBITDA and Adjusted EBITDA provide useful information regarding a company’s ability to service and incur indebtedness. EBITDA and Adjusted EBITDA are not measurements of operating performance under IFRS, and should not be considered substitutes for operating income, net income, cash flows from operating activities or other income statement data, or as a measure of profitability or liquidity, and EBITDA and Adjusted EBITDA do not necessarily indicate whether cash flow will be sufficient or available for cash requirements. EBITDA and Adjusted EBITDA may not be indicative of our historical operating results nor are they meant to be predictive of potential future results. Because all companies do not calculate EBITDA and Adjusted EBITDA identically, the presentation may not be comparable to similarly entitled measures of other companies.

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| | (€ in millions) | | |
| Profit before tax..... | 26.8 | 65.7 | 29.5 |
| Loss on sale of non-current assets | 5.2 | (0.1) | 3.3 |
| Foreign exchange results | 6.2 | 6.3 | 7.3 |
| Financial results | 96.8 | 90.5 | 93.6 |
| Depreciation, amortization and impairment | 155.1 | 159.5 | 168.4 |
| EBITDA | 290.0 | 322.0 | 302.1 |
| Adjusted EBITDA..... | — | — | 338.1 |

(5) We define capital expenditures to include the following items from our consolidated cash flow statement: “Purchase and development of property, plant and equipment” and “Purchase and development of intangibles.”

7. BUSINESS

Our Company

We are one of the leading gaming companies in Spain, Italy and Latin America engaged in the operation of slot machines, casinos and bingo halls and the manufacture of slot machines for the Spanish market. In Spain, we are the leader in the €14.8 billion Spanish private gaming market, where our key activities include: the operation of slot machines, in which, as of December 31, 2013, we are the #1 operator with over 25,000 slot machines operated; the operation of four casinos; the operation of bingo halls, in which our Bingo Division is the #1 operator with 48 bingo halls; and the manufacture of slot machines, where we are the #1 manufacturer, with over 32,000 slot machines and gaming kits manufactured in the year ended December 31, 2013.

In Italy, we have established a strong presence in the slot machine market with over 14,500 slot machines situated in approximately 2,900 locations across central and northern Italy. As of December 31, 2013, we have also completed the deployment of 2,547 of the 2,583 VLTs planned for installation in Italy.

In Argentina, we operate eight casinos, including two riverboat traditional casinos in the city of Buenos Aires with 130 gaming tables and 1,725 slot machines and a traditional casino located in Rosario with 80 gaming tables and 2,976 slot machines. Our four electronic casinos in the Province of Mendoza and Casino Central Mendoza operate 1,654 casino-style slot machines.

In Colombia, we operate 18 traditional casinos with 2,552 slot machines and 46 electronic casinos with a total of 3,352 slot machines.

In Panama, we operate one traditional casino in Panama City with 31 tables and 365 slot machines and 26 electronic casinos with a total of 7,325 slot machines.

In Mexico, we operate 20 bingo halls that also have a casino-style slot machine offer.

For the year ended December 31, 2013, we had net operating revenues and Adjusted EBITDA of €1,363.0 million and €338.1 million, respectively. During the year ended December 31, 2013, 56.6% of our net operating revenues and 34.8% of our Adjusted EBITDA were generated in Spain and Italy, and 43.4% of our net operating revenues and 65.2% of our Adjusted EBITDA were generated from our other international activities. Our headquarters are located in Terrassa, Spain.

Our Strengths

We believe a number of key factors give us a strong competitive advantage, including:

- ***Business and Geographic Market Diversification.*** We are a well diversified gaming company with five distinct and complementary business divisions within the industry and operations in seven countries outside of Spain. We believe that the diversity of our revenue stream helps improve the stability of our cash flow profile by reducing our dependence on any single geographic market, economy or business segments in the gaming industry. In addition, our diversified operations allow us to identify opportunities for growth in known markets by using our operating experience across the gaming industry in Spain, Italy and Latin America.
- ***Corporate Synergies.*** We are a leading integrated manufacturer, distributor and operator of slot machines in Spain. Our Slots Division provides us with information regarding evolving customer preferences and tendencies, which helps us to design and manufacture popular games in a timely manner. In the year ended December 31, 2013, we manufactured five of the top ten revenue-generating slot machine models in Spain. Our strong manufacturing capabilities, in turn, support demand for our slot machines and facilitates access to new successful games for our Slots Division. We believe that our integrated manufacturing, distribution and operating capabilities give us cost and service advantages not enjoyed by many of our competitors.

- **Barriers to Entry.** We believe that there are significant barriers to entry in our principal business divisions, including regulatory, financial and technological barriers, the need for operational expertise and the need for a proven track record in order to obtain the trust and confidence of regulators, customers, partners and suppliers. In certain jurisdictions in which our Casinos Division operates, casino licenses are generally awarded after a competitive public tender process. In our Slots Division, we typically enter into five-year exclusivity agreements to place our slot machines in a given location, and many of these agreements have been consistently renewed for the past twenty years. Additionally, in our Slots Division and B2B Division, we believe a new competitor would need significant financial resources, operating expertise and a qualified workforce to build profitable operations. We believe that barriers to entry in our principal business divisions help protect our leading market position and profitability by limiting the number of new competitors in our core business segments.
- **Leading Market Position and Economies of Scale in Spain.** We are a leader in Spanish slot machine operations and manufacturing, as well as bingo hall operations. We believe that this leadership position enables us to identify and manage trends in the private gaming industry in Spain. The Spanish slot machine operator and bingo segments are highly fragmented, and we are substantially larger than our competitors. We believe that our size allows us to benefit from economies of scale in many of our businesses. For example, in our slot machine operations, we can spread the cost of providing coin collection services and rapid response to repair calls (minimizing machine downtime) over our more than 25,000 slot machines, which helps us to realize a lower operational cost per machine and to have a more developed internal control system as compared to our competitors.
- **Demonstrated Financial Performance.** We have a strong financial profile, combining increasing EBITDA and a decrease of our overall level of leverage in recent years. Our Adjusted EBITDA amounted to €338.1 million for the year ended December 31, 2013. Over the same period, we have made significant efforts to reduce our net leverage ratio (Total net debt/Adjusted EBITDA), which currently amounts to 2.7x as of December 31, 2013, a decrease from 5.0x in 2005.
- **Seasoned Management Team.** We are led by an experienced and professional management team with a track record of managing complex operations, developing new products inside and outside the gaming industry and delivering upon its commitments. A portion of the compensation of our senior management team is based on achieving financial targets.

Our Strategy

Our strategic objective is to continue to consolidate our businesses and to achieve sustainable profitable growth through the following three strategic pillars:

- **Continue to improve EBITDA through revenue mix management and cost optimization.** We will focus on strengthening EBITDA through various revenue mix management and cost optimization initiatives in our core business segments and geographic markets. We will seek to ensure that our EBITDA maintains geographical and business segment diversification. We will seek to enhance our casino, slot and bingo operations through the selective expansion of existing halls and operations and increased slot machine density. We will seek to improve our products mix and realize investments that are accretive to EBITDA and meet other key criteria. In our B2B business, we will focus on increasing the sales of higher-margin products. In Italy, our priority will be the continued development of the VLT business and, in Spain, we will actively work to reduce our base cost expenses through the closure of underperforming sites and operations. Our focus on EBITDA improvement should enable us to continue to reduce our leverage ratio; we strive to maintain a target leverage ratio of between 2.5x to 3.0x.
- **Enhance productivity programs across businesses and geographies.** We will also build upon the productivity initiatives and synergies achieved in prior periods. We will continue

to implement best practices across our markets to improve productivity. In our slots business, this will entail further enhancing the profitability of our slot machine portfolio, including through opportunistic slot machine rotations and replacements. In our casinos division, we intend to implement player tracking and coinless systems throughout our casinos. In our bingo business, we will seek to close underperforming halls and increase market share through strategic acquisitions. We will also continue to divest or exit other non-performing businesses and assets.

- ***Make selective investments and acquisitions with focus and rigor.*** Our investment program in the short- to medium- term is subject to rigorous investment criteria, strategic planning and control of capital expenditures. We will continue to review and analyze investment opportunities in our core business segments with a view to executing investments on an opportunistic basis that enhance our cash flow and positively contribute to EBITDA. In our B2B business, we will continue to focus our research and development efforts on maintaining our leadership in the Spanish slots market. In particular, we intend to continue our successful track record of acquisitions, with a particular focus in the acquisition of slot operators in Spain and Latin America, based on our well-defined and disciplined approach. For example, in July 2013 we acquired a 51% interest in seven small Spanish slot route operating companies that operate approximately 4,500 slot machines. We plan to selectively seek attractive partnerships with, or acquisitions of, companies in our core markets, with the key strategic goal of expanding our current product offer, thereby enabling us to better serve and expand our existing customer base.

History of the Cirsa Group

Following the liberalization of the Spanish gaming industry in 1977, we were founded in 1978 by Manuel Lao Hernández, our controlling shareholder, his brother Juan Lao Hernández and other family members, who began importing, exporting and operating third party manufactured slot machines in bars, cafés, restaurants and arcades in the Catalonia region of Spain. Shortly thereafter, in 1979, we began to design and manufacture slot machines for the Spanish market and by the mid 1980s, we were established as a leading slot machine manufacturer in the Spanish market. In 1982, we changed our corporate name to Cirsa Compañía de Inversiones, S.A. and expanded our activities to all autonomous regions of Spain by acquiring independent operators which own, service and manage slot machines placed principally in bars and restaurants. In 1984, we manufactured our first casino-style slot machines. Following the success of our *Nevada* and *Mini Money* slot machine models, we increased the number of slot machines under operation significantly in the early 1990s through the acquisition of operating companies and by acquiring controlling interests in a number of slot machine distributors located throughout Spain. We also expanded into a number of related businesses, both domestically and internationally, including slot machines, casinos and bingo halls, as well as into a number of unrelated businesses (which we subsequently disposed of including real estate development and ownership and management of hotels). At the same time we continued to develop our core slot machine businesses.

In 1996, Manuel Lao Hernández together with his wife and children founded L&G (which was renamed as Nortia Business Corporation during 2007), which focuses mainly on its investments in other leisure and gaming companies and the real estate it owns, manages and leases. In July 1998, Nortia, which was and is currently controlled by Manuel Lao Hernández, bought substantially all of Juan Lao Hernández's interest in Cirsa. Subsequently, Nortia and Manuel Lao Hernández acquired the remaining shares of Juan Lao Hernández. During 1998 and 1999, Nortia and Manuel Lao Hernández transferred any operations in the gaming industry which were not already part of Cirsa, but in which Manuel Lao Hernández had a controlling interest, to Cirsa. Other gaming operations in which Manuel Lao Hernández did not have a controlling interest, and companies outside the gaming industry in which Manuel Lao Hernández had an interest, as well as certain real estate interests, were transferred to Nortia. Cirsa is presently wholly owned by Mr. Lao Hernández and Nortia.

Our Divisions

We have five business divisions: Slots, Casinos, Bingo, B2B and On-Line Gaming.

Slots Division

Our Slots Division owns and manages slot machines in bars, cafés, restaurants and arcades in Spain. We are also a network system operator for slot machines and VLT terminals in Italy. We are also party to a joint venture with Ladbrokes PLC for the operation and further development of a sports region-based betting business in Spain.

Spain

As of December 31, 2013, we directly, or indirectly through slot machine sub operators, controlled 25,046 slot machines located in approximately 16,656 sites, primarily in bars. We plan to continue to optimize our slot machine portfolio in Spain. As of December 31, 2013, we owned and operated 109 arcades, with an average of approximately 13 slot machines per arcade. We do not plan to open additional new arcades until we see signs of an economic recovery in Spain.

The following table sets forth certain historical data concerning slot machine operations in Spain and the average revenues per slot machine:

| | Year ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2010 | 2011 | 2012 |
| Slot machines | | | |
| Total number of slot machines in Spain ⁽¹⁾ | 239,992 | 228,434 | 213,908 |
| Number of slot machines operated | 22,388 | 22,310 | 25,301 |
| Average revenues/slot machine/year (in € thousands)⁽²⁾ | | | |
| Spanish market average ⁽¹⁾ | 13.7 | 13.2 | 12.9 |
| Our average | 17.3 | 15.6 | 15.2 |

(1) Based on information provided by the Spanish National Gaming Commission.

(2) Average revenues/slot machine/year are calculated net of prizes.

We believe our average revenues per slot machine per day are higher than the Spanish market average because of the quality of the sites and the frequency with which we change our games.

Relationship with Site Owners. We enter into contracts with site owners under which a site owner typically gives us the exclusive right to place one or more of our slot machines at the owner's establishment for a period of up to five years. We believe that our long-standing relationships, history of excellent service with site owners and higher than average revenues per slot machine are the basis for our high contract renewal rates. We install, maintain and service the slot machines, collect money and pay the required taxes. We also ensure that each slot machine complies with regional and national laws and regulations and, where required, post bank guarantees. We understand that slot machines are generally the most significant profit center of a site owner's business.

In addition to revenue sharing, we often make interest-free loans and cash payments to induce site owners to enter into or extend contracts. We collect payment on these loans over an 11-month period, on average, through an offset against the site owner's share of slot machine revenues. We record these loans as receivables on our balance sheet. For the year ended December 31, 2013, these loans and other incentives (such as contributions to bar decorations and equipment) amounted to approximately €8.3 million.

Participation Agreements with Former Slot Machine Operators. Our preferred method of expansion has been by purchasing existing slot machine operators. However, when there is a strong relationship between the slot machine operator and site owners, it is often preferable or necessary for us to acquire the slot machine operators and enter into a participation contract with the seller under which the seller continues to maintain a commercial relationship with site owners in exchange for a percentage of revenues. As of December 31, 2013, we had agreements (or sub-operator agreements) covering approximately 37% of the slot machines we operate in Spain. Revenue sharing to sub-

operators under these participation agreements totaled approximately €15.2 million for the year ended December 31, 2013.

Coin Collection and Information Systems. We carry out coin collection through approximately 295 company- employed collectors who utilize our fleet of vehicles. Each cash collector follows a pre-arranged route and is responsible for approximately 67 machines. To monitor and control our slot machines, we use a proprietary computerized information and collection control system. Our collectors connect a portable electronic device to the slot machine which downloads information about the model of the machine, amount wagered, prize payout, time the slot machine was in use and other information relating to the slot machine's usage. We make collections and retrieve data from each slot machine weekly. The collectors promptly forward all data to our head office for compilation and analysis.

We believe that our information and collection control system helps us maximize revenues through accurate and efficient collections. The system optimizes accuracy by matching 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.

The information and collection control system also generates more efficient slot machine performance and revenue data than the manual method used by many of our competitors. Our revenue and game-use data assists us in monitoring individual slot machines and in determining when to rotate a slot machine to a different site or to retire it, as well as in obtaining information on player tendencies. We aggregate individual data on player tendencies to assist us in developing new games and slot machines.

Purchasing Slot Machines. We select slot machines based on the games we believe to be superior and likely to become popular with customers. Our Slots Division purchases slot machines from our B2B Division and from other manufacturers. If we believe that another slot machine manufacturer is offering a better game, we will purchase from that manufacturer instead of from our B2B Division. In 2013 approximately 86% of our new slot machines for our Slots Division in Spain were manufactured by our B2B Division.

Joint Venture with Ladbrokes PLC. In January 2007, we entered into a joint venture agreement with Ladbrokes PLC, a British betting operator, to develop a sports region-based betting business in Spain. The joint venture, in which each party has a 50% interest, was awarded a sports betting license for the Madrid autonomous region in April 2008. The joint venture, which operates under the *Sportium* name, commenced initial operations in May 2008. As of December 31, 2013, *Sportium* offered sport betting products through outlets installed in 141 slot arcades, bingo halls and casinos in Madrid and 57 slot arcades and bingo halls in Aragon, 74 slot arcades, bingo halls and casinos in Valencia, 29 slot arcades and bingo halls in Murcia and 15 slot arcades and bingo halls in Galicia. We also have 13 *Sportium* dedicated sports betting locations in Madrid. We expect that the *Sportium* joint venture will expand its operations to other autonomous regions in Spain as the relevant gaming regulators authorize sports betting activities. On December 2, 2013, we sold Cirsa Digital, S.A., which operates our Spanish on-line gaming operations to Sportium. By expanding the Sportium joint venture to include on-line gaming, we expect to benefit from efficiencies in developing and marketing together with Ladbrokes our on-line gaming business in Spain under the *Sportium* brand.

Slots Concession in Italy

During 2004, we were awarded a concession to act as a network system operator for slot machines in Italy by the Italian authority for betting and gaming (*Amministrazione autonoma dei monopoli di Stato*) (the "AAMS"). Under the Italian regulatory regime, only interlinked slot machines have been permitted to operate in Italy since October 31, 2004. This requirement of interlinking allows regulatory authorities to monitor slot operators for regulatory and tax purposes.

In December 2011, we were awarded a new provisional concession to act as a network system operator for both slot machines and VLTs in Italy. In March 2013, the provisional concession once again became permanent following our demonstration of continuing compliance with the technical and

economic requirements to act as network system operator and our completion of all necessary ancillary requirements. The current concession expires in 2022.

As of December 31, 2013, we operated 10,867 slot machines owned by us and had another 3,706 slot machines interlinked to our network, which together represented approximately 4% of the total number of slot machines in Italy. The slot machines that we own are manufactured in Italy and are located in approximately 2,981 locations across central and northern Italy. These locations include bars, bingo halls, restaurants and service stations. We have revenue sharing agreements in place with the owners or operators of these locations. These revenue sharing agreements generally have an initial term of up to five years and are renewable annually thereafter. Pursuant to these revenue sharing agreements, we generally split revenues (net of prize payouts and taxes due to the AAMS) on a 50:50 basis with the owners or operators of the locations. Pursuant to interconnection agreements, we charge a fixed fee per third-party owned slot machine interlinked to our network. Third-party slot machine owners may renew these interconnection agreements on an annual basis.

For a description of the Italian regulatory environment, including the terms of our slots concession and certain regulatory proceedings, see “Regulation—Italy—Slot Machines.”

Video Lottery Terminals Concession in Italy

In November 2009, our Italian subsidiary, Cirsa Italia S.p.A. (“Cirsa Italia”), was authorized to act as a network system operator for VLTs in Italy for a testing period. The AAMS approved this testing, and in October 2010 we commenced operations of VLTs in Italy. In December 2011, we were awarded a new provisional concession to act as a network system operator for both slot machines and VLTs in Italy. In March 2013, the provisional concession once again became permanent following our demonstration of continuing compliance with the technical and economic requirements to act as network system operator and our completion of all necessary ancillary requirements. The current concession expires in 2022.

Venue requirements for the placement of VLTs and slot machines in Italy are regulated and may be installed in (i) bingo halls; (ii) sports betting agencies; (iii) horse race betting shops that employ totalizer and fixed-odds betting systems; (iv) gaming shops whose primary activity is marketing public gaming products and otherwise meeting certain specified requirements under Italian law; (v) public gaming rooms specifically designated for the conduct of lawful gaming, provided that a separate area for games is reserved for underage players; and (vi) premises dedicated exclusively to gaming with slot machines and /or VLTs, provided, however, that the relevant shop, hall or agency maintains the requisite gaming license in accordance with the Italian regulatory framework.

Our VLTs are placed in bingo halls and arcades located mainly in central and northern Italy and connected to our existing Italian slot machine network. Total costs for the VLT installation project through December 31, 2013 were approximately €49 million, of which our share was approximately €31 million. We operate approximately 25% of the VLTs directly through Cirsa Italia and 75% through Orlando Italia, a subsidiary of our 50:50 joint venture with Grupo Berruezo, Orlando Play S.A. Cirsa Italia owns the concession for all 2,583 VLTs and enters into the agreements with site owners. Cirsa Italia makes payments to Orlando Italia under a profit-sharing arrangement which will expire on the later of October 31, 2019 or the expiration of the concession, as renewed or extended. Cirsa Italia and Orlando Italia currently purchase and lease VLTs manufactured by Barcrest and Novomatic. As of December 31, 2013, we had installed 2,547 VLTs.

For a description of the Italian regulatory environment relating to VLTs, see “Regulation—Italy—Video Lottery Terminals.”

Casinos Division

We currently manage and operate two types of casinos: traditional casinos which operate table games and casino-style slot machines and electronic casinos which only operate slot and other gaming machines.

Traditional Casinos

As of December 31, 2013, we operated a total of 30 traditional casinos, four casinos in Spain and 26 casinos internationally. Our casinos offer table games and casino-style slot machines. Our casinos also generate revenues from restaurant and bar services, admission ticket sales and tips (which employees share with us pursuant to collective bargaining agreements). We believe that our casinos appeal to the mass market customer base, while also offering features that appeal to the high end segment of the market. We have undertaken a number of initiatives to improve the performance of our casinos, including providing a full entertainment offer, increasing productivity with ticket-in/ticket-out (TITO) and player tracking systems and expanding and refurbishing existing casinos in key markets. We have also designed various marketing campaigns, such as our Cirsa Poker Tour and Poker House concept, which are intended to exploit the growing poker market. The following is a description of our casinos, except as otherwise indicated, as of December 31, 2013:

Spanish Casinos

- ***Casino Nueva Andalucía***, which was acquired in 1995, is located in Marbella, Spain, a prime tourist location. The casino hosts 10 gaming tables and 87 slot machines. We believe this casino is the third largest of 43 casinos in Spain, based on total revenues during 2013. The operating license for this casino has a term of 15 years and will be eligible for renewal in 2019.
- ***Casino de Valencia***, which we opened in August 2010, is located in the city center of Valencia. We believe this casino is the fourth largest of 43 casinos in Spain, based on total revenues during 2013. The casino required a total investment of approximately €14 million and hosts 13 gaming tables, 97 slot machines and a 200 position poker room. The operating license for this casino and its branch (Casino Puçol) will be eligible for renewal in November 2019.
- ***Casino Puçol***, which has been designated as a branch of Casino de Valencia in August 2010 (and was formerly known as ***Casino Monte Picayo***), is located twenty kilometers north of Valencia, Spain. The casino hosts 4 gaming tables and 17 slot machines.
- ***Casino La Toja***, which we have operated since 1995, is located in La Toja, Spain, a historic spa resort area. Casino La Toja is a seasonal casino, attended mostly by tourists from Portugal and hosts 10 gaming tables and 26 slot machines. The operating license for this casino is perpetual. In December 2009, we sold a 50% interest in Casino La Toja.

International Casinos

- Our riverboat casino in Buenos Aires, ***Casino Estrella de la Fortuna***, has been in operation since 1999. The riverboat is permanently harbored in the Puerto Madero area of Buenos Aires, a prime leisure area. The State Lottery of Argentina granted our license to operate the casino and is entitled to 20% of the gross revenues of the casino which it shares with the city of Buenos Aires pursuant to the settlement agreement among them. The license had an initial 15-year term and a five-year extension has been granted to operate through 2019. After the initial license was granted, we received authorization to expand the license, allowing us to operate an additional riverboat casino next to the existing riverboat. During January 2006, our second riverboat casino, the ***Princess Casino*** commenced operations. In September 2008, we were granted an authorization to operate the Princess Casino as our second riverboat casino, through 2019. Our riverboat casinos have a combined total of 130 gaming tables and 1,725 slot machines. During 2009, we completed an extensive refurbishment of the riverboat casinos. In 2010, we completed the construction of new access facilities for the casinos. As a result of adding the access facilities, we have maximized the space in the riverboats dedicated to gaming machines and tables, and the entertainment and restaurant facilities are located in the access facilities. During 2007, we entered into a UTE contractual agreement with Casino Club and HAPSA with respect to our riverboat casinos. See “—Strategic Arrangements in Argentina.” Our Buenos Aires casino business has been the subject of litigation from time to time. See “Risk Factors—Risks Related to the Gaming Industry and Our Business—

Our business in Argentina generates a significant amount of our revenues and EBITDA, and any adverse developments with respect to it could negatively impact our financial condition and results of operations.”

- We have a 50% interest in *Casino de Rosario S.A.*, a company that holds the concession for and operates a casino in Rosario, an industrial port located approximately 300 kilometers from Buenos Aires with a population of over 1.5 million. The casino commenced operations in October 2009 and has 80 gaming tables and 2,976 slot machines.
- In July 2007, we acquired a 75% interest in the Winner Group. In May 2010, we merged Winner Group with Unidelca, a large gaming company in Colombia, and we now hold 50.1% of the resulting combined business. The Unidelca acquisition significantly expanded our Colombian business, and we now own and operate 18 traditional casinos in Colombia with a total of 2,552 slot machines. Our largest traditional casinos in that market are the *Casino Rio* Bogota (135 slot machines), the *Casino Hollywood* Bogota (167 slot machines), the *Casino Rock 'N Jazz* Bogota (124 slot machines), the *Casino Caribe Centro* Bogota (229 slot machines), the *Casino Rio* Medellin (217 slot machines), the *Casino Caribe La Playa* Medellin (325 slot machines) and the *Casino Caribe Unicentro* Bogota (120 slot machines).
- We currently have a 50% interest in the *Majestic Casino*, located in a prime commercial area in Panama City, Panama. The casino opened in December 2003. Our operating license expires in 2023.
- We manage *Casino La Hispaniola* in Santo Domingo, the capital of the Dominican Republic. It is located in the Hispaniola Hotel & Casino, which owns the premises and holds the operating license, and attracts customers with its various nightlife activities. Under our operating agreement with the hotel, we retain all revenues from the casino operations and pay the hotel monthly rent. In addition, the operating contract, which expires in February 2026, requires us to make certain improvements to the casino at our expense, and to pay the hotel for certain administrative services it provides.
- We manage *Casino Lina* in Santo Domingo, Dominican Republic. The casino is located in the Barceló Gran Hotel Lina Spa & Casino, which owns the premises and holds the operating license, and attracts customers with its modern decor and layout. Under our operating agreement with the hotel, we retain all revenues from casino operations and pay the hotel monthly rent. In addition, the operating contract, which expires in 2015, requires us to make certain improvements to the casino, at our expense, and to pay the hotel for certain administrative services it provides. The operating contract will automatically renew for an additional term unless either party provides notice of termination.
- We manage *Gran Casino Almirante* in Santiago de los Caballeros, the second largest city in the Dominican Republic. The casino is located in the Gran Almirante Hotel & Casino, which owns the premises and owns the operating license. Under our operating agreement with the hotel, we retain all revenues from casino operations and pay the hotel monthly rent. In addition, the operating contract, which expires in 2020, also requires us to make certain improvements to the casino at our expense, and to pay the hotel for certain administrative services it provides.
- We operate the *Majestic Lima* casino located at the JW Marriot Hotel in Lima, Peru. We acquired the casino for \$11.5 million in April 2005. The casino, which recommenced operations on November 22, 2005 following an extensive expansion and refurbishment, has 26 gaming tables and 227 slot machines. We expect to renew the license for the casino in January 2014. We also operate *Casino Miami* in Peru with a total of 200 casino-style slot machines and 19 tables.

Electronic Casinos

We operate 81 electronic casinos internationally as of December 31, 2013. Electronic casinos, which are casinos that offer enhanced types of casino-style slot machines and other electronic games such as blackjack or roulette through multi position electronic gaming machines, are very popular in Latin America. The following is a description of our electronic casinos, except as otherwise indicated, as of December 31, 2013:

Argentina. In the Province of Mendoza, we have licenses to operate 569 casino-style slot machines in the Casino Central Mendoza, and a maximum of 1,085 casino-style slot machines in 4 electronic casinos. Casino Central and four electronic casinos currently operate in Mendoza with an aggregate of 1,654 casino-style slot machines. In December 2008, Casino Buenos Aires assigned the concession agreement for renting slot machines at Casino Central Mendoza to Mendoza Central Entretenimientos. In November 2013, Cirsá entered into an agreement for the sale of its 51.0% ownership interest in Mendoza Central Entretenimientos provided it receives full payment under the agreement by May 31, 2014. The operating licenses for the other four electronic casinos in the Province of Mendoza expire in 2020. In August 2010, the shareholders of Casino Buenos Aires approved the assignment of the concession agreement related to these four electronic casinos to Trailon S.A., a joint venture owned by Casino Buenos Aires and Ciesa. This assignment was approved in February 2011 by the *Instituto Provincial de Juegos y Casinos* (Provincial Gaming Authority). In October 2013, Ciesa sold to Casino Buenos Aires 5% of its shares in Trailon S.A., and therefore Casino Buenos Aires owns 55% and Ciesa 45% of the shares.

In November 2011, we completed the acquisition of a 33.3% ownership interest in Bingo Los Polvorines, a bingo hall located in the metropolitan area of Buenos Aires, for a total consideration of €5.9 million. The business hosts bingo games and 592 slot machines. As part of our partnering arrangements with Casino Club, we are currently exploring investment opportunities with respect to two bingo halls that may be operated in the Province of Buenos Aires.

Colombia. We own and operate 47 electronic casinos in Colombia with a total of 3,352 slot machines. The electronic casinos are located in Bogotá, Medellín, Cali, Costa Norte, Barranquilla, Eje Cafetero and Cartagena. We have completed the process of integrating the Unidelca operations into our existing operations in Colombia. This process included the integration of Unidelca's and Winner Group's offices, the migration of Unidelca onto Winner Group's IT systems, the alignment of business processes in order to increase productivity and a reduction of overall headcount.

Panama. We operate 26 electronic casinos and 7,325 slot machines in Panama.

Peru. We operate two electronic casinos in Peru. The Joker Miraflores, which has an aggregate of 155 casino-style slot machines and which is located at the Double Tree (Hilton) Hotel in Lima, was opened in October 2005. The Premie Casino, which has 120 casino-style slot machines was reopened on December 2006. Operating licenses for these two electronic casinos must be renewed on an annual basis.

Bingo Division

Spain. We are the leader of the bingo market in Spain, with, as of December 31, 2013, a total of 48 bingo halls, of which 35 are operated and majority owned by us. The remaining 13 bingo halls, in which we hold less than a majority interest, are operated by local partners.

Our bingo halls generate revenues from the sale of bingo cards, operations of slot machines installed in its halls and from food and beverage sales.

Revenues from traditional bingo games in Spain have been declining in recent years. We believe that this is due to a variety of factors. In Spain, we have been introducing machines, such as electronic bingo games, slot machines, and electronic roulette games, into some of our bingo halls. We believe that the introduction of these machines in our bingo halls will partly compensate for the decline of traditional bingo revenues.

During the year ended December 31, 2013, our bingo halls in Spain received approximately 5.4 million visitors with an average wagered amount of approximately €66 per visit. In connection with efforts to reduce our cost base and enhance our portfolio, we closed underperforming halls in 2011, three underperforming halls in 2012, one underperforming hall in 2013 and two in January 2014. We may close additional underperforming bingo halls in Spain in the future.

Our bingo halls are strategically located in most of Spain's main cities in nine of the 17 autonomous regions:

- 14 in Andalusia;
- 12 in Catalonia;
- 8 in Madrid;
- five in the Canary Islands;
- two in Castilla la Mancha;
- two in Aragon;
- two in the Basque Country;
- two in Valencia; and
- one in Cantabria.

Mexico. During October 2005, we entered into an agreement with a Mexican company, Promociones e Inversiones de Guerrero S.A. (Pringsa), which holds a license to operate a total of 58 bingo halls in Mexico. In April 2010, we consummated an agreement with our Mexican partners under which we increased our ownership interest in Pringsa from 51% to 100% and the rights to utilize the license for 29 of the 58 bingo halls were transferred to our partners in a cash free spin off. As a result, Cirsa now owns 100% of Pringsa. Pringsa holds the license and the right to operate 29 bingo halls, including the 20 bingo halls operating in Mexico as of December 31, 2013.

In 2011, 2012 and 2013, we made significant investments in our bingo halls in Mexico in order to remodel and expand our facilities and implement the new "Casino Life" concept. The "Casino Life" concept offers our bingo hall customers a wide range of entertainment including cafes, bars, live music, sports betting and electronic bingo machines. During this period, we have enhanced our offering in bingo halls by installing top of the line casino-style slot machines made by Bally, International Game Technology, WMS Gaming Inc. and Aristocrat.

Italy. Our Bingo Division holds minority interests in companies that own and operate 12 bingo hall businesses in Italy.

B2B

Our B2B Division designs, manufactures and distributes slot machines and gaming kits for the Spanish and international markets, and also engages in the development of interactive gaming systems, concentrating on ready-to-market products such as interconnected slot machines, linked bingo products and electronic and on-line lotteries.

We sell slot machines directly from our manufacturing plant or through distributors, some of which we control or have investments in, to independent customers (mainly slot machine operators and other gaming establishments), as well as directly to our other divisions, principally the Slots Division.

Slot Machines. We manufacture a wide variety of slot machines. Our slot machines commonly feature reel and video format options, standard and "mini" sizes, full operator flexibility to adjust the limits regarding bets, maximum prize payout, aggregate prize payout as a percentage of

amount wagered and other features in accordance with local regulations and operator preferences. In addition, our slot machines feature information and collection control systems and an optional bill validation device. In order to attract customers and compete with slot machines introduced by competitors, we introduce new games and themes that require our slot machines to be changed sooner than their mechanical life would require. The cost of a new slot machine is relatively small as compared to the increase in revenues attributable to a new successful game and is, on average, recovered by slot machine operators within a few months. The average selling price of one of our slot machines is approximately €1,763. From time to time, we provide volume discounts to purchasers.

We offer gaming kits to convert slot machine cabinets from an old game to a new game. The cost of a kit is lower than the cost of a new slot machine, therefore, purchasing gaming kits allows our customers to increase their revenues without having to invest in a new slot machine. The mix and relative profitability of slot machine cabinets and gaming kits can vary over time due to a variety of reasons, including general market conditions, the availability and popularity of new slot machine games, differences in demand for a game among regional markets and the pricing strategy of particular slot machine producers and distributors.

Product Sales. The following table sets forth total sales of our slot machines for the periods indicated:

| | Number of units sold | | |
|--------------------------|--------------------------------|---------------|---------------|
| | Year ended December 31, | | |
| | 2011 | 2012 | 2013 |
| Total slot machines..... | <u>30,536</u> | <u>32,215</u> | <u>32,398</u> |

In the year ending December 31, 2013, we sold a total of 35,166 slot machines cabinets, gaming kits and other gaming machines, predominantly in Spain.

Production. We assemble all our slot machines in Spain.

We design most of our main core components, and outsource their manufacturing. Our assembly processes consist of component sub-assembly, final product assembly, customization and final testing. We also apply just-in-time management principles to match inventory levels to production needs.

We depend on many suppliers for the components used to assemble our slot machines. We have not encountered any significant production problems with any of these suppliers. We believe that the relevant components could be obtained from alternative suppliers, although at a higher potential cost and with a lower probability of timely delivery.

We ensure product quality through periodic internal inspections and use prototypes and pre-series batches to certify both individual components and manufacturing processes before mass production. In addition, we provide a limited three-month warranty on slot machines sold in Spain and will replace defective products during that time period.

Distribution of Products in Spain. We distribute slot machines and gaming kits in Spain through four channels of distribution: the Slots Division, independent slot machine operators, controlled distributors, and independent distributors. Large slot machine operators purchase slot machines and gaming kits directly from our sales offices. Most other slot machine operators buy from distributors who offer a wide selection of products (both manufactured by us and by third parties) at their sales showrooms and provide technical assistance. In order to obtain a direct relationship with these slot machine operators and increase our knowledge of their needs, we have acquired a 50% interest in several distribution companies which cover the most significant regions of Spain.

The following table shows our percentage sales of slot machines and gaming kits in Spain for each of our channels of distribution for the periods indicated:

| Distribution channels | Year ended December 31, | | |
|---|--------------------------------|---------------|---------------|
| | 2011 | 2012 | 2013 |
| | | (%) | |
| Slots Division | 34.7 | 36.1 | 31.3 |
| Independent slot machine operators | 8.8 | 8.2 | 6.2 |
| Owned slot machine distributors | 38.0 | 34.9 | 34.5 |
| Independent slot machine distributors | 18.5 | 20.8 | 28.0 |
| Total | 100.0% | 100.0% | 100.0% |

Research and Development. We design all aspects of slot machines, from the rules and graphics of the game to computer software and hardware. We believe that the design of slot machines is critical in attracting players. In order to maintain player interest, games must be attractive, visually stimulating, interesting and varied. Consequently, we regularly test consumer views of the games' aesthetics, features and quality, as we seek to provide a regular supply of new and popular games to the market.

As of December 31, 2013, we have a team of over 79 employees in our research and development group, including software programmers and designers who are responsible for designing software that is used in our new slot machine models. Our most popular slot machine models incorporate software designed by our research and development group.

Our interactive business is focused on network systems, linked bingo products, on-line lotteries and electronic instant lotteries. We are also working to develop video lottery management systems.

Networks. We support the Italian slots business by providing a platform that enables the interconnection of thousands of slot machines. This network systems technology will also be used in the network for our Italian VLT business.

Bingo Link. We have developed a system that allows the networking of multiple bingo halls. The system allows real-time linking of multiple bingo halls, thereby offering our customers the potential for larger prizes and jackpots. Additionally, the system is capable of delivering new bingo games and printing bingo cards in-house. Our bingo link system is operational in Andalusia, Madrid, the Canaries and Catalonia. As of December 31, 2013, more than 129 bingo halls are permanently linked under central systems for each region, 32 of which are operated and majority owned by us and 12 of which, in which we hold a minority interest, are operated by local partners.

On-Line Gaming

Our On-Line Gaming Division commenced operations in Spain and Italy during the third quarter of 2012 after obtaining the necessary permissions and licenses. Our offer includes sports betting, roulette, blackjack, "punto y banca", poker and bingo. We expect that it will take approximately three years to reach EBITDA break even. Our on-line gaming plans do not contemplate any material investments because our operating platform is based on technology partnerships with global suppliers.

Competition

Slots Division

Due to the fragmentation of the slot machine segment in Spain, we compete with a large number of regional and, generally, much smaller slot machine operators. There are, however, several significant competitors, including Codere and Orenes, which we believe are substantially smaller than

us. In Italy, we compete with a number of other authorized slot and VLT operators, some of which are substantially larger than us and have access to significant financial resources. The principal factors of competition in this segment are the ability to maintain good on-going relationships with site owners, provide excellent service to the site owner and place popular slot machines and VLTs at the most attractive sites. In order to obtain the most profitable sites, we may selectively acquire slot machine operators when available. To retain the profitable sites, we must offer attractive renewal agreements to our current site owners. As the market for slot machines is consolidating, we may compete with these larger competitors to acquire new or existing slot machine sites.

Casinos Division

Although casino owners have had limited direct competition from other casinos, we may face competition from other forms of gaming, for instance bingo hall operators. In Spain and Latin America, the number of casino licenses issued may increase in certain jurisdictions in which we operate and, as a result, there may be an increase in direct competition between casinos. The principal competitive factors in the industry include the quality and location of the facility, the nature and quality of the amenities offered and the implementation of successful marketing programs.

Bingo Division

Although the bingo hall market in Spain is dominated by a few large companies, we compete with a large number of regional bingo hall operators. Our principal competitors, each of which is substantially smaller than us, are Grupo Alfredo García, Grupo Ballesteros, Grupo Rank and Grupo Orenes Franco. In addition, we estimate that independent owners operate several hundred bingo halls throughout the country. In Mexico, we operated approximately 6% of the total licensed bingo halls in 2012 and we compete with other licensed bingo hall operators and unlicensed operators. Operators of bingo halls also face competition from other forms of gaming. We believe that our size allows us to compete effectively in the bingo hall market and that the economic downturn and the increase in availability of advanced technologies will bring further consolidation in bingo hall operations.

B2B Division

In the manufacturing of slot machines for Spain, there is a high level of competition between a small number of manufacturers who dominate the Spanish market. The Spanish slot machine market is a separate market from the international slot machine market due to consumer preferences and Spanish regulations which impose, amongst others, specific design requirements on slot machines that are not placed in casinos. In slot machine manufacturing, our main competitors in Spain are Recreativos Franco and SENTE. The quality, appeal and originality of games are the key factors in determining the success of our B2B Division.

Manufacturers of slot machines can be expected to continue to improve the design and performance of their slot machines and to introduce new popular games with greater revenue producing potential and more competitive prices. From time to time, one or more of our new games may prove unsuccessful, which may cause our market share to erode and our profitability to decrease. We have been successful in introducing popular new games in the past and, because of our continuing commitment to research and development, are confident that we can produce popular new games in the future.

Technological Change

Constant innovation is particularly important in the manufacture of slot machines, because they have a short commercial life. For instance, we believe that the average commercial life of an installed slot machine is approximately four to five years in Spain. In addition, existing technology (such as internet gaming), as well as proposed or as yet undeveloped technologies may become more popular in the future and render our games less profitable or even obsolete. We believe that we have developed technological and other advantages such as the proprietary technology contained in some of our most popular games, as well as the new generation of slot machines in video formats which allow a wide variety in choice of games, including poker, blackjack, keno and bingo. However, we cannot assure you that these technological and other changes would allow us to continue to innovate and compete effectively.

Strategic Arrangements in Argentina

During May 2007, we and Casino Club S.A. obtained regulatory approval for our strategic arrangements with respect to the operation and future development of our casino operations in the key areas of Buenos Aires, Argentina's capital and largest city. We and Casino Club also continue to work together with respect to the development and operation of any future gaming operations that we might undertake in Argentina.

Cirsa, through our subsidiary Casino Buenos Aires, and Casino Club and HAPSA (owner of the Palermo racetrack), through their subsidiary Ciesa, entered into a joint venture agreement known in Argentina as a UTE with respect to the operation and future development of the casino business in the city of Buenos Aires. With effect from June 1, 2007, our two existing riverboat casinos in Puerto Madero have been operated under the UTE contractual arrangement. The UTE arrangement is overseen by a five-person management board, of which we appoint three members, with key decisions regarding the UTE arrangement requiring a supermajority approval. We and Ciesa each have a 50% economic interest under the UTE arrangement, although we entered into an amendment with effect from January 1, 2012 for a four-year term pursuant to which we receive 45% of the dividends paid under the UTE in consideration of Ciesa's agreement to supply assumed costs relating to the management of assets being operated under the UTE. The amendment is effective between Ciesa and us, however, is not effective vis-a-vis third parties as it has not been registered with the Public Registry of Commerce. We have retained the ownership of all of our existing properties, including the licenses, and all other assets being operated under the UTE arrangement. As part of the arrangements, we committed to invest up to \$120 million. Approximately \$20 million was invested to refurbish the main riverboat casino, including the installation of new slot machines, new gaming machine equipment, latest generation operating systems (accounting, player tracking and ticket-in/ticket-out (TITO)), site decoration and the enhancement of food and beverage facilities. This project was completed in June 2008. The refurbishment of our second casino was completed in 2009. The refurbishment of the second casino and the construction of new access facilities that connect the two vessels and a new reception facility were completed in 2010. As a result of the completion of this project, the investment commitment of Ciesa was satisfied.

We acquired a 50% interest in Casino de Rosario S.A., which owns a concession in Rosario, from Casino Club during 2007. At the time of acquisition, Casino Club was developing the Rosario casino after winning an exclusive 30-year concession to operate a casino in Rosario. We acquired our stake for consideration of \$20 million, half of the \$40 million of funds invested by Casino Club in developing Rosario to that time. The casino commenced operations in October 2009 and the total cost of the casino through the date of opening was approximately \$260 million. In June 2013, Casino de Rosario S.A. registered the transfer of its shares owned by Casino Club S.A. to its affiliate Inverclub.

In November 2011, we completed the acquisition of a 33.3% share in Bingo Los Polvorines, a bingo hall located in the metropolitan area of Buenos Aires for a total consideration of €5.9 million. Casino Club acquired an equal stake of the bingo hall, which is operated by our combined casino management team. We consolidate 33.3% of the financial results of this hall into our Casino Division results.

In November 2013, Casino Buenos Aires and Magic Star (an affiliate of Casino Club) entered into a UTE with respect to the operation of two bingo halls in the Province of Buenos Aires (the "Magic Star UTE"). Under the Magic Star UTE arrangement, Magic Star will have a 66.67% economic interest and Casino Buenos Aires will have a 33.33% economic interest. Magic Star will contribute the concession permits and certain other assets directly related to the day-to-day operations of the bingo halls. Casino Buenos Aires has agreed to make certain investments, including the acquisition of slot machines, of up to approximately US\$30 million over the duration of the arrangement. Magic Star and Casino Buenos Aires agreed to share any additional costs according to their respective economic interests. We expect that our initial investment under the Magic Star UTE during 2014 would be approximately US\$10.0 million, which would be funded through the resources of our Argentina operations.

Property, Plant and Equipment

Our principal executive offices are located at Carretera de Castellar, 298, Terrassa Barcelona), Spain, and are owned by Nortia. See “Certain Relationships and Related Party Transactions.” The table below sets forth our principal properties as of December 31, 2013.

| Location | Approximate Size (m²) | Purpose |
|--|---|----------------------------------|
| Terrassa, Spain ⁽¹⁾ | 5,341 | Corporate Headquarters |
| Terrassa, Spain ⁽¹⁾ | 3,009 | Unidesa R&D Center |
| Terrassa, Spain ⁽¹⁾ | 600 | Bingo Equipment Manufacturing |
| Terrassa, Spain ⁽¹⁾ | 7,331 | Unidesa Factory |
| Valencia, Spain | 5,672 | Casino (Valencia) |
| Marbella, Spain | 5,427 | Casino (Marbella) |
| Buenos Aires, Argentina | 6,623 | Riverboat Casinos |
| Buenos Aires, Argentina ⁽²⁾ | 54,000 | Administrative Support Buildings |
| Rosario, Argentina | 130,000 | Hotel & Casino |

(1) Indicates a property that is leased. See “Certain Relationships and Related Party Transactions.”

(2) Includes a 1,770 m² administrative building and a 44,547m² visitor parking area.

Employees

The number of employees employed by us at the end of 2011, 2012 and 2013 were 15,545, 15,344 and 15,399, respectively. Most of our employees have a permanent employment contract. The following tables set forth, as of December 31, 2013, a breakdown of our employees by the main category of activity and geographic area:

| Category of activity | Number |
|-----------------------------|---------------|
| Slots | 1,619 |
| Casinos | 10,336 |
| Bingo ⁽¹⁾ | 2,722 |
| B2B | 336 |
| On-Line Gaming | 46 |
| Corporate | 340 |
| Total | 15,399 |

(1) Includes employees of bingo halls in which we own less than a majority interest.

| Geographic area | Number |
|------------------------|---------------|
| Spain | 3,795 |
| Italy ⁽¹⁾ | 623 |
| Argentina | 4,893 |
| Colombia | 2,426 |
| Panama | 1,478 |
| Dominican Republic | 617 |
| Mexico | 1,159 |
| Other | 408 |
| Total | 15,399 |

(1) Includes employees of bingo halls in Italy in which we own less than a majority interest.

We are subject to different national and regional industry-wide collective bargaining agreements in each of the respective sectors in which we operate, except for our casinos in Marbella, Valencia, Puçol, La Toja and Buenos Aires, whose employees are party to collective bargaining agreements directly with us. In addition, we are a party to a collective bargaining agreement with the employees of Universal de Desarrollos Electronicos, S.A., a slot machine manufacturing subsidiary, concerning hours of employment. Under the relevant national and regional collective bargaining agreements, salary scales are established for each position in each industry. These salary scales are usually revised annually and typically provide for increases in the salary scales in accordance with

increases in the consumer price index in Spain or a slightly larger increase (usually 1% to 2%). We have a policy of meeting or exceeding the established salary scales for our employees.

Over the past few years, temporary collective layoff measures have been implemented at three of our casinos operated by entities acting as Guarantors under the notes. In 2010 and in 2011, Casino Cirsa Valencia received local government approval and implemented temporary labor reductions at two casinos it operates, Casino Puzol and Casino Cirsa Valencia, respectively. These temporary reductions will remain in effect until December 31, 2016 and December 31, 2015, respectively. Furthermore, Casino Nueva Andalucia implemented a temporary collective layoff measure in March 2013, which will remain in effect until February 28, 2015 for hospitality employees and February 28, 2017 for gaming employees.

We believe our relationships with employees and unions to be satisfactory.

Licenses and Trademarks

We have registered our corporate logo and have registered, or are in the process of registering, each of our relevant brand names, marks and logos which distinguish our products for trademark protection in Spain and other jurisdictions, including the European Union and the United States.

Environmental and Other Government Regulations

Our manufacturing facilities are subject to environmental, health and safety and other laws and regulations, including laws and regulations governing disposal of solid and a variety of hazardous waste and water discharges from our silk screen printing operations. We are required to obtain environmental licenses for our production facilities and are also subject to periodic inspections by regulatory authorities. We have not incurred any significant environmental liabilities during our history.

Our products, activities and premises are subject to regulatory approvals in the countries in which we act as an operator of slot machines, casinos or bingo halls or the countries in which we sell our slot machines. See "Regulation."

Litigation

Legal Proceedings and Claims relating to Buenos Aires Casinos

Our casino operations in Buenos Aires, Argentina have been directly and indirectly subject to a variety of legal proceedings and other claims over the past fifteen years. These proceedings and claims have included several proceedings regarding the validity of the license, criminal proceedings against a number of our directors and employees in Argentina relating to the importation of the riverboat casino into Argentina and potential tax claims by municipal tax authorities.

Litigation in connection with the casino license

The operation of our casino in Buenos Aires has been subject to local government challenge and related litigation. There have been six principal proceedings. The proceedings have taken place in the Federal courts of Argentina and the City courts of the City of Buenos Aires.

Proceedings relating to the power to license and regulate riverboat and adjacent land

The first proceeding principally involves the City of Buenos Aires and the State Lottery of Argentina. In 1999, shortly after the State Lottery of Argentina granted the license to operate our casino in Buenos Aires, the City of Buenos Aires challenged the State Lottery of Argentina's authority to grant us our license and ordered us to stop any gaming activities in our casino. Immediately thereafter, the State Lottery of Argentina commenced legal proceedings before an Argentine Federal court against the City of Buenos Aires seeking an injunction to prevent any interference with its jurisdictional authority by the City of Buenos Aires.

Simultaneously, the captain of the riverboat casino (an employee of Casino Buenos Aires) commenced a second legal proceeding before an Argentine Federal court against the City of Buenos Aires, the Federal government and the Federal Port Authority seeking a court ruling to determine the jurisdiction and regulatory authority over the gaming activity on the riverboat. Casino Buenos Aires joined this proceeding at a later stage and requested a temporary restraining order to suspend any legal action aimed at interfering with the riverboat casino's gaming activities. The temporary restraining order was granted by the lower Federal court and confirmed by the Federal Court of Appeals in 1999.

Casino Buenos Aires initiated a third proceeding by filing a claim against the City of Buenos Aires requesting an injunction to prevent the City of Buenos Aires from exercising jurisdiction over the land next to our riverboat. The Federal court granted a temporary restraining order against the City of Buenos Aires. The temporary restraining order was appealed by the City of Buenos Aires before the Federal Court of Appeals.

Proceedings relating to the settlement agreement

On October 30, 2003, the City of Buenos Aires and the State Lottery of Argentina entered into a settlement agreement relating to the first legal proceeding, in which the parties agreed (i) that the State Lottery of Argentina has the regulatory authority over our casino in Buenos Aires, (ii) a method for the distribution of gaming royalties and related fees between them, and (iii) the termination of all pending litigation between them, in each case without acknowledgement by either party of any underlying rights. The settlement agreement has a four year renewable term, and either the State Lottery of Argentina or the City of Buenos Aires may terminate the settlement agreement by giving notice within 120 days prior to the expiration of any four year period.

Following this settlement agreement in the first legal proceeding a fourth proceeding was initiated by the City of Buenos Aires Ombudsman. This proceeding was discontinued by the City of Buenos Aires Ombudsman, but was subsequently renewed by a private individual. In March 2005, in response to the complaint brought by such individual against the City of Buenos Aires, a City court of the City of Buenos Aires (which is a municipal court, and not a Federal court) ruled that the settlement agreement was void and the law ratifying the settlement was contrary to the constitution of the City of Buenos Aires, and ordered that our casino in Buenos Aires be closed. The City of Buenos Aires appealed the decision of the City court of the City of Buenos Aires. Upon becoming aware of this decision (we are not party to the proceeding in the City court and did not have access to the court file), we requested that the Argentine Federal court extend the existing injunctions against the City court of the City of Buenos Aires order. On March 23, 2005, the Federal court issued orders to the Argentine Coast Guard, National Gendarmerie, the Federal Police and the City of Buenos Aires ordering them to observe the rulings issued in the Federal court case and to abstain from taking any action that may hinder or affect activities carried out on the casino under the license granted by the State Lottery of Argentina. The Federal court also ordered measures to preserve its jurisdiction and the injunctions that it has ordered.

As a result of the aforementioned ruling by the City court of the City of Buenos Aires declaring the settlement agreement void, Casino Buenos Aires initiated a fifth proceeding, which was a declarative lawsuit before an Argentine Federal court against the City of Buenos Aires to obtain a ruling on the constitutionality and validity of the settlement agreement. Casino Buenos Aires also requested an injunction to prevent the City of Buenos Aires from exercising jurisdiction over the second riverboat. The injunction was granted by the Federal court in favor of Casino Buenos Aires, but the City of Buenos Aires appealed. On February 10, 2006 the Federal Court of Appeals confirmed the injunction in favor of Casino Buenos Aires. The City of Buenos Aires appealed the injunction, but the Federal Supreme Court rejected the appeal on August 30, 2006. The court file was sent back to the Argentine Federal court where Casino Buenos Aires initiated the declarative lawsuit, in order for such proceedings to be continued. On April 19, 2011, the Argentine Federal court affirmed the validity and legal effect of the settlement agreement. The court also affirmed the right of Casino Buenos Aires to operate gaming activities on a boat as authorized by the State Lottery of Argentina. The Federal court decision is a final decision as it was not appealed.

With respect to the fourth proceeding, on October 6, 2006, the Supreme Court of the City of Buenos Aires (the highest court of the City of Buenos Aires) reversed the City court's prior ruling, on procedural grounds. According to the Supreme Court of the City of Buenos Aires, the State Lottery of

Argentina should have been a party (as a defendant or as a third party defendant) since the beginning of the proceedings, and the State Lottery of Argentina did not have knowledge of such proceedings until it was served with notice of the City court decision. Moreover, the Supreme Court of the City of Buenos Aires stated that had the State Lottery of Argentina been a defendant, the case would have fallen under the scope of federal jurisdiction (and not under the jurisdiction of the City court). In the event that a new case is to be filed against the State Lottery of Argentina, the case should be filed in a Federal court.

However, the Supreme Court of the City of Buenos Aires also stated that subject matter jurisdiction over gaming activities (especially casinos) is local and that all casinos are subject to the control of the Provinces, except the casino in the city of Buenos Aires (due to its settlement agreement with the State Lottery of Argentina). The Supreme Court also stated that it is generally not possible to limit the police powers of the government of the City of Buenos Aires with respect to gaming activities and income levying, despite the fact that the casino is harbored in the port of the city. Furthermore, the Supreme Court of the City of Buenos Aires pointed out that lower Federal courts cannot interfere with the jurisdiction of local courts and that, although there can be disputes between federal and local courts as to which court has jurisdiction over the case, under Argentine law, a lower Federal court cannot mandate a local court.

Developments in the proceedings relating to the riverboat and adjacent land

In connection with the second legal proceeding the City of Buenos Aires requested a clarification as to whether the Federal court ruling also prohibited the City of Buenos Aires from imposing taxes on the riverboat casino. The Federal court rejected this request, and the City of Buenos Aires appealed the decision. While this issue was on appeal, the State Lottery of Argentina entered into the settlement agreement, and argued that the appeal had become moot on account of the settlement agreement. The Federal Court of Appeals requested that the City of Buenos Aires advise the Court if they were ending their appeal in light of the settlement agreement. The City of Buenos Aires answered that it was continuing the appeal, and asked that the Federal Court of Appeals rule on the appeal. The Federal Court of Appeals rejected the appeal and confirmed the injunction preventing the City of Buenos Aires from assessing or collecting municipal turnover tax. The City of Buenos Aires filed an extraordinary appeal that was also rejected. The City of Buenos Aires then filed a remedy of complaint (*recurso de queja*) before the Federal Supreme Court. In February 2009, Casino Buenos Aires amended its complaint on account of legislation passed by the City of Buenos Aires establishing specific rates applicable to betting and games of chance for municipal turnover tax.

On October 18, 2011, the Federal Supreme Court determined that the remedy of complaint (*recurso de queja*) should be decided by the court, declared the decision of the Federal Court of Appeals without effect, and concluded that the lawsuit filed in the case was moot due to the existence of a settlement agreement. Additionally, because the original purpose of the lawsuit filed in the case was seeking a ruling to determine jurisdiction and regulatory authority over gaming activity on the riverboat, the Supreme Court determined that any decision related to the exercise of local tax powers by the City of Buenos Aires was beyond the scope of its decision.

On October 24, 2011, Casino Buenos Aires commenced a sixth proceeding in a Federal court against the Federal government, the State Lottery of Argentina and the City of Buenos Aires to determine the applicability of municipal turnover tax in light of the concession documents and the settlement agreement. In connection with this proceeding, on November 9, 2011, the Federal court granted an injunction pursuant to which the City of Buenos Aires was ordered to abstain from issuing any administrative decision or taking any action to collect municipal turnover tax in relation to the activities of Casino Buenos Aires in the *Estrella de la Fortuna* and *Princess* boats, until a final decision was made in relation to the lawsuit. The injunction was appealed by the City of Buenos Aires but rejected. An extraordinary appeal was similarly rejected by the Court of Appeals in December 2012. The City of Buenos Aires filed a remedy of complaint (*recurso de queja*) with the Federal Supreme Court, which was rejected in September 2013. With respect to with the main proceeding, the State Lottery of Argentina answered the complaint. The court file was then sent to a City of Buenos Aires lower court that claimed jurisdiction on the case, which has been contested by Casino Buenos Aires and has not been resolved as of the date of this annual report. In a connected proceeding, Casino Buenos Aires obtained an injunction that ordered the City of Buenos Aires to abstain from issuing any administrative decision or taking any action that might imply the exercise of police power or

administrative power over the main and accessory activities carried out by the Casino Buenos Aires – Ciesa UTE. The injunction was notified to the City of Buenos Aires and the State Lottery in December 2012, and has been appealed to the Supreme Court through the filing of a remedy of complaint (*recurso de queja*).

In connection with the third proceeding, in which Casino Buenos Aires had sought an injunction against the City of Buenos Aires, the Federal Court of Appeals upheld the injunction granted by the Federal court preventing the City of Buenos Aires from exercising jurisdiction over the land adjacent to our riverboat casino. The City of Buenos Aires unsuccessfully filed an extraordinary appeal against this decision. In July 2008, the Federal court suspended the third proceeding pending resolution of the second proceeding. Following a final determination that the second proceeding was moot due to the existence of the settlement agreement, the Federal court similarly concluded that the third proceeding was also moot. Casino Buenos Aires reserved the right to file a new lawsuit in connection with the land adjacent to the riverboat casinos. In April 2010, City of Buenos Aires officials attempted to inspect and to stop a construction project being undertaken on the land adjacent to our riverboat casinos. Casino Buenos Aires representatives informed such officials that the construction project had been authorized by the Federal Port Authority and that the injunctions ordered in the proceedings prevented the City of Buenos Aires from exercising jurisdiction over the land adjacent to our riverboat casinos. Casino Buenos Aires filed a petition to inform the court about such attempt by the City of Buenos Aires and the court ordered that a notice be sent to the City of Buenos Aires informing it that the injunctions ordered in the proceedings were in full force and effect.

Amendment to the Settlement Agreement

In December 2013, the City of Buenos Aires and the State Lottery of Argentina entered into an amendment to the settlement agreement. Subject to the provisions of the settlement agreement, Casino Buenos Aires has undertaken to pay a special and supplementary fee to the State Lottery of Argentina assigned to the City of Buenos Aires, provided certain conditions are satisfied. Subject to the amendment becoming effective, payments under the amendment will commence in January 2014 and will be made throughout the duration of the settlement agreement. The parties have agreed that by receipt of the amounts set forth in the amendment the City of Buenos Aires will relinquish all claims related to the payment of the municipal turnover tax and any other specific taxation on gaming activities conducted by the casinos. The amount payable under the monthly fee is determined based on a formula set forth in the settlement amendment. Based on such formula and certain assumptions, we estimate that the payments will be approximately US\$9.0 million annually (of which the proportionate share of Casino Buenos Aires would be approximately US\$4.0 million).

The effectiveness of the amendment is subject to the approval of the board of directors of the State Lottery and the Institute of Gaming of the City of Buenos Aires and the ratification of the legislature of the City of Buenos Aires, the shareholders of the State Lottery and the National Executive Branch.

The amendment sets forth that both the amendment and the original agreement may be rescinded by the State Lottery automatically if the City of Buenos Aires intends to (i) claim the payment of municipal turnover tax from Casino Buenos Aires, or (ii) levy any other tax on operations relating to games of chance conducted by Casino Buenos Aires. Pursuant to the amendment, the parties agreed that the execution of the amendment does not imply a waiver of their respective power in the matters of gaming in the city of Buenos Aires, nor acknowledge the other parties' purported rights in such matters and that any issues related to jurisdiction in connection with the operations and exploitation of gaming activities in the City of Buenos Aires will be determined by the *Comisión de Enlace* created by the original agreement.

Casino Buenos Aires has undertaken to pay the special and supplementary fee subject to the following conditions, which are part to Annex I of the amendment: (i) that the percentage of the fee be fixed at 3.0% of the net result of the formula detailed therein; (ii) that the receipt of the fee under the amendment will extinguish claims by the City of Buenos Aires related to the payment of the municipal turnover tax and any other specific taxation on their gaming activities; and (iii) that Casino Buenos Aires reserve the right to cancel and automatically interrupt the payment of the special and supplementary cannon if the City of Buenos Aires intends to claim or attempts to tax with any other tax

the operations relating to games of chance carried out in the riverboat casinos, or carry out actions that harm the gaming operations or put at risk their continuity.

On December 16, the amendment to the settlement agreement was challenged as unconstitutional by an individual citizen in a City of Buenos Aires court. In conjunction with his filing, the individual sought to enjoin the enforcement of the provisions of the amendment extinguishing the City's tax claims over Casino Buenos Aires as well as the provisions permitting the State Lottery of Argentina to rescind the settlement agreement in the event the City of Buenos Aires seeks to assert taxing authority over Casino Buenos Aires. On December 19, 2013, the court granted the injunction and suspended the implementation of the amendment's provisions. The State Lottery of Argentina has appealed the decision but no hearing date has been set as of the date of this annual report. If the State Lottery of Argentina's appeal is unsuccessful, we will continue to operate as we have in the past under the settlement agreement and to legally contest efforts by the City of Buenos Aires to exert regulatory and taxing authority over our operations.

The current term of the settlement agreement expires in December 2015. If upon termination of the settlement agreement, the City of Buenos Aires decides to initiate new legal proceedings challenging the validity of our license or the State Lottery of Argentina's regulatory authority over our casinos in Buenos Aires, or otherwise interferes with its operation, we believe we may be able to prevent such interference under temporary restraining orders issued at our request and currently in force against the City of Buenos Aires, or by requesting new restraining orders in the future. However, we cannot assure you that any such temporary restraining orders will be granted or enforced.

Claims for Municipal Turnover Tax

Over the course of the various proceedings the City of Buenos Aires also has claimed that the riverboat casino is subject to a so-called municipal turnover tax. This is a local tax levied by the City of Buenos Aires on any commercial activity usually performed, regardless of the type of activity or the nature of the person performing the activity. The amount of the tax is determined on the basis of the gross income during the fiscal year of the taxed activity. The City of Buenos Aires has neither assessed nor claimed any specific amount for this tax yet. The City of Buenos Aires, however, has made several attempts to inspect our premises in Buenos Aires in order to obtain the necessary evidence and information to be able to assess and collect such tax. We do not believe that we are subject to the turnover tax on a variety of grounds. Among other things, our riverboat casino is not located within the jurisdiction of the City of Buenos Aires. In addition, we believe that under the settlement agreement, as amended, the City of Buenos Aires is prevented from making any tax claims against Casino Buenos Aires. The city is also enjoined from making any such claims under the temporary restraining orders issued by the Argentine Federal Court. Nevertheless, if we were found to be subject to such tax and required to pay such tax, it could have a material adverse effect on our results of operations. We have recently entered into an amendment to the settlement agreement that, among other things, satisfies the obligations of the riverboat casino to pay the municipal turnover tax. See “— Litigation in connection with the casino license—Amendment to the Settlement Agreement”.

Criminal proceedings against former officer

On October 15, 1999, four members of Congress made a criminal claim in an Argentine Federal Criminal Court based on the alleged smuggling of the riverboat on which our casino in Buenos Aires is operating. The alleged smuggling relates to the payment of certain customs taxes in connection with the importation of the riverboat, which were already satisfied by Casino Buenos Aires. A criminal case was initiated against Mr. Sánchez Uroz, former Chairman of Casino Buenos Aires, other directors and employees of the casino and public officers of the Argentine Federal Custom Authority. Casino Buenos Aires, however, was never accused of any wrongdoing. All charges were dismissed against all parties at such time. On April 21, 2004, an Argentine court issued an order dismissing the charges against Mr. Sánchez Uroz, which decision was appealed by the prosecutor. On July 5, 2004, the Court of Appeals affirmed the ruling of the Argentine court. Both the prosecutor and the Argentine Federal Custom Authority appealed this decision of the Court of Appeals. Upon appeal, on April 12, 2005, the Argentine Court of Cassation revoked the decision of the Court of Appeals to dismiss the case on the grounds that the Court of Appeals lacked sufficient grounds because certain evidence had not been duly considered. The Court of Appeals reviewed its previous dismissal of the case and on June 21, 2005, confirmed the dismissal based on additional arguments that convinced the Court that there is

insufficient evidence to prosecute Mr. Sánchez Uroz. The decision of the Court of Appeals has not been appealed to the Court of Cassation, which made the court's decision a final declaration.

Settlement of claims by Italian judicial body and regulator

In June 2007, the CdC (the Italian judicial institution whose responsibility is the safeguard of public finance) ("CdC"), acting through its own prosecutor as permitted under Italian law, started proceedings against Cirsa Italia in relation to an alleged failure by Cirsa Italia to comply with (a) certain of their obligations arising from their role as authorized network operators of AWP's in Italy (specifically, the complaint alleged (i) delay in the launch of the online network; (ii) delay in the activation of the network; and (iii) delay in the connection of the gaming machines to the online network); and (b) certain minimum service levels relating to the operation of gaming machines (specifically, the complaint alleged a delay in network response to requests by AAMS of gaming volumes). The CdC also sought to impose fines for such failures. The CdC claimed four types of penalties for the alleged violations. At or about the same time, the CdC, acting through its prosecutor, began similar proceedings against the other nine Italian network operators, as well as proceedings against AAMS, alleging that AAMS had been negligent in not ordering the fines itself.

After the CdC prosecutor started proceedings against the AAMS, the AAMS in turn started proceedings against Cirsa Italia and the other nine network operators before the Administrative Court for the Region of Lazio (the "TAR"). The AAMS claimed the same four types of penalties for the alleged violations as the CdC claim.

The CdC proceedings and the AAMS proceedings have been ongoing concurrently as described in the following discussion.

CdC Proceedings

In the CdC proceedings against Cirsa Italia, the CdC prosecutor alleged that Cirsa Italia's non-compliance had resulted in damages to the Italian state, and calculated the compensation payable by Cirsa Italia for all of the alleged violations as €3.3 billion in the aggregate. Cirsa Italia filed a motion with Italy's highest court, the Corte di Cassazione, on the grounds that the CdC did not have jurisdiction over Cirsa Italia, nor over the subject matter at issue in the proceedings. In accordance with Italian civil procedure, we notified the CdC of our motion to the Corte di Cassazione. Pending a ruling on the issue by the Corte di Cassazione, the CdC suspended the proceedings and suspended the effectiveness of its request for € 3.3 billion in compensation.

The hearing at the Corte di Cassazione on the issue of jurisdiction was held on October 27, 2009. Following the hearing, the Corte di Cassazione issued a ruling on December 4, 2009 holding that the CdC had jurisdiction over the proceedings.

The Corte di Cassazione reasoned that the claims brought forth by the CdC were of a different nature than those brought by AAMS, finding that while the AAMS's claims were for our failure to comply with the service standards of the concession, as amended, the CdC's claims were brought by the CdC prosecutor for the alleged economic damage the Italian state has incurred as a result of our (and of the other network operators') alleged conduct. Therefore, the Corte di Cassazione found that the CdC is the proper forum in which to determine the existence and the extent of any damage to the Italian state.

On March 24, 2010, the CdC revoked the suspension of the effectiveness of its request for €3.3 billion in compensation and the suspension of the CdC proceedings on the merits to determine the amount of economic damage, if any, Cirsa Italia should pay to the Italian state.

The proceedings resumed, and a hearing was held on October 11, 2010. During November 2010, the CdC issued two partial rulings, both of which rejected the procedural objections raised by Cirsa Italia. One of the objections had asserted that the CdC prosecutor's acts should be nullified because such acts were not based on specific and detailed evidence of the damages allegedly suffered by the Italian state. A second objection had asserted that the CdC prosecutor had proposed an illegitimate duplication of the damages allegedly suffered by the Italian state and the liquidated damages claimed by the AAMS. However, the CdC ruled that the standards used by the CdC

prosecutor to determine the amount of the €3.3 billion in compensation were incorrect, and that the prosecutor should determine what was the amount of lost income to the Italian state from the alleged conduct of Cirsa Italia and the other network operators. The CdC directed the prosecutor to undertake further investigations on this question.

The ruling also ordered that the governmental entity that has responsibility for the design and implementation of the slot machine network, the SOGEI (Information and Communication Technology Company of the Ministry of the Economy and Finance), should be added as a party to the CdC proceedings. The CdC also designated a company to act as a technical consultant and to prepare a report to ascertain whether Cirsa Italia and the other network operators are entirely responsible for the alleged economic damage to the Italian state or whether other third parties, including the SOGEI, are also responsible. The CdC directed that the technical consultant deliver the report to the CdC within six months.

Pending the delivery of the technical report, Cirsa Italia filed an appeal against the CdC partial ruling issued in November 2010 on the grounds that the CdC prosecutor violated its legal obligation to only bring legal action for damages to the Italian State where the damages were the result of gross negligence or willful misconduct and after having obtained specific and detailed evidence of such damages. A hearing in respect of the appeal has been set for March 24, 2013. Cirsa Italia also filed a separate appeal against the second November 2010 CdC partial ruling on the grounds that (among the other procedural objections) the liquidated damages requested by the CdC prosecutor constituted an illegal duplication of the fines claimed by the AAMS. A hearing in respect of this appeal has not yet been set.

Following the delivery of the technical consultant's report, the CdC resumed its proceedings, and subsequently issued a decision on February 17, 2012 affirming the merit of the claim brought by the prosecutor against Cirsa Italia. The decision was entered on the grounds that Cirsa Italia's conduct resulted in an indirect waste of public funds due to its failure to deliver a public service for which it received payment and ordered payment by Cirsa Italia of an amount equal to €120 million. Cirsa Italia filed its appeal against this judgment on April 23, 2012 on the basis that the decision was not based on solid evidence, that it violated substantive and procedural principles for evaluation and quantification of damages, and that it did not take into account the previous decision of the Italian Council of State on the same matter (as described below under "AAMS Proceedings"). In addition, argued that a decision on contractual damages did not fall within the jurisdiction of the CdC, which may only assess the existence of other damages.

In the fall of 2013, Cirsa Italia sought a settlement under recently enacted Italian legislation intended to expedite the resolution of disputes over damages with the Italian treasury. On October 31, 2013, the CdC accepted our settlement proposal. Under the settlement, we agreed to pay a total of €37.5 million, which included a settlement amount of €36 million (representing 30% of the disputed fine) and €1.5 million in interest. Final payment to the CdC was made by Cirsa on November 15, 2013, using €12.5 million of cash on hand and €25 million of funds drawn under our Revolving Credit Facility.

By virtue of the resolution of the CdC issued on January 31, 2014, CdC confirmed that Cirsa Italia (and other Italian network operators which entered into settlement agreements with the CdC) had settled the CdC proceedings and declared that such proceedings were finished.

AAMS Proceedings

In its proceedings against Cirsa Italia, the AAMS sought payment from Cirsa Italia of the same fines as claimed by the CdC, in the same amount of €3.3 billion, not to be duplicative of the fines requested by the CdC prosecutor. On July 25, 2007, the TAR denied the AAMS's request. The AAMS has not appealed this ruling, and the ruling is final and no longer subject to appeal.

In March 2008, Cirsa Italia and the other nine operators executed a retroactive amendment to their respective concessions with AAMS. This amendment, which applied retroactively, reduced the standard of services required of the operators, concurrently reducing the fines applicable in case of failure to comply with the service standards, in line with an opinion of the Italian Council of State which had required the AAMS to redefine the service standards and applicable fines in accordance with

the principles of fairness, impartiality and economic feasibility. The amendment reduced the service standards for most types of services; however, it did not define the standard, or the related fine, for certain services, having delegated their definition to a special commission, which commission was established in November 2008 and completed its tasks in July 2009. The AAMS recalculated the fines applicable to Cirsa Italia, as well as to the other operators, in accordance with the terms of the amended concession, in relation to all the services for which the amendment set out a defined service standard and related fine. The AAMS calculated that the fine actually applicable to Cirsa Italia for three of the four alleged violations was approximately equal to €156,000, instead of the approximately €300 million calculated by the CdC for the same three violations.

During September and October 2008, AAMS issued formal requests to Cirsa Italia for payment of the aggregate fines of approximately €156,000. Cirsa Italia challenged these requests before the TAR, on the grounds that the fines were not lawfully due. A hearing on the matter was held at the TAR on June 29, 2009, addressing all three requests. On November 26, 2009, the TAR ruled in favor of AAMS, confirming that its claims for approximately €156,000 of fines were lawful. We appealed the ruling and on June 6, 2011, the Italian Council of State vacated the three alleged violations and related fine of approximately €156,000 and affirmed the absence of negligence or breach by Cirsa Italia.

As discussed above, in July 2009, the special commission issued a report defining the standards of service that the AAMS should take into account in order to determine the size of the fine for the fourth alleged violation. The commission report stated that the alleged violation had not caused damage to the Italian state, and that in the event that the AAMS should impose a fine on Cirsa Italia and the other network operators, the amount should not exceed 10% of the annual revenue from providing interconnection services of Cirsa Italia and the other network operators. The commission report stated that the annual revenue should be considered to be, on average, 0.8% of the “coin in” (amounts wagered) for the network operators. Following the receipt of the commission report, the AAMS submitted a request to the Italian Council of State to confirm that the standards proposed by the special commission were appropriate. On September 30, 2010, the Italian Council of State issued a statement to the effect that if the fines were imposed on the network operators, the amount should not exceed 11% of annual revenue from providing interconnection services, which annual revenue is considered to be, on average, between approximately 0.25% and 1.20% of “coin in” (amounts wagered).

On October 29, 2010, Cirsa Italia and the other network operators entered into a new amendment to the concessions originally granted in 2004. In the amendment, the AAMS established that fines imposed as a consequence of violations of the concession shall not exceed 11% of the network operator’s actual compensation. Therefore, the maximum amount of the fine that can be imposed on the network operators for the fourth alleged violation is 11% of annual revenue from providing interconnection services (where such revenue may not exceed 3% of amounts wagered for each machine) during the period in question (2004 to 2007). Cirsa Italia presently believes that the maximum amount of the fine determined and imposed under such methodology should not be material to the business or results of operations of Cirsa Italia. In connection with entering into the amendment, Cirsa Italia and the other network operators have reserved the right to further appeal of the AAMS proceedings.

On February 20, 2012, AAMS notified Cirsa Italia of its determination that Cirsa was liable for payment of €10.2 million in regard to the fourth alleged violation. We filed our appeal against the determination of AAMS on April 15, 2012 on the substantive legal grounds which were used to set aside the first three alleged violations, as well as on the basis that, the proposed penalty is improperly calculated. In particular, we believe that the basis on which the penalty has been calculated (in basis points) encompasses not only the amounts due to Cirsa Italia in its capacity as concessionaire and manager of the network, but it also improperly includes the amounts due to Cirsa Italia as operator of the network. On May 10, 2012, the TAR suspended the effectiveness of the fourth penalty as a matter of law pending a determination by the court on the merits of the case. The hearing to consider the merits of the case was held on February 20, 2013 and on June 17, 2013, the TAR annulled the fourth penalty. This ruling was appealed by AAMS on January 21, 2014 but no hearing date has been set as of the date of this annual report.

8. REGULATION

European Union

There is currently no specific EU legislation governing games activities. Instead, general EU rules and principles under the Treaty on the Functioning of the European Union apply to gaming activities.

The EU Court of Justice has recognized that the legislation on games based on chance is one of the areas in which there are significant moral, religious and cultural differences between the EU Member States. In the absence of harmonization in the European Union on such matters, each EU Member State must determine, in accordance with its particular value system, what is required in order to ensure that the relevant interests are protected. EU Member States are free to set their policy objectives and restrictions on betting and gaming and, where appropriate, to define in detail the level of protection required. However, the restrictive measures that they impose may constitute restrictions to the freedom to provide services in the EU internal market and must accordingly satisfy the conditions laid down in the case law of the EU Court of Justice as regards their proportionality with respect to achieving the objectives of the relevant EU Member State.

Gaming activities which involve wagering a stake with pecuniary value in games of chance, including lotteries, gaming in casinos and betting transactions are excluded from the scope of EU Directive 2006/12/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market. This Directive aims to eliminate barriers to the development of service activities between Member States in order to strengthen the integration of the peoples in Europe and to promote balanced and sustainable economic and social progress. The implementation of this Directive has implied the material amendment of a large number of laws and regulations of each of the Member States.

On October 2012, the EU Commission sent to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, a communication towards a comprehensive European framework for on-line gambling. The EU Commission is not proposing EU-wide legislation on on-line gambling. It is proposing a comprehensive set of actions and common principles on, amongst others, protection of consumers, minors and vulnerable groups, responsible gaming advertising, prevention of fraud and money-laundering and prevention of and responding to betting-related match-fixing.

Spain

Traditional Gaming

The traditional private gaming sector (where physical presence is a requirement) in Spain was legalized in 1977. Initially, the Spanish national government regulated the traditional private gaming sector (slot machines, bingo halls and casinos) through national regulations applicable to the entire country. The Spanish Constitution allowed the Spanish Autonomous Regions (each, a “Region” and together, the “Regions”), to regulate traditional gaming activities within the scope of their territory, as long as they did not invade the powers reserved to the State by the Spanish Constitution. Therefore, in Spain traditional gaming is generally regulated at a regional level, and where no regional legislation exists, exists but is not sufficient or the game covers more than one Region, the national legislation applies. At present, most of the Regions have passed extensive legislation governing traditional private gaming, including the granting of the relevant operating licenses and authorizations, tax measures and the monitoring of each type of private game. Additionally, the Regions can regulate the public traditional gaming market (lotteries) within their own territorial areas. Regulation of the traditional private gaming market is similar across each of the Regions. National laws and regulations on traditional private gaming, however, exist and are applicable in Regions under certain circumstances, as explained above. Certain residual responsibilities, such as assistance with standardization of slot machines and collection of industry statistical information, are within the purview of the Spanish Gaming Authority (*Dirección General de Ordenación del Juego*).

Any changes in the regulatory scheme in Spain or in any other jurisdiction in which we operate may have an adverse effect on our business. See “Risk Factors—Risks Related to the Gaming

Industry and Our Business—The gaming industry is subject to extensive regulation and licensing requirements and our business may be adversely affected by our inability to comply with these extensive regulation and licensing requirements, regulatory changes and increases in the taxation of gaming.”

Below is a summary of certain of the regulations and taxes that apply to the operation of slot machines, casinos and bingo halls in Spain. This summary does not purport to be complete and only refers to traditional versions of these games where physical presence is required. The Spanish traditional gaming regulatory regime is highly complex and regulation changes are frequent. Whether national or regional regulations apply depends on various factors, including the type of game operated and the Region in which the game is operated.

In addition to gaming and gaming taxes legislation, gaming operators and activities are subject to other legislation, governing, among other things, environmental, zoning, publicity and protection of minors matters. For instance, as a consequence of zoning and environmental legislation, gaming operators are obliged to obtain the relevant licenses from the local authorities of the city where the activities are carried out, in addition to the gaming sector authorizations described in this section.

General

In Spain, gaming operations (including authorizations, gaming activities and wages placed on slot machines and in casinos and bingo halls) and the opening of arcades and gaming halls, are subject to gaming taxes. In general, the gaming taxpayer is the person or entity to which the operating license has been granted. For example, the slot machine operator is the gaming taxpayer in connection with the operation of slot machines.

Unless a Region has established its own regulation, gaming taxes are assessed by applying a fixed tax rate to the total amount wagered by customers (the tax base) and, generally, are paid on a quarterly basis.

Slot Machines

Slot machine manufacturers, distributors and operators, as well as others engaged in the slot machines business, must comply with laws and regulations that govern all aspects of slot machines, including the physical characteristics of the slot machines, amounts wagered, prize payout statistics and locations where each type of slot machine may be placed. In certain Regions, a transfer of ownership interest in slot machine manufacturers and distributors is subject to prior authorization by, or prior notification to, the relevant Region. Regulations generally distinguish among three types of slot machines as described below:

- *Amusement-only Slot Machines (known in the Spanish gaming industry as Type A slot machines).* These are slot machines of mere leisure or amusement and they are limited to giving the player a certain length of playing time in exchange for the price of the game (or in certain Regions and under certain circumstances, a prize-in-kind). Amusement-only slot machines cannot give the player any kind of cash, chips or other type of prize that is exchangeable for cash or other items. Generally, amusement-only slot machines may be placed within bars, cafés, restaurants, arcades and sites that provide amusement-only slot machine entertainment. Possible locations include hotels, camp grounds, cruise ships, amusement centers, gaming halls, family entertainment centers, bingo halls and casinos.
- *Amusement-with-prize Slot Machines (known in the Spanish gaming industry as Type B slot machines).* These slot machines are amusement-with-prize slot machines that, in exchange for the price of a game, give the player a certain length of playing time, and in accordance with the game program, reward the player with a cash prize. Amusement-with-prize slot machines are subject to regulatory approval in each Region in which they are sold. The regulations typically provide that, among other things, the slot machine must have a maximum wager of €0.20 (although all Regions allow “triple bet” and “five times bet” (except for Galicia, which only allows “double bet”) slot machines, which provide that in certain circumstances up to €1 may be wagered or even higher, such as in Castilla La Mancha), must have a maximum prize of 400 to 500 times the price of the

wager (depending on the Region and must have a minimum payout of at least 70% (higher in certain Regions) of the amount wagered by players. Type B slot machines may be installed in gaming halls, certain areas of bingo halls, certain bars and restaurants and casinos. Certain Regions limit the number of amusement with prize slot machines that may be authorized. Video Type B slot machines are permitted throughout Spain.

- *Casino-type Slot Machines (known in the Spanish gaming industry as Type C slot machines).* Casino-type slot machines offer the player, in exchange for the price of the game, a certain length of playing time and, eventually, a prize that will always depend on chance. The main characteristics of Type C slot machines are: (i) in practice, the regulators allow higher maximum wagers (up to €9), and maximum prizes of up to two thousand times the value of the wager, excluding accruing jackpots or other special payouts, (ii) the minimum payout is required to be at least 80%. In Spain, only casinos may own and operate casino-style slot machines. For a discussion on the regulations regarding the operation of casinos and taxation of casino-style slot machines, see “—Casinos.”

In most of the Regions certain slot machines located in bingo halls or arcades are permitted to be linked to other slot machines at the same location.

Each type of slot machine must comply with specific requirements set forth in the applicable laws and regulations of the relevant Region. These requirements are mandatory for the slot machine to be duly registered at the relevant models registry. Registration of each model is mandatory prior to obtaining any of the authorizations to manufacture, market, distribute or operate each slot machine model. Additionally, each slot machine must be marked with the name of manufacturer and the operating permit. Recently, most Regions have relaxed requirements for the operation of amusement-only, or Type-A, slot machines.

Before commencing operations, all slot machine manufacturers, distributors and operators, as well as others engaged in the slot machine business, must register with and be approved by the gaming authority of the Region in which they intend to conduct operations. The registration and authorization processes include, among other things, a demonstration of sufficient technical and financial resources and professional expertise to operate the slot machines, criminal background check and deposit of a guarantee to ensure regulatory compliance. Slot machine operators are also required to deposit an additional guarantee with the relevant regional authority in an amount which is based on the number of slot machines to be operated in the relevant Region. The amounts of the required guarantees vary across each Region.

In addition to regulations regarding the types of slot machines, there are regulations regarding the types of sites at which slot machines can be placed and the number of slot machines that can be placed in each type of site. For example, most Regions allow only one or two slot machines per bar, café or restaurant or a certain number per arcade or gaming hall. In addition, for each slot machine, the owner of the site and the operator of the slot machines must each file an application with the relevant Region to obtain approval to place the slot machines at the site. Most Regions provide approval for installation of slot machines for a period of one to five years. Some Regions require that a site owner use the same slot machine operator during the approved time period.

Slot machine operators are required to maintain certain documentation related to the slot machines they operate, including their authorizations to operate the slot machines, in the event an inspection takes place.

The slot machine operator is required to pay gaming tax on a quarterly basis to the Region in which the slot machine is operated for each Type B slot machine and Type C slot machine in operation.

In the case of slot machines, there is no taxable base, since an annual fixed amount must be paid for each of them. The annual fixed amount varies depending on the type of slot machine and can be increased when there can be more than one player at the machine at once or the wages per game modify the game's maximum authorized price.

Each Region has a sanctioning regime in the event of breaches and infringements of the applicable gaming laws and regulations. Additionally, manufacturing, distributing and operating authorizations may be revoked if the relevant regional authority determines that a manufacturer, distributor or operator has not complied with applicable gaming laws and regulations.

Casinos

Authorizations to install and operate casinos are governed by each Region. Generally, when a Region intends to grant authorizations for a new casino, it conducts a public tender. Companies participating in the public tender provide proposals for the new casino to that Region that sets forth how the proposed casino falls within the requirements of the authorization that the Region intends to grant. Requirements for a new casino may include size, location, approximate number of jobs to be created, the types of financial guarantees to be provided by the applicant and the amount of the investment to be made in that Region. The Region will grant the authorization to the applicant whose proposal best matches the terms and conditions of the authorization that Region intends to grant. Generally, only a limited number of casinos may be authorized within a Region.

In addition to obtaining authorization from the Region to install a new casino, the applicant must also obtain authorization from that Region to operate the casino. The authorization to operate the casino is not transferable. A transfer of ownership interest in the casino, however, is permitted, so long as the Region is notified, or in some Regions, the Region approves the transfer. Similar to a company intending to operate a bingo hall, a company intending to operate a casino must satisfy certain requirements, such as having valid corporate status in Spain, having a primary business purpose of operating casinos, being organized by individuals and having a minimum fully subscribed share capital (for example, €6 million in Valencia or €12 million in Madrid). In addition, shares are to be nominative and participation in more than one to three casinos (depending on the Region) within the relevant Region is prohibited. In addition, the shareholders of record and directors of a casino company must not have been convicted of any criminal offense. These authorizations are usually granted for an initial period of one year and then are renewed for successive periods varying in length of up to 10 to 15 years, depending on the Region. Generally, an authorization holder must obtain prior approval from the granting Region if it intends to deviate substantially from the terms and conditions under which it was granted the authorization to install the casino or from the authorization to operate the casino. For instance, the change of location within the Region of an authorized casino in certain cases is forbidden and, in others, as in Valencia, subject to prior authorization by the Region. A sanctioning regime exists in the event of breach or infringement of the applicable casino laws and regulations. Additionally, the regional authorities may revoke the authorization of a company to operate a casino if they determine that such company has not complied with the applicable laws and regulations.

Generally, casinos are subject to periodic compliance inspections by the relevant regional authorities.

Casinos are required to provide certain services, including restaurant and bar services. Casinos must also comply with certain personnel requirements and maintain certain accounting records as required by applicable laws and regulations. Casinos operating slot-machines are also subject to compliance with the relevant laws and regulations approved by the relevant Region on this matter.

Casinos are also required to pay gaming taxes on a quarterly basis to the Region in which they are located. Taxes are based on applying a progressive tax scale to the amount equal to the difference between the total revenues generated and the prizes paid to players.

Bingo Halls

In some Regions, authorizations to establish and operate bingo halls are only granted to charitable, cultural or sporting institutions and hotels. These institutions usually enter into operating agreements with gaming companies that actually manage the bingo halls. In other Regions, an authorization may be awarded either to such institutions or directly to a gaming company which intends to establish and operate a bingo hall. In either case, a company or other entity intending to establish and operate a bingo hall must satisfy several requirements in order to obtain the relevant authorization. In the case of companies, amongst other requirements, they must have valid corporate status under Spanish law in order to be authorized to establish and operate a bingo hall. Such companies also must

have a fully subscribed and paid in share capital in an amount that varies depending on the Region. In addition, the shareholders of record and directors of a bingo company must not have been convicted of a criminal offense. Furthermore, in some Regions (for example, in Aragon, Andalusia and Catalonia) neither an individual nor a legal entity is permitted to be a shareholder in more than a certain limited number of bingo hall companies. Other shareholding restrictions are imposed on directors of bingo hall companies in some Regions. Additionally, in other Regions, such as in Catalonia or Galicia, a company is not allowed to hold more than a certain limited number of bingo halls within the Region.

In addition to being registered with the relevant regional registry, a company or other entity is required to obtain two authorizations from the relevant Region in connection generally with the operation of bingo halls: first, authorization for the installation of the bingo hall premises and, second, authorization for the operation of the bingo hall. The requirements for obtaining authorization to install a bingo hall include proving the availability of a site, providing a guarantee to the relevant Region in order to assure compliance with regional regulations, and obtaining the relevant local permit to operate the bingo hall premises and the relevant local planning council's permission to build on the proposed site. The requirements for obtaining approval from the regional authority to operate a bingo hall include local authorization to open the bingo hall premises, filing certain documents with the regional authority, such as a list of employees, and complying with an on-site inspection of the bingo hall premises. The authorization for operation of the bingo hall varies in duration from three to ten years depending on the Region, generally with automatic extensions for the same periods of time, on the terms established in the relevant regional laws and regulations. It is possible to transfer ownership interests in a bingo company, so long as the relevant Region is notified or, in some Regions, the Region approves the transfer. The transfer of the authorizations is possible in most of the Regions as long as the transferee qualifies to hold them and prior authorization is obtained from the Region. Generally, an authorization holder must obtain prior approval from the granting Region if it intends to deviate substantially from the terms and conditions under which it was granted the authorization to install a bingo hall or the authorization to operate the bingo hall were granted. Non-material deviations require only notification to the relevant regional authority. A sanctioning regime exists in each Region in the event of breach or infringement of the applicable bingo laws and regulations. Additionally, authorizations may be revoked if the respective holder does not comply with the relevant laws and regulations.

Bingo halls are subject to a number of regulations relating to types of bingo games, location, size and opening hours of the bingo hall, the activities at the bingo hall and the activities of employees. The required traditional bingo card price ranges from €1.50 to €6. Generally, there is a required minimum payout from 61.2% to 70%, depending on the Region, of the amount wagered by the bingo players on gaming cards in most Regions. In addition, certain Regions (Andalucía, Aragón, Cantabria, Castilla La Mancha, Madrid and País Vasco) have passed regulations concerning electronic bingo. These regulations establish the requirements for electronic bingo manufacturers including, among others, the obligation to be registered at the relevant regional registry and the obligation to obtain approval for the electronic bingo systems.

Bingo halls are required to pay gaming taxes on a quarterly basis to the Region in which they are located. These taxes are based on the actual value of the bingo cards and not on any discounted price at which bingo cards may be sold to customers.

Generally, a limited number of amusement-with-prize slot machines may be operated in or adjacent to the bingo halls. Casino-type slot machines and other gaming activities are not permitted to be placed in bingo halls but only within casinos. Although the exact number varies by Region, generally, the average number of amusement-with-prize slot machines permitted in a bingo hall is one slot machine for every 50 seats according to the capacity of the bingo hall (approximately 10 slot machines), except, among others, Andalusia, which only allows nine amusement-with-prize slot machines, and La Rioja, which only allows five amusement with prize slot machines. Bingo companies are typically able to obtain the necessary authorizations to operate the stipulated number of amusement-with-prize slot machines.

Interconnected versions of bingo are operated in some Regions, such as Catalonia, Madrid and Andalusia. For example, in Catalonia, three times each evening, players in approximately 55 participating bingo halls play bingo against one another. The Basque Country also allows interconnected versions of bingo between Regions.

A national anti-smoking law came into force in Spain in 2006. The law has been implemented by each of the Regions, and the terms of such implementation vary among Regions. As of January 2, 2011, a strict new anti-smoking law took effect throughout Spain that bans smoking in many types of establishments, including bars, restaurants and casinos.

Arcades and Gaming Halls

In Spain, regional laws and regulations stipulate the requirements for operating slot machine arcades and gaming halls. While there are minor differences between the regional laws and regulations, the main obligations for arcades and gaming hall operators may be summarized as follows: (i) to be registered at the relevant regional registry as gaming hall operators, stating the slot machine type that they intend to manage and operate at the arcades and gaming halls; (ii) to obtain a specific authorization; (iii) to provide a guarantee securing compliance with regulatory requirements, the amount of which will depend on the regional regulation; (iv) to obtain the relevant operating licenses awarded by the municipality; (v) to communicate to the regional gaming authority any change in the information supplied to the regional authority for the purposes of registration (in some cases, such as license transfers or share purchases, the modification of such information may require prior approval by the regions); and (vi) in some regions (such as Castilla-La Mancha and Comunitat Valenciana), to furnish annual or monthly reporting of certain information to update the registry.

A sanctioning regime is provided for in each Region in the event of a breach or infringement of the applicable gaming hall and arcades laws and regulations.

On-Line Gaming

Spanish State Law 13/2011, adopted May 27, 2011 on gaming (*Ley 13/2011, de 27 de mayo, de Regulación del Juego*) (the “Gaming Act”) is the primary legislation governing the national gaming sector in Spain and provides a framework for the management and conduct of gaming activities on a national level, in particular for those gaming activities conducted by means of electronic communication, including, among others, the internet, television, telephone, interactive systems and software tools where physical presence of players is ancillary (in contrast to traditional gaming activities played in person).

The Gaming Act aims, among other things, to encourage a varied and duly dimensioned gaming market in Spain, which allows for third parties to provide State-wide games (other than lottery) by means of electronic communication, subject to State control in order to protect the different interests involved and preserve public order. With respect to non-occasional lottery games, the Gaming Act designates the National Lottery Operator (*Sociedad Estatal de Loterías y Apuestas del Estado*) and the National Organization of the Blind (*Organización Nacional de Ciegos Españoles*) as the only operators authorized to operate such games on a national basis in Spain. The Gaming Act has been implemented with the approval of different regulations, including, amongst others, those related to licensing by Royal Decree 1614/2011 of 14 November, which develops the Gaming Act with respect to licenses, authorizations and gaming registers (*Real Decreto 1614/2011, de 14 de noviembre, por el que se desarrolla la Ley 13/2011, de 27 de mayo, de regulación del juego, en lo relativo a licencias, autorizaciones y registros del juego*), the technical aspects of gaming activities by Royal Decree 1613/2011 of 14 November, which develops the Gaming Act with regard to the technical requirements of gaming activities (*Real Decreto 1613/2011, de 14 de noviembre, por el que se desarrolla la Ley 13/2011, de 27 de mayo, de regulación del juego, en lo relativo a los requisitos técnicos de las actividades de juego*) and those governing various types of games (including, among others, horse betting, sports betting, poker, black jack, bingo and roulette). Non-regulated games are prohibited.

The purpose of the Gaming Act is to govern gaming activities carried out on a national basis in order to preserve public order, combat fraud, prevent addiction, protect the rights of minors and safeguard the rights of participants in gaming activities. The Gaming Act also regulates advertising, sponsorship and promotion activities relating to gaming. The Gaming Act additionally sets forth (i) the legal definition for certain games; (ii) the primary factors to be taken into account by the Spanish authorities when approving the regulations governing the types of games that may be provided; (iii) prohibited games; (iv) individuals prohibited from participating in games governed by the Gaming Act; (v) rules relating to consumer protection and responsible policies on gaming; (vi) the applicable licensing regime for state-wide gaming activities conducted by means of electronic communication;

(vii) the authorization regime for lottery games; (viii) monitoring measures applicable to operators and participants; (ix) standardization of gaming technical systems; (x) sanctioning and tax regimes; and (xi) the entities that are authorized to operate non-occasional lottery games in Spain.

Anyone seeking to provide gaming activities on a regular basis must obtain a general license for the relevant category of game identified by the Gaming Act. These licenses are awarded by means of a public tender. After obtaining the general license, the operation of each of the games within the scope of a general license is subject to the grant of a specific license.

General licenses may be granted for a ten-year period with the possibility for renewal for a subsequent ten-year period, except in those cases where the number of general licenses awarded was limited and certain conditions set forth in the Gaming Act occur that justify the need to call for a new public tender after the initial term has elapsed. Specific licenses will be granted for a term of between one and five years, with the possibility of being renewed for subsequent terms of the same period. The regulation of each type of game establishes the term of the relevant specific license and the conditions for renewal. General and specific licenses also require the holders of the licenses to grant guarantees to secure compliance with the Gaming Act and its implementing regulations.

As of January 1, 2014, holders of general licenses will typically be required to grant a guarantee of €1.0 million. Where a general license is held solely for purposes of making offers in future license tenders the value of the guarantee will be reduced to €250,000. For holders of specific licenses, the total guarantee granted will include the €1.0 million general license guarantee and for each specific license held, an additional amount equal to the net income in excess of €1.0 million derived in the prior year from gaming activities under the specific license.

If a holder of a license intends to engage in advertising and promotional activities related to the license, the holder must obtain prior authorization to do so.

The primary obligations of holders of general and specific licenses include the following (among others): comply with the terms and conditions set forth in the license documents; record the relevant data the Register of Persons Associated to Gaming Operators (“*Registro de Personas Vinculadas a Operadores de Juego*”) and other records identified in the Gaming Act; comply with anti-money laundering and data protection laws and regulations; establish the relevant measures to prevent minors, disabled people and other people for whom gaming is prohibited pursuant to the Gaming Act to accessing gaming activities; adopt consumer protection policies; have their gaming technical systems duly standardised by the Spanish Gaming Authority; and, have a contract with users in accordance with the terms of the applicable laws and regulations.

Pursuant to the Gaming Act and its implementing regulations, gaming licences shall be terminated for the following reasons (among others): (a) not obtaining a favorable standardization report by the Spanish Gaming Authority in order to convert the provisional licenses into final licenses; (b) at the specific written request of the holder of the license; (c) termination of its term without the holder requesting for renewal, if it was possible to do so according to the terms of the license; or, (d) upon a decision issued by the Spanish Gaming Authority recognizing the occurrence of one of the following causes of termination (among others): (i) the discontinuation of all or any of the conditions whereby it was issued; (ii) death or incapacity of the individual or entity holding the permit, dissolution or extinction of the company holding the licence or permit, or discontinuation of the activity for which the licenses were issued or a lack of activity for at least one year, in the case of licences; (iii) declaration of bankruptcy or declaration of insolvency in any other proceeding; (iv) imposition as a sanction under the corresponding disciplinary proceeding; (v) non-performance of the basic conditions of the permit or licence; (vi) assignment or transfer of the license through merger, split, or share of a business branch without prior authorisation; (vii) holding a license obtained under false pretences or alteration of the conditions whereby it was granted, prior hearing of the license holder, where applicable. In those cases where the cause for termination can be cured, the Spanish Gaming Authority, may ask the holder of the license to cure it within a one month term. Should the cause of the termination be cured within the term provided, the procedure to terminate the license will be ended. Otherwise, the license will be deemed to be terminated.

On June 1, 2012 two general licenses, allowing for the exploitation of betting activities and other games (as defined in the Gaming Act), and six specific licenses, allowing for the exploitation of

poker, roulette, sports betting, black jack, bingo and “*punto y banca*”, were granted to Cirsa Digital, S.A.U. by the Spanish Gaming Authority, and duly registered in the General Gaming Registry on June 14, 2012. These licenses also include the authorisation to engage in advertising and promotional activities related to such games. One of our competitors, Codere, challenged the granting of these eight licenses to Cirsa Digital S.A.U. before the High Court of Justice of Madrid. In January 2013 Codere withdrew the action and on February 4, 2013, the High Court of Justice of Madrid acknowledged the withdrawal and closed the judicial procedure.

The general licenses granted to Cirsa Digital, S.A.U. were conditioned upon the Spanish Gaming Authority’s final and favorable certification of the technical gaming systems. On April 4, 2013 the Spanish Gaming Authority approved the technical gaming systems of Cirsa Digital, for a period of ten years (until April 4, 2023). This final certification verified the game systems’ compliance with the technical requirements needed for the performance of gaming activities in Spain or directed at Spanish participants or Spanish users’ registries. The certification extends to the components, hardware and software included in the Final Technical Report filed by Cirsa. The Spanish Gaming Authority resolution certifying the systems also rendered these formerly provisional licenses final.

The authorization and organization of games, raffles, contests, bets games and other gaming activities provided on a national basis in Spain are subject to the new gaming tax established under the Gaming Act. In general terms, the new gaming tax is based on applying fixed tax rates ranging from 15.0% to 25.0%, depending on the gaming activity, to the relevant game’s gross revenue (in case of mutual bets, raffles and contests) or the relevant game’s net revenue (in case of bets with consideration or other games). In addition to the gaming tax, the Gaming Act also establishes a gaming duty, which seeks to cover costs of regulatory activities of the gaming authority over the gaming activities undertaken by gaming operators. As a general rule, such gaming duty is equal to 0.1% of the gross revenue of the relevant game and is paid on December 31st of each year. The Gaming Act establishes that the General Budget Act for the relevant year may set the percentage of gaming duty for that year in the range of 0.0075% to 0.1%. The General Budget Act for 2013 has not amended this percentage of 0.1% for 2013.

The Ministry of Taxation and Public Administration, through the Spanish Gaming Authority, regulates and oversees gaming activities in Spain. It has assumed the powers to oversee the proper functioning of the gaming sector and safeguard the effective availability and provision of competitive gaming services for the benefit of users. Its main goal is to authorize, supervise, monitor and sanction, as the case may be, the development, conduct and marketing of games and other gaming activities. It safeguards integrity, safety, reliability and transparency of gaming operations, as well as compliance with gaming legislation and with the conditions established for the conduct of games. Regional governments, also have the power to regulate, supervise and control gaming activities within their respective jurisdictions, including gaming activities conducted by means of electronic communication (for example gaming conducted over the internet, television, telephone, interactive systems and software tools where physical presence of players is ancillary, in contrast to traditional gaming activities played in person). Such local regulation is permitted so long as the regional authorities do not encroach on the powers reserved to the State by the Spanish Constitution, in the terms construed by the Spanish Constitutional Court.

The Regions, within the scope of their respective territories, also have the power to regulate gaming activities conducted by means of electronic communication, including, among others, the internet, television, telephone, interactive systems and software tools where physical presence of players is ancillary (in contrast to traditional gaming activities played in person), as long as they do not encroach on the powers reserved to the State by the Spanish Constitution, in the terms construed by the Spanish Constitutional Court. The Regions also have their own gaming authority, regulating, supervising and controlling gaming activities carried out within their respective territories.

Certain Regions have already approved laws and regulations governing the provision of gaming activities by means of electronic communication (including Madrid, Extremadura, Aragón and Navarra).

Republic of Argentina

Each province in Argentina holds exclusive power to regulate the gaming industry. The Governor of each province, or a regulatory body with delegated authority, is responsible for awarding gaming licenses and establishing and supervising compliance with gaming regulations in the respective province. Gaming licenses are usually awarded by public tender.

Until 1995, the City of Buenos Aires was a Federal district and its gaming industry was regulated by the State Lottery of Argentina. In 1995 the City of Buenos Aires was decentralized from the Federal Government and adopted its own constitution. Under the new constitution the City of Buenos Aires issued a law prohibiting the gaming industry in the City of Buenos Aires including the gaming activities conducted on the riverboat of Casino Buenos Aires, which resulted in a jurisdictional dispute between the City of Buenos Aires and the State Lottery of Argentina.

To settle the dispute, the City of Buenos Aires and the State Lottery of Argentina executed an agreement on October 30, 2003 to determine the jurisdiction of the parties in connection with gaming activities during the term of the agreement, presumably within the limits of the City of Buenos Aires and areas that have access only through the City of Buenos Aires. Under the agreement the State Lottery of Argentina may not authorize new casinos without approval by the City of Buenos Aires, except for approvals granted prior to the execution date of the agreement. Among other things, the State Lottery of Argentina was granted the right to oversee gaming operations within the city limits. See “Risk Factors—Risks Related to the Gaming Industry and Our Business” and “Business—Litigation.”

Our subsidiary, Casino Buenos Aires, was awarded a license by public tender by the State Lottery of Argentina to operate a floating casino for a 15-year term, with the possibility of extending the license for an additional five years and exercising an option to operate an additional floating casino. Both the extension and the authorization to build an additional floating casino were granted in 2003. Casino Buenos Aires was given final authorization by the State Lottery of Argentina to open for business on October 8, 1999. The grant of the license, however, was subject to litigation. See “Business—Litigation.” As part of the authorization, we were required to construct a vessel in a local shipyard to serve as a second casino within 36 months from March 2004. This time period for construction of a vessel subsequently elapsed. In September 2008, we were granted an authorization to operate our existing second riverboat casino, Princess Casino, as the second riverboat casino through 2019, in lieu of the obligation to construct a vessel in a local shipyard.

In December 2003, Casino Buenos Aires also obtained a license to operate seven electronic casinos for a 10-year term in the Province of Mendoza.

In May 2006, Casino Club was awarded an exclusive 30-year concession to operate a concession in Rosario, Argentina. We have acquired a 50% interest in Casino de Rosario S.A., the company that holds the concession. In August 2008, the gaming authorities in the Province of Santa Fe granted Casino de Rosario its requested extension of the opening date of the casino to September 30, 2009. In connection with such grant, the gaming authorities imposed a penalty of Ps. 8.9 million.

Republic of Panama

The Gaming Control Board, a department of the Economy and Finance Ministry, regulates the gaming industry in Panama. The Gaming Control Board may authorize private parties to operate gaming activities through the execution of administrative licensing contracts under which the Gaming Control Board retains supervision. The Gaming Control Board also may conduct public tenders. The Directors of the Gaming Control Board, chaired by the Minister for Economy and Finance, is the primary decision making body of the Gaming Control Board. The Games Department of the Gaming Control Board is responsible for the supervision and administration of casinos, amusement-only slot machine halls (amusement-only slot machines are broadly defined by relevant regulations in Panama as slot machines that are activated by coins, tokens or paper money in which the results of the game are randomly determined), bingo halls, and similar gaming activities in Panama.

In February 1998, slot machines (broadly defined by Panamanian regulations as slot machines that register credits on a ticket, or by comparable means, as a measure of prizes or money won by the

user which are redeemed) were re-classified as amusement-only slot machines and the respective authorizations for the operation of such slot machines, as granted by the Gaming Control Board, were declared valid for 20 years from their respective authorization dates. Each company that had been authorized by the Gaming Control Board to conduct gaming operations prior to February 1998 was permitted to only operate the number of slot machines authorized by the Gaming Control Board.

In Panama, we operate a traditional casino and electronic casinos. During the second half of 2009, there were a number of legislative changes and regulatory developments in the gaming industry in Panama, which particularly impacted our electronic casinos business. In response to these changes and developments, we have modified the ownership and operating structure of our Panamanian casinos business, including by increasing our ownership in our main Panamanian subsidiary, Gaming & Services de Panama S.A. (“Gaming & Services”), from 70.9% to 100% in December 2009. The legislative changes have also resulted in an increase in gaming tax rates.

Electronic Casinos

As of December 31, 2013, Gaming & Services has 26 licenses to operate electronic casinos in Panama. We operate 23 of the 26 electronic casinos in Panama. Ancon Entertainment, Inc. (50.1% owned by Cirsa International Gaming Corp.), operates two electronic casinos in accordance with two operation agreements with Gaming & Services and Inversiones Interactivas, S.A. (70% owned by Orbis Development, S.A., a wholly owned subsidiary of Cirsa International Gaming Corp.), operates one electronic casino in accordance with an operation agreement with Gaming & Services.

In August and September 2009, we had negotiations with the Government of Panama and the Gaming Control Board with respect to certain of our electronic casinos and the Panamanian government adopted a law that included provisions relating to the gaming industry in Panama. As a result of these actions, and subsequent agreements between Cirsa and the Gaming Control Board, the following measures have been implemented:

- in December 2009 we increased our ownership interest in Gaming & Services from 70.9% to 100%.
- the 19 electronic casino licenses previously granted to Lucky Games S.A. (which was merged into Gaming and Services on April 5, 2010), Inversiones Interactivas S.A., Silver Cup Gaming S.A. and Competiciones Deportivas S.A. were revoked, effective on March 18, 2010, pursuant to Law 49 of September 17, 2009, but 12 of these licenses were reissued to Gaming & Services (in addition to the 14 licenses that Gaming & Services previously held) by an amendment to Gaming & Services’s existing agreement with the Government (which amendment became effective with its publication in the Official Gazette of the Republic of Panama). As a result and as described above, Gaming and Services held as of September 30, 2011 a total of 26 licenses, all of which were to expire in December 2018;
- four electronic casinos that we operated deemed by the Panamanian government to be in socio-economically deprived areas of Panama were closed; and
- we paid a total amount of \$18 million over a four-year period to the Panamanian government in respect of “key money” payments for electronic casinos licenses and additional payments (of which we paid \$6 million in December 2009, \$4 million in December 2010, \$4 million in December 2011, \$4 million in December 2012).

In September 2013 we renewed our electronic casino licences in Panama, extending the expiration date of the licenses to 2037 for a total cost of \$13 million. We paid \$3.0 million of the renewal fee in September 2013 and are required to pay the remainder by March 10, 2014.

Traditional Casinos

We have a 50% interest in the Majestic Casino, a traditional casino located in the *Multicentro* complex in Panama City. In 2003, our subsidiary, Gaming & Services, and Luna Brillante S.A., which holds an ownership interest in that group that owns the hotel and shopping mall *Multicentro*, entered

into a joint venture and formed Multicasino S.A. Multicasino was issued a license by the Gaming Control Board permitting it to operate a casino in the Multicentro shopping mall located adjacent to the hotel for 20 years.

Taxation

Gaming companies generally must pay a previously established minimum amount to the Gaming Control Board or a 10% tax on their respective gross revenue, whichever is greater. During 2009, the tax rate for slot machines in electronic casinos has been increased from 10% to 16% for 2010 and 2011, to 19% for 2012 and to 22% for 2014. The tax rate for casinos increased from 10% to 12.5% for 2010 and 2011, and to 15% for 2012.

Dominican Republic

The gaming industry in the Dominican Republic is regulated by the *Secretaria de Estado de Finanzas de la República Dominicana* (The Secretary of State for Finance of the Dominican Republic) pursuant to national legislation concerning the regulation of games of chance adopted in 1964. The Secretary of State for Finance of the Dominican Republic is responsible for issuing gaming licenses. Casino licenses, for example, are issued to the owner of the site on which the casino will be operated. Three of our subsidiaries in the Dominican Republic have entered into operating agreements with local companies under which we manage three casinos.

Colombia

Gaming activity is a monopoly of the Colombian state and may only be conducted by entering into an agreement with *Empresa Industrial y Comercial del Estado Administradora del Monopolio Rentístico de los Juegos de Suerte y Azar* (“COLJUEGOS”), a public entity created by Decree 4142 of 2011 which is responsible for the administration, operation and regulation of the national gaming sector. COLJUEGOS commenced operations on April 17, 2012 and replaced *Empresa Territorial para La Salud—ETESA en Liquidación* (“ETESA”), which was liquidated by Decrees 175 of 2010, 4816 of 2010 and 4961 of 2011 issued by the Colombian government. It was also determined by Decree 4142 of 2011, that all existing enforceable contracts and agreements entered into by ETESA (including our concession agreements) would continue with COLJUEGOS under the same terms and conditions.

The Colombian gaming market is highly regulated, and operators are required to: (i) prove legal ownership of the equipment and components used for the operation of the games; (ii) obtain zoning approvals from the municipal authority (mayor) where the casinos or slot machines are located; (iii) obtain an authorization to operate casinos or slot machines from COLJUEGOS; and (iv) once the competent authority grants the authorization, the game operator must execute a concession agreement with COLJUEGOS in order to operate casinos and/or slot machines. Applicable law requires that the term of the concession agreements for the operation of casinos and slot machines may not be less than three years or more than five years. The two concession agreements of the Winner Group are valid until October 2016 and March 2017.

As of January 1, 2012, the National Directorate of Taxes and Customs, the *Dirección de Impuestos y Aduanas Nacionales de Colombia* was responsible for the collection of gaming taxes and administrative duties payable by gaming operators but in actuality, COLJUEGOS has assumed this function since it entered into operation. Currently, gaming taxes are levied at a fixed rate per month in the range of approximately \$100 to \$148 per slot machine (depending on the value of the bet) and \$1,320 per casino table (e.g. black jack, poker, baccarat, craps and roulette). Administrative duties are levied at 1% of such payable gaming taxes. Following the mandated interconnection of all slot machines to the gaming authority’s central system for purposes of monitoring gross revenues, gaming taxes will be levied at the higher of the aforesaid fixed rates and 12% of the gross revenues less prize payouts. Colombian authorities were required to issue regulations with respect to the new gaming tax regime and such interconnection and to implement the interconnection by July 12, 2012, though this date was further extended. As of the date hereof, the interconnection of all slot machines to the central system has not yet been implemented. The new regime also establishes penalties for illegal gaming activities.

From 2013, a corporate income tax of 25%, plus an additional income tax levied “for equity” at a rate of 9% through 2015 and 8% from 2016, is levied on all corporate profits.

Italy

We primarily operate in the Italian slot machines market. We also have minority interests in bingo halls in Italy. In October 2009, we initiated the procedure to be granted a concession to operate VLTs in the Italian market and to extend our concession to operate slot machines.

AAMS Decree No. 31857 of September 9, 2011 requires VLT and slot machines operators, including operators who already have contractual relations in the slot machines and/or VLT fields, to meet certain conditions and to register on a special list. Only the entities on such list will be authorized to operate VLTs and/or slot machines. In accordance with the abovementioned decree, the applicant must hold (i) the relevant license referring to the gaming machines as provided by Royal Decree no. 773 of June 18, 1931 (as subsequently integrated and amended), having a validity equal to the period of registration; (ii) the anti-mafia certificate in compliance with Law No. 575 of May 31, 1975; and, (iii) a deposit receipt of €150. In addition, the applicant must communicate if it holds any other licenses issued by the AAMS. The decree also establishes certain rules governing any violations of law by the applicant.

Slot Machines

The regulation of slot machines in Italy is principally governed by Royal Decree no. 773 of June 18, 1931, and its subsequent amendments. The Italian slot machines market is highly regulated.

The Italian regulatory regime authorizes, *inter alia*, machines that award a cash prize based on a player’s skill or otherwise provide entertainment value. The Italian regulatory framework also regulates the duration of a game, the price per game and the type and amount or value of prize that can be awarded for each game.

A governmental authorization is required for either the manufacture or import of each individual slot machine, and for its installation and operation in a specific location. The Italian regulator must also be notified in the event that a slot machine is relocated, transferred or scrapped.

The Italian slot machine regulatory regime changed in 2004 with the pronouncement that only interlinked slot machines would be permitted to operate in Italy after October 31, 2004. This requirement of interlinking allows regulatory authorities to monitor slot operators for regulatory and tax purposes. The regulation and oversight of the interlinked slot machine system is the responsibility of the AAMS.

The AAMS has awarded a series of concessions to slot machine companies to act as network system operators for slot machines in Italy. The last such concession was awarded (by way of an amendment deed) in early 2010. Cirsa Italia was granted a concession to act as a network system operator initially until October 31, 2009. During 2005, this term was extended until October 31, 2010, and in 2010, the term was further extended until December 31, 2011.

In August 2011, the AAMS called a tender for the award of new concessions to act as a network system operator for, *inter alia*, slot machines and VLTs. On December 23, 2011, we were awarded a new provisional concession to act as a network system operator for, *inter alia*, slot machines. In March 2013, the provisional concession once again became permanent following our demonstration of continuing compliance with the technical and economic requirements to act as network system operator and our completion of all necessary ancillary requirements. The current concession expires in 2022.

Under the concessions, operators can operate their own slot machines and also offer interconnection to third parties (operators that were not granted a concession) for a specified fee. The terms of the grant of the initial concessions to Cirsa Italia and a number of other operators established certain targets for the interconnection of slot machines by a specified date. While we (and the other operators) did not achieve such targets by such date, we have since achieved such targets and believe that we are in material compliance with the terms of the concession. Network operators are responsible

for installing the network, conducting all activities directly or indirectly related to the management and operation of the network, and paying the so-called PREU tax levied on slot machine operation. Subject to certain conditions, a network operator can also charge to third parties that it interconnects to its network a fee of not higher than 3% of the revenues per machine. These concessions also include the service standards to be met by the operators. Further amendments to the concessions were entered into by the parties in 2010 in order, *inter alia*, to regulate the operation of VLTs.

During 2007, the AAMS adopted a series of new gaming regulations that, among other things, permitted the use of a new type of slot machine, reduced the amount of PREU tax assessed on amounts wagered (from 13.5% to 12%), changed the pay-out and increased the price per game and maximum prize size. Another separate tax assessed by the AAMS on amounts wagered increased from 0.3% to 0.8%. During January 2009, the amount of the PREU tax was increased from 12% to 12.6%; in October 2011 the amount of the PREU was decreased to 11.8% for the year 2012, while for the period from 2013 to 2015 the applicable PREU will be equal to 12.7% and, after January 1, 2015, it will be increased to 13%. Under the current regulatory framework, no less than 75% (74% from January 1, 2013 onwards) of wagers must be paid to players.

Venue requirements for slot machines and VLTs have been regulated by AAMS Decree No. 30011 of July 27, 2011. This decree permits the installation of slot machines in bingo halls, agencies for betting on sporting events, agencies for totalizer and fixed-odds betting on horse races, gaming shops whose primary activity is marketing public gaming products, public gaming rooms specifically established for the conduct of lawful gaming that provide a separate area for games reserved for underage players, and establishments dedicated exclusively to slot machines and VLTs. Slot machines can be installed in the abovementioned shops, halls or premises only on condition that such shops, halls or premises hold the specific gaming license in accordance with the Italian regulatory framework. The decree provides that the maximum amount of slot machines that can be installed and operated on any of these premises must be limited, proportionally to the premises' surface area and/or to the total number of slot or other betting machines hosted.

Video Lottery Terminals

In August 2009, the Italian government adopted Law no. 102 of August 3, 2009. The law provided for the extension for a period of nine years, until October 31, 2019, of the concessions of the ten existing network system operators for slot machines in Italy, to be perfected at the time these operators become authorized to operate VLTs. The law also established the technical and economic requirements for the ten network system operators to request authorization to install VLTs and to act as network system operators for VLTs. Having met the technical and economic requirements, Cirsa Italia has requested such authorization and paid the two installments for such authorization, and in November 2009 Cirsa Italia was authorized to act as a network system operator for VLTs in Italy for a testing period. The AAMS has approved the testing and Cirsa Italia commenced VLT operations in October 2010.

The AAMS called a tender for the award of concessions to act as a network system operator for, *inter alia*, slot machines and VLTs. On December 23, 2011, we were awarded a new provisional concession to act as a network system operator for, *inter alia*, VLTs. In March 2013, the provisional concession once again became permanent following our demonstration of continuing compliance with the technical and economic requirements to act as network system operator and our completion of all necessary ancillary requirements. The current concession expires in 2022.

Since February 2010, the AAMS Decree No. 43593 of 22 January 2010, which includes the implementing regulations governing the operations of VLTs in Italy, is the legal regime applicable to VLTs. Under this decree, the VLTs and the related gaming systems must be connected to a control system and network operated by an authorized network system operator. The games played on the VLTs will be capable of being monitored remotely for regulatory and tax purposes. The AAMS decree also sets forth requirements for the testing and start-up of the gaming systems, the operating parameters for the games and the timing of introduction of VLTs into the Italian market.

The maximum cost of an individual game is €10.00 and the minimum cost is €0.50. Payment for games may be made by coins or currency, tickets from ticket technology systems, prepaid cards, "smart" cards in respect of registered gaming accounts or the reinvestment of previous winnings.

The decree provides that the maximum payout for VLT games is €5,000. However, this amount is higher for jackpots: there is a €100,000 maximum jackpot for each gaming room and a €500,000 maximum jackpot for each gaming system. Under the decree, no less than 85% of wagers must be paid to players, and up to a maximum of 4% of wagers can be paid to players in jackpots.

Venue requirements for VLTs and Slot Machines are regulated by AAMS Decree No. 30011 of July 27, 2011. This decree permits the installation of VLTs in bingo halls, agencies for betting on sporting events, agencies for totalizer and fixed-odds betting on horse races, gaming shops whose primary activity is marketing public gaming products, public gaming rooms specifically established for the conduct of lawful gaming that provide a separate area for games reserved for underage players, and establishments dedicated exclusively to VLTs and slot machines. VLTs can be installed in the abovementioned shops, halls or premises only on condition that such shops, halls or premises hold the specific gaming license in accordance with the Italian regulatory framework. The decree provides that the maximum number of VLTs that can be installed and operated on any of these premises must be limited, proportionally to the premises' surface area and/or to the total number of slot or other betting machines hosted.

A number of local authorities in Italy have recently issued orders and enacted regulations that purport to place further restrictions on where VLTs can be located. Cirsa Italia has challenged, and presently intends to continue to challenge, any attempts to enforce such orders and regulations on the basis that the authority to regulate gaming activities is reserved to the Italian Parliament. To date, these regulations have not had an adverse impact on the business or results of operations of Cirsa Italia.

The PREU tax levied on the amount wagered on VLTs will be 4% in 2012 and 4.5% from 2013 onwards, plus an additional 6% on the quota of wins exceeding €500. The application of the additional 6% of PREU tax was recently temporarily suspended by a preliminary injunction of the Administrative Regional Court of Lazio, dated January 26, 2012. Currently, such proceeding is on hold because the new fiscal measures currently under discussion in the Italian Parliament could amend the provisions concerning the additional 6% of PREU tax. In addition, as is the case for slot machines, we pay a separate tax to the AAMS of 0.8% of the amounts wagered.

Bingo Halls

We also have minority interests in bingo halls in Italy. Bingo halls have been permitted to operate in Italy since 2000. In Italy, 20% of the face value of the bingo card is required to be paid to the Italian tax authorities and 3.8% is required to be paid to the AAMS; however, from November 1, 2009 until December 31, 2012 such percentages are reduced respectively to 11%—payable to Italian tax authorities—and 1%—payable to the AAMS—under the pilot scheme implemented by the AAMS. Regulations require that 70% of the face value of the bingo be dedicated to prize payments.

On-line Gaming

Community Law of 2008 (Law No. 88 of July 7, 2009) unified two distinct Italian regulatory frameworks for on-line gaming activities, one with respect to on-line bingo and other with respect to other on-line gaming activities. With respect to on-line bingo, the AAMS adopted directorial decrees setting forth the relevant framework, which encompasses among other things, bingo card prices, prize pay-outs, player qualifications and licensing guidelines (including the eligibility of physical bingo licensees to operate on-line bingo activities). With respect to other on-line gaming activities, the AAMS adopted the “Bersani” decree on October 20, 2006, pursuant to which it awarded on-line sports betting licenses to certain operators. The scope of such licenses was subsequently extended to other on-line gaming activities such as poker and other card games.

Community Law of 2008 applies to the following on-line gaming activities: (a) fixed-odds or totalizer betting relating to sporting events or horse racing, (b) other betting on sporting events or horse racing, (c) national horse racing events, (d) skill games, (e) fixed-odds betting with direct interaction between the players, (f) bingo, (g) numeric games at national totalizer and (h) lotteries at instantaneous and deferred drawings. Community Law of 2008 allows on-line sports betting licensees (for a fee of €50,000), physical bingo licensees (for a fee of €300,000) and applicants without an existing on-line gaming license (for a fee of €350,000) to apply for a license to conduct the on-line gaming activities described in (a) through (f).

On March 9, 2011, the AAMS published Decree No. 2011/190/CGV, setting out the procedure for granting licenses for on-line gaming pursuant to Community Law of 2008, and published an application form for the award of licenses (up to a maximum of 200 licenses). The decree was applicable to (i) operators who had already entered into concession agreements to conduct permitted on-line gaming activities under pre-existing licenses, and (ii) other operators satisfying certain requirements provided for under Article 24, paragraph 15, of the Community Law of 2008.

We participated in the public selection process launched by the AAMS, and were awarded a license. On December 5, 2011, we were informed that the AAMS had executed the nine-year concession agreement with us setting out the terms and conditions of the license in respect of on-line gaming. We subsequently commenced our on-line gaming activities in Italy, including on-line poker, various casino games (roulette, blackjack, “*punto y banca*”) on-line sports betting and bingo.

Laws Affecting Gaming Advertisements

Our operations in Italy are subject to Law No. 189 of November 8, 2012 (the so-called “Decreto Balduzzi”) which requires gaming advertisements to clearly indicate as a percentage, the probability of winning the advertised game, or, if not available, the historical percentage of similar games.

Anti-money Laundering Regulations

We are required to comply with anti-money laundering rules and regulations, including Legislative Decree No. 231 of November 21, 2007, as amended, which implements the EU’s anti-money laundering directive, EU Directive (2005/60/EC). Under the decree we are required to, among other things, verify the identities of our customers, record and preserve customer relationship data in a Consolidated Computer Archive (*Archivio Unico Informatico*) and report this information as well as any suspicious transactions to the proper authorities. Under the decree we must also implement effective internal control measures and ensure adequate training of employees with respect to their obligations.

The Anti-Mafia Code

As of February 13, 2013, we are subject to the anti-mafia provisions established by Italian Legislative Decree No. 159 of September 6, 2011, as subsequently amended (the “Anti-Mafia Code”). Under the Anti-Mafia Code, we are required to, among other things, provide the relevant public body with information regarding the Group and its related parties, such as shareholders, directors, general managers as well as any other natural person who may cohabit with such related parties. Such information must be transmitted prior to the execution of agreements or concessions with any public authority.

9. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion together with the consolidated financial statements included elsewhere in this annual report.

Overview

We are one of the leading gaming companies in Spain, Italy and Latin America engaged in the operation of slot machines, casinos and bingo halls and the manufacture of slot machines for the Spanish market. In Spain, we are the leader in the €14.8 billion Spanish private gaming market, where our key activities include: the operation of slot machines, in which, as of December 31, 2013, we are the #1 operator with over 25,000 slot machines operated; the operation of four casinos; the operation of bingo halls, in which our Bingo Division is the #1 operator with 48 bingo halls; and the manufacture of slot machines, where we are the #1 manufacturer, with over 32,000 slot machines and gaming kits manufactured in the year ended December 31, 2013.

In Italy, we have established a strong presence in the slot machine market with over 14,500 slot machines situated in approximately 2,900 locations across central and northern Italy. As of December 31, 2013, we have also completed the deployment of 2,547 of the 2,583 VLTs planned for installation in Italy.

In Argentina, we operate eight casinos, including two riverboat traditional casinos in the city of Buenos Aires with 130 gaming tables and 1,725 slot machines and a traditional casino located in Rosario with 80 gaming tables and 2,976 slot machines. Our four electronic casinos in the Province of Mendoza and Casino Central Mendoza operate 1,654 casino-style slot machines.

In Colombia, we operate 18 traditional casinos with 2,552 slot machines and 46 electronic casinos with a total of 3,352 slot machines.

In Panama, we operate one traditional casino in Panama City with 31 tables and 365 slot machines and 26 electronic casinos with a total of 7,325 slot machines.

In Mexico, we operate 20 bingo halls that also have a casino-style slot machine offer.

Accounting and Auditing Principles

In this annual report, we have presented our audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011. These consolidated financial statements are prepared in accordance with IFRS-EU.

Our auditors, Ernst & Young S.L. and Cortés & Pérez Auditores y Asesores Asociados, S.L., independent auditors, have audited our financial statements in accordance with auditing standards generally accepted in Spain and issued unqualified audit opinions for our audited financial statements for each of the years ended December 31, 2013, 2012 and 2011.

For a description of certain changes to IFRS standards and interpretations that we have adopted in our consolidated financial statements, see notes 2.3 and 2.4 to our audited consolidated financial statements for the year ended December 31, 2013.

Segment Reporting

Our company is presently organized into five business divisions: Slots, Casinos, Bingo, B2B and On-Line Gaming (which became a business division in the third quarter of 2012). Our primary basis of segment reporting is by business division, which reflects the management structure of our business, our system of internal financial reporting and what we believe to be the predominant source of the risks and returns in our business. We report operating revenues, net operating revenues, EBIT, EBITDA and net result for each of our business divisions. Our secondary basis of segment reporting is geographic, and we report operating revenues and total assets for Spain, Latin America and Italy. See note 3 to our audited consolidated financial statements for the year ended December 31, 2013.

In this operating and financial review, one of the key measures that we utilize to assess and analyze our performance and the performance of our divisions is EBITDA, which on a consolidated basis we define as profit before tax, depreciation, amortization and impairment, financial results, foreign exchange results and loss on sale of non-current assets. We view EBITDA as providing a more useful tool to assess and analyze the performance of Cirsa and its consolidated subsidiaries (the “Group” or “Cirsa Group”) and our business divisions and our overall liquidity than operating profit or net result.

For the year ended December 31, 2013, we also present Adjusted EBITDA for the Slots Division, which define as EBITDA before the one-time settlement payment to the CdC of €36.0 million made on November 15, 2013.

Consolidation Method

As described in our audited consolidated financial statements for the year ended December 31, 2013, we use the full consolidation method for subsidiaries, the proportional consolidation method for jointly-controlled companies and the equity method for affiliated companies.

We own less than 100% of a number of our material subsidiaries, including the Winner Group companies in Colombia (in which we own a 50.01% interest) and Juegomatic S.A. (in which we own a 75.0% interest). We use the proportional consolidation method for our companies in which we own a 50.0% interest, which include our casino in Rosario and our traditional casino in Panama.

We will adopt IFRS 11 “Joint Arrangements” with effect from January 1, 2014. Among other things, IFRS 11 eliminates the use of the proportional consolidation method for jointly-controlled companies. Under IFRS 11, certain of our joint arrangements, the terms of which are renegotiated from time to time, may be reclassified as either joint ventures and accounted for using the equity method or be fully consolidated. Our most significant joint arrangement entity that is presently accounted for under the proportional consolidation method is Casino de Rosario S.A.. Any change arising from the application of IFRS 11 would be presentational in nature and does not effect underlying cash flows. We are currently assessing the control over such entities and consequently their accounting treatment under IFRS 11. Under the indenture for the notes, the financial ratios and financial definitions are generally determined in accordance with IFRS as in effect from time to time.

Latin American Currency Effects

Our Latin American businesses account for a significant and increasing portion of the operating revenues, EBIT and EBITDA of the Cirsa Group generally and our Casinos Division in particular. Our B2B Division also generates revenues from its electronic lottery business in Argentina. The results of operations and financial position of the Cirsa Group and our Casinos Division, in particular, have from time to time been adversely affected by currency movements. During the period under review, the currency movements that have had the most significant effect on our results of operations have been the depreciation or appreciation of the U.S. dollar (which is the functional currency in Panama), the Colombian peso and the Argentine peso against the euro. For example, in 2013, the depreciation of the Colombian peso and the Argentine peso against the euro adversely impacted our results of operations. Conversely, the appreciation of the U.S. dollar and the Colombian peso against the euro in 2012 positively impacted our results of operations when compared to the prior period. We expect that our results of operations and financial condition will continue to be impacted by the effect of currency movements on our Latin American businesses in the future. We do not currently engage in and have no plans to enter into currency hedging transactions.

The depreciation of the Argentine peso against the euro has adversely affected our results of operations and financial condition in prior years. Following a sharp depreciation of the Argentine peso against the euro in 2001 and 2002 as a result of the Argentine government’s adoption of a floating exchange rate for the Argentine peso in response to the economic crisis in the country, the Argentine peso has since continued to decline, albeit more gradually. The exchange rate for the Argentine peso against the euro moved from Ps.1.50 per euro as of December 31, 2001 to Ps.3.53 per euro as of December 31, 2002 to Ps. 5.24 per euro as of December 31, 2009 to Ps.8.99 per euro as of December 31, 2013.

Due to translation effects, the depreciation of the Argentine peso has resulted in a decrease in euro terms of the revenues of our Argentine business, our Casinos Division and the Group. The impact of this decline has been partially offset due to the incurrence of most of the operating costs of our Argentine business in local currency, which has resulted in generally stable operating margins for the Argentine business. The depreciation of the Argentine peso against the euro is generally accompanied by inflationary effects, which results in an increase in Argentine peso revenues.

Key Factors Affecting Our Results of Operations

Slots

Our Slots Division is comprised of our Spanish slots business and our Italian business, where we are a network system operator for slot machines and also operate VLTs.

Revenues and profitability for our Slots Division in Spain have generally been stable and predictable, although revenues and profitability have been adversely affected by the economic downturn and smoking ban in Spain, which has been partly offset by the contribution of slots and VLTs in Italy. Following a period of rapid growth due to the consolidation of the Spanish slots market, the size of our slot machine installed base in Spain has been relatively stable in recent years, and we have generally focused on optimizing revenue per machine and profitability. Because the minimum wager, gaming taxes and payout per slot machine are regulated by law, we have concentrated on identifying and obtaining attractive sites to place our slot machines and controlling operating costs and expenses through efficient management. We monitor slot machine performance carefully to determine when to replace or relocate slot machines to improve profitability. As a part of our overall strategy to improve profitability, during the last several years we have eliminated underperforming slot machines. The total number of slot machines in the Spanish market has contracted in recent years, and we expect that this trend may continue. This contraction and the ongoing consolidation of the Spanish slots market present opportunities for acquisitions. We have continued to pursue selective acquisitions of attractive slot machine operations, including our acquisition in 2011 of approximately 1,700 slot machines from several small operators, and our acquisition of a 51% interest in seven small Spanish slot route operating companies that operate approximately 4,500 slot machines in July 2013.

Profitability in our Slots Division is affected by the terms of our agreements with site owners and the agreements we enter into to acquire new route operations. When we acquire other slots operators in Spain, we frequently enter into participation agreements with the acquired operators to facilitate our acquisition or to retain the strategic benefits of the acquired slot operators' relationships with site owners. The participation agreements with sub-operators are profit sharing agreements, the terms of which vary by sub-operator. Payments to sub-operators are recorded in the segment results of the Slots Division as an expense under Consumption. Our profitability is affected by the degree to which our locations are subject to these profit sharing arrangements. Approximately half of our slot machines were covered by such arrangements during the periods under review. As part of our strategy to maintain our performance during the economic downturn, we have focused on the renegotiation of the terms of the profit sharing agreements.

Starting in 2008, we expanded our Spanish slots business by opening arcades, where we are generally not required to enter into profit-sharing arrangements. Due to the economic downturn in Spain, we have suspended our plans to open additional arcades, and during 2011 we recorded a €12.0 million impairment charge, in respect of our arcades. We recorded an impairment charge of €5.2 million in 2012 and €1.3 million in 2013 and may record additional impairment charges in future periods.

The performance of our Slots Division is also affected by regulatory changes in Spain with respect to the number of slot machines permitted per site, the minimum wager, the maximum payout per slot machine, licensing fees and taxes assessed on slot machines. Costs associated with the regulatory environment have been relatively stable in recent years.

We have been a network system operator for slot machines in Italy since 2004 and currently have government concessions to continue as both a slots and VLT network systems operator through 2022. The Italian slots and VLT market has been characterized by significant regulatory, tax and operational uncertainty. In 2009, we received authorization to operate VLTs in Italy and were awarded a concession for the installation of 2,583 terminals. We have made substantial investments since 2009 in connection with the initial deployment of the VLTs. The profitability of our Italian business has been impacted by increases in gaming taxes in 2012 and 2013 as well as increased competition in the VLT market.

Casinos

The revenues and profitability for our Casinos Division have been impacted by a variety of factors, including currency effects, the effects of acquisitions and opening new or expanded casinos, regulatory changes and location-specific factors. Our Casinos Division derives revenues primarily from gaming tables and slot machines which, in turn depends on the number of gaming tables and slot machines at each casino, the popularity of these games and the overall mix of gaming tables and slot machines. Revenues are also affected by the number of visitors to our casinos, the average visit length and the average amount wagered by visitors.

A majority of the revenues of our Casinos Division are generated by our casinos in Latin America, principally our casinos in Argentina, Panama and Colombia. We have expanded our business in Colombia, where we did not operate prior to 2007, through the acquisitions of the Winner Group in 2007 and Unidelca in 2010. In Argentina, we opened the Rosario casino in October 2009 and substantial investments have been made in our Buenos Aires riverboat casinos to expand capacity and install new gaming machines. Likewise, we have made significant investments in our Panama casino business to expand capacity and install new gaming machines. In November 2011, we acquired a 33% share of a bingo hall in Buenos Aires, which we consider, for consolidation purposes, to be part of our Casinos Division.

In contrast to our growing Latin American casino business, the revenues and profitability of our Spanish casino business have been adversely affected by the economic downturn in Spain.

Our revenues and profitability, as well as the comparability of our results from period to period, may be impacted by the acquisition of additional casinos and the opening of new casinos. Besides the costs of acquiring a casino license or a casino, we also incur costs in connection with the acquisition of new or additional slot machines for our casinos and the refurbishment of our casinos. We also incur start-up costs in connection with the hiring and training of staff for new casinos. It also typically takes a period of time before a newly- opened casino attains profitability.

The performance of our Casinos Division is also affected by regulatory changes in the number of casino licenses issued, permitted slot machines per site, the minimum wager, licensing fees and taxes assessed on casinos and slot machines, as well as by systemic shifts in the regulatory framework. For example, our results of operations in Panama and for Casino de Rosario have been impacted by increases in gaming taxes. During 2011, due to changes in the political and regulatory environments, our casino business ceased operations in Venezuela and Ecuador. During 2012, we recorded a write-off for the entire value of our Venezuelan business. In several of our casino locations, we presently operate the only casino in the area due to our exclusive license. In other locations, such as the Dominican Republic and Panama, we face competition from other casinos in the area. In addition to gaming industry regulation, our casinos may be impacted by other regulatory changes, such as the imposition of anti-smoking legislation.

Bingo

Our Bingo Division operates bingo halls in Spain and Mexico and has a minority interest in 12 bingo halls in Italy.

The majority of revenues from traditional bingo halls are derived from card sales. Card sales tend to increase with the availability of larger prize pools which, in turn, depends on the number of players during each game. Consequently, larger bingo halls generate more card sales. The development and implementation of linked bingo halls and similar technology also has the potential to generate more card sales.

The majority of the cost of running our bingo halls relates to employee expenses and gaming taxes. Increased profitability of our bingo hall operations depends on realizing operating efficiencies at bingo halls, principally through improved staffing practices and an increase in the average number of games played per day. The performance of our bingo hall operations may be affected by changes in gaming taxes. While gaming taxes on bingo halls in Spain have generally been stable, there have been some initiatives to decrease gaming tax levels in order to stimulate the levels of customer participation.

In general, the revenues and profitability of traditional bingo halls in Spain has been declining in recent years due to a variety of factors, including customer demographics, the effects of the strict smoking bans and the economic downturn. We have undertaken a number of measures to improve the performance of the Spanish bingo halls to offset the decline in traditional bingo revenues including the closure of underperforming bingo halls. We closed five bingo halls in 2011, three bingo halls in 2012 and one bingo hall in 2013. The closure of bingo halls will result in decreased revenues and the payment of severance expenses. We have also recorded impairment charges in respect of our Spanish bingo halls in 2011 and 2012, and an impairment charge of €16.6 million in 2013 and may record additional impairment charges in the future.

We entered the Mexican bingo hall business in 2006, and since then have been engaged in the opening of new bingo halls. As of December 31, 2013, we operated 20 bingo halls in Mexico. The results of our bingo hall business in Mexico have been impacted by the significant start-up costs associated with opening new halls. In contrast to the Spanish bingo hall business, our Mexican bingo hall operations have a broad entertainment offer, including casino-style slot machines. We have been implementing the “Casino Life” concept and the accelerated introduction of casino-style slot machines. We expect to make additional selective investments in our Mexican bingo hall business to install additional slot machines, to expand capacity in our existing halls and to acquire or to open additional bingo halls. As is the case with some of our other businesses, our Mexican bingo hall business has been impacted by changes in regulation.

B2B

We believe that among the key factors that drive the revenues and profitability of the B2B Division are the popularity of the new games for slot machines that we and our competitors introduce, the volume of slot machines that we sell in the Spanish market, the product mix between slot machines and gaming kits, the mix between sales to third parties and to our own Slots Division and our ability to realize cost savings and operational efficiencies in our manufacturing operations. One of the key elements of our strategy is to concentrate on market leadership in the Spanish amusement with prize (“AWP”) slots market and interlinked bingo halls. In general, our margins benefit if we are able to attain a robust market share in the Spanish AWP slots market as a result of the popularity of our slot machine games. Our B2B business has been adversely impacted by the reduction in the overall size of the Spanish slot machine market, as slot operators have discontinued underperforming slot machines.

Our manufacturing costs are comprised principally of materials, components and labor costs. Innovation is critical to the success of our slot machines and investment in research and development also accounts for a portion of our costs. A significant portion of the operating costs and expenses of our B2B Division are fixed costs, although we have undertaken initiatives to move towards a more variable-cost model.

The interactive business of our B2B Division currently generates revenues from supporting our Slots Division in Italy, our on-line lottery business in Argentina and interlinked bingo games in Catalonia, Madrid and Andalusia.

On-line Gaming

Our On-Line Gaming business division commenced operations in the third quarter of 2012. In December 2013, we sold Cirsa Digital, S.A., which operates the Spanish operations of our On-Line Gaming division to *Sportium*, our joint venture with Ladbrokes PLC. See “Business – Slots Divisions – Joint Venture with Ladbrokes PLC”.

Principal Profit and Loss Account Items

The following is a brief description of the revenues and expenses that are included in the line items of our consolidated profit and loss accounts.

Operating Revenues

Operating revenues are principally comprised of revenues from our operations and, to a lesser extent, other activities.

Operations. We record operating revenue from our principal business divisions as follows:

Slots. Operating revenues from our slot machines are recorded as the total amount collected, net of prizes. Operating revenues also include the revenues from our VLTs in Italy and our *Sportium* sports betting joint venture.

Bingo. Operating revenues from our Bingo Division are recorded as the total amount of bingo cards sold, according to their face value, and with effect for January 1, 2013, in accordance with IFRS, net of bingo prizes. Bingo prizes refer to the prizes payable on bingo cards. Our Bingo Division also records operating revenue from sales of food and drinks.

Casinos. Operating revenues from our Casinos Division are recorded as the net amount (“win”), which is after deducting the prizes paid to customers. Our Casinos Division also records revenue from admission fees, on-site bars, restaurants and tips and from bingo operations located at some of our electronic casinos in Latin America.

B2B. Operating revenues from our B2B Division include sales of our slot machines and gaming kits to third parties and sales by our distribution companies of slot machines produced by third parties.

Other. We also record operating revenue from a variety of other activities, including revenues from slot machines located in bingo halls and revenues and overhead costs reimbursed from joint ventures, personal services and license fees.

Net Operating Revenues

Net operating revenues are comprised of operating revenues less variable rent.

Variable rent refers to the amount collected from slot machines that are payable to the owner of the premises on a revenue-sharing basis.

Consumption

Consumption costs for our Slots Division include contractual payments to sub-operators (which are based on a profit sharing formula that varies by sub-operator). For our Bingo and Casinos Divisions, these costs principally include ordinary course costs such as bingo cards, playing cards and chips and food and beverage expenses. Our B2B Division’s costs include raw materials and costs of finished and semi-finished components furnished by third-party contractors.

External Supplies and Services

External supplies and services expenses primarily are comprised of start up costs, rent and lease costs for facilities and vehicles, professional expenses and advertising, promotion and public relation expenses.

Personnel

Our personnel costs include wages and salaries, employee benefit costs and employee indemnity payments.

Taxes on Gaming

Gaming tax expenses include all taxes relating to our gaming activities assessed by national, regional and local authorities.

Depreciation, Amortization and Impairment

Depreciation expense relates to the depreciation of property, plant and equipment.

Amortization expense principally relates to the amortization of the cost of our licenses for gaming services in Panama, and capitalized development costs of our B2B Division. We do not have any license costs for licenses that are awarded in public tenders, such as our Buenos Aires casino license.

Impairment relates to the impairment loss in respect of intangible assets, including goodwill, property, plant and equipment and equity investments.

We capitalize those development costs which qualify for recognition as an asset pursuant to IAS 38 which, in any case, represent a minority portion of the total expenditures in research and development linked to our B2B Division. In our consolidated cash flow statement, this is shown as a movement in "Purchase and development of intangibles."

Variation in Operating Provisions

Variation in operating provisions principally relates to movements in allowances for receivables and inventories.

Financial Results

Financial results comprises financial income less financial costs and expenses.

Financial income is comprised of income from financial investments, interest from loans made to a variety of parties, including Nortia, site owners and sub-operators in our Slots Division, and site owners of certain international casinos.

Financial costs and expenses is comprised of interest expenses and variation in financial provisions.

Foreign Exchange Results

Foreign exchange results refers to realized and unrealized exchange gains and losses and other financial results. The intragroup exchange gains/losses in foreign subsidiaries arising from loans granted by Cirsa are recorded in the consolidated balance sheet under "Cumulative Translation Reserve" and therefore do not affect the consolidated income statement so long as the loans constitute a component of Cirsa's total net investment in the foreign subsidiary.

Income Tax

Due to Spanish tax legislation, our history of acquisitions and dispositions and internal corporate reorganizations as the Cirsa Group has grown, and the significant international operations of the Cirsa Group, our tax position is complex.

For Spanish tax purposes, as of December 31, 2013, we have three groups that file their tax returns on a fiscal consolidated basis: one group has six Spanish companies, the second group has eight Spanish companies and the third group has 71 Spanish companies. As of December 31, 2013, under Spanish tax legislation, Cirsa 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 its tax consolidated group. Spanish companies that are not part of the fiscal consolidated group pay tax on an unconsolidated basis (unless it belongs to another fiscal group). Our non-Spanish subsidiaries are not included in the tax consolidated group and pay taxes in their local jurisdiction.

The statutory corporate tax rate in Spain during 2013 was 30.0%. We define our effective tax rate as our income tax expense over our profit (loss) before tax. The level of our effective tax rate is influenced by a number of factors, including (i) the profitability of Group companies, (ii) the fact that certain expenses in the profit and loss account are not deductible for Spanish tax purposes and (iii) the availability of tax credits to offset against profits so as to reduce tax expense.

Minority Interest

Minority interest is comprised of the results included in consolidated results for which we do not own 100%. During the period under review, minority interest is principally attributable to minority ownership interests in the Winner Group, Juegomatic S.A., and a Panamanian casino business.

EBITDA

We define EBITDA as profit before tax, depreciation, amortization and impairment, financial results, foreign exchange results and loss on sale of non-current assets.

Segment Results—Other Structure/Consolidation

In determining the operating revenues, total EBIT and total EBITDA for the Group, we have to take account of certain unallocated corporate overhead costs and consolidation adjustments. Corporate overhead costs include such items as payroll expenses, rent expenses and the costs of professional services. We allocate a portion of corporate overhead costs to each division based on their use of such services. Corporate overhead costs allocated to a division are included in the division's "External supplies and services."

Consolidation adjustments primarily relate to (i) the adjustment of unrealized margins on assets and depreciation in order to show the assets at their original cost and (ii) the elimination of intercompany balances arising from financial operations, rental agreements, payment of dividends, purchase and sale of inventories, tangible fixed assets and investments, and services.

Results of Operations

Year ended December 31, 2013 compared to year ended December 31, 2012

The following table sets forth, by business division, operating revenues, net operating revenues, EBIT and EBITDA for the year ended December 31, 2013 and 2012:

| | Year ended December 31, | | |
|--|----------------------------|----------------|------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Operating Revenues:⁽¹⁾ | | | |
| Slots..... | 712.5 | 731.3 | 18.8 |
| Casinos..... | 565.4 | 581.4 | 15.9 |
| Bingo..... | 240.2 | 222.6 | (17.5) |
| B2B..... | 103.5 | 91.6 | (11.9) |
| On-Line Gaming..... | 1.9 | 3.8 | 1.9 |
| Other ⁽²⁾ | (46.2) | (45.6) | 0.6 |
| Total | 1,577.3 | 1,585.1 | 7.8 |

| | Year ended December 31, | | |
|--------------------------------|----------------------------|----------------|-------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Net Operating Revenues: | | | |
| Slots..... | 498.6 | 520.5 | 21.9 |
| Casinos..... | 561.4 | 577.9 | 16.5 |
| Bingo..... | 230.9 | 214.9 | (16.1) |
| B2B..... | 103.5 | 91.6 | (11.9) |
| On-Line Gaming..... | 1.9 | 3.8 | 1.9 |
| Other ⁽²⁾ | (46.2) | (45.6) | 0.6 |
| Total | 1,350.0 | 1,363.0 | 13.0 |

| | Year ended December 31, | | |
|----------------------------------|----------------------------|--------------|---------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| EBIT: | | | |
| Slots ⁽³⁾ | 33.5 | (3.9) | (37.5) |
| Casinos..... | 132.4 | 153.2 | 20.8 |
| Bingo..... | (3.4) | (14.1) | (10.7) |
| B2B..... | 17.3 | 19.3 | 2.0 |
| On-Line Gaming..... | (5.6) | (5.7) | (0.1) |
| Other ⁽²⁾ | (11.9) | (15.2) | (3.3) |
| Total⁽³⁾ | 162.5 | 133.7 | (28.8) |

| | Year ended December 31, | | |
|----------------------------------|----------------------------|--------------|---------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| EBITDA: | | | |
| Slots ⁽³⁾ | 93.3 | 53.7 | (39.6) |
| Casinos..... | 203.7 | 225.8 | 22.0 |
| Bingo..... | 25.9 | 25.6 | (0.4) |
| B2B..... | 22.3 | 22.2 | (0.1) |
| On-Line Gaming..... | (5.4) | (5.4) | 0.1 |
| Other ⁽²⁾ | (17.8) | (19.7) | (1.9) |
| Total⁽³⁾ | 322.0 | 302.1 | (19.9) |

(1) In accordance with IFRS, with effect from January 1, 2013, Operating revenues are recorded net of Bingo prizes. Bingo prizes refers to the prizes payable on Bingo cards. Operating revenues for 2012 have been restated. Operating revenues for the other periods have not been restated.

(2) Other includes central corporate services and certain inter-segment consolidation adjustments.

(3) Our EBIT and EBITDA of our Slots division, as well as our EBIT and EBITDA of the Group for 2013 includes the payment of €36.0 million to the CdC on November 15, 2013. Adjusted EBITDA of our Slot Division and Adjusted EBITDA of the Group for 2013 amounted to €89.7 million and €338.1 million, respectively.

Year ended December 31, 2013 compared to year ended December 31, 2012

Group Results of Operations

Net Operating Revenues

Net operating revenues increased by €13.0 million, or 1.0%, to €1,363.0 million in 2013 from €1,350.0 million in 2012. The increase in net operating revenues was primarily due to the growth in revenues from our casinos in Argentina and Panama, our Italian slots and VLT businesses and our Mexican bingo halls as well as the effects of the acquisition of seven small route operators in Spain in July 2013. These increases offset the decline in net operating revenues from our Spanish bingo halls and the B2B Division.

EBIT

EBIT decreased from €162.5 million in 2012 to €133.7 million in 2013 primarily due to the payment to the CdC on November 15, 2013. Excluding the €36.0 million payment related to such settlement, EBIT would have increased from €162.5 million in 2012 to €169.7 million in 2013, primarily due to operating efficiencies.

EBITDA and Adjusted EBITDA

EBITDA decreased 6.2% from €322.0 million in 2012 to €302.1 million in 2013 primarily due to the payment to the CdC on November 15, 2013. However, Adjusted EBITDA increased 5.0% from €327.0 million in 2012 to €338.1 in 2013. Adjusted EBITDA margin (Adjusted EBITDA as a percentage of net operating revenues) increased from 23.8% in 2012 to 24.8% in 2013.

The improvements in Adjusted EBITDA and Adjusted EBITDA margin is primarily due to the performance in our casinos in Latin America, particularly Argentina and Panama. EBITDA margin improved for our Bingo Division, in part due to increased operating efficiencies in Spain. Adjusted EBITDA decreased for the Slots Division, and EBITDA decreased slightly for the Bingo and B2B Divisions. The On-Line Gaming Division, which commenced operations in the third quarter of 2012 and is still in the start-up phase, continued to report negative EBITDA.

Financial Results

Financial result was negative €93.6 million in 2013 as compared to negative €90.5 million in 2012. The decrease is attributable to change in financing mix (due to the issuance of €100.0 million of notes in February 2013 to repay bank loans), the costs associated with transactions in Argentinean bonds in connection with the repatriation of funds from Argentina to Spain and the €1.5 million of accrued interest paid to the CdC as part of the final settlement agreement.

Foreign Exchange Results

Foreign exchange results was negative €7.3 million in 2013 as compared to €6.3 million in 2012.

Income Tax Expense

Income tax expense decreased to €28.5 million in 2013 from €56.1 million in 2012. The decrease is primarily due to the impact of €18.2 million non-cash tax credits related to our Mexican operations. The increase in profits generated in Mexico during 2013 was offset by accumulated losses from prior years.

Net Profit

As a result of the foregoing, net profit, after minority interests, was negative €13.1 million in 2013 as compared to €0.2 million in 2012.

Results of Operations by Division

Slots

| | Year ended | | |
|---|-----------------|--------------|---------------|
| | December 31, | | |
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Operating Revenues | 712.5 | 731.3 | 18.8 |
| Variable rent | (213.9) | (210.9) | 2.2 |
| Net Operating Revenues | 498.6 | 520.5 | 21.9 |
| Consumption | (39.0) | (32.6) | 6.4 |
| Personnel expenses | (46.8) | (49.0) | (2.2) |
| Gaming taxes | (250.1) | (313.0) | (62.9) |
| External supplies and services | (69.3) | (72.2) | (2.9) |
| Depreciation, amortization and impairment | (59.8) | (57.6) | 2.1 |
| EBIT | 33.5 | (3.9) | (37.5) |
| EBITDA | 93.3 | 53.7 | (39.6) |
| Adjusted EBITDA | 93.3 | 89.7 | (3.6) |

- (1) Slots Division EBITDA for 2013 includes the payment of €36.0 million to the CdC on November 15, 2013. Slots Division Adjusted EBITDA for 2013 excludes the above mentioned payment.

Revenues. Operating revenues from our Slots Division principally represent revenues collected from our slot machines after prize payouts. Operating revenues also include the revenues from the *Sportium* sports betting joint venture. Operating revenues increased 2.8% from €712.5 million in 2012 to €731.3 million in 2013. Net operating revenues from our Slots Division represent operating revenues after variable rent payments made to site owners. Net operating revenues increased 4.4% from €498.6 million in 2012 to €520.5 million in 2013.

In Spain, net operating revenues increased by 5.5% in 2013 as compared to 2012 primarily due to the acquisition in July 2013 of seven small slot route operator companies that operate approximately 4,500 slot machines. The effects of the acquisition in Spain offset the impact of the discontinuation of underperforming slot machines as well as the economic downturn and smoking ban in Spain. Average revenues per unit increased in 2013 as compared to 2012. We had 25,046 slot machines in operation in Spain as of December 31, 2013 compared to 20,813 units as of December 31, 2012.

In Italy, net operating revenues increased 3.5% in 2013 as compared to 2012, primarily due to the addition of VLTs and slot machines. As of December 31, 2013, in Italy we operated 10,867 slot machines and provided third-party interconnection services for an additional 3,706 slot machines, as compared to the operation of 10,413 slot machines and provision of interconnection services for 4,141 slot machines as of December 31, 2012. Our number of installed VLTs increased from over 2,200 terminals as of December 31, 2012 to 2,547 as of December 31, 2013.

Costs and Expenses. Costs and expenses for our Slots Division principally include taxes on gaming activities, payments to sub-operators under participation agreements, personnel expenditures, depreciation, amortization and impairment expenses and external supplies and services expenses.

Overall costs and expenses for our Slots Division increased by 12.8% to €524.4 million in 2013 as compared to €465.0 million in 2012. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes, which in Spain are incurred annually based on a fixed amount for each machine but in Italy are incurred at a variable rate based on machine revenues, increased by 25.1% from €250.1 million in 2012 to €313.0 million in 2013. Gaming taxes in 2013 include the one-time settlement payment to the CdC of €36.0 million made on November 15, 2013. This increase is also attributable to the increase in revenues in Italy, the 100 basis point increase in the gaming tax rate in Italy with effect

from January 1, 2013, and the operation of additional VLTs in Italy, which are subject to a higher tax rate than slot machines. As a percentage of segment net operating revenues, gaming taxes increased to 60.1% in 2013 from 50.2% in 2012.

- *Personnel Expenses.* Personnel expenses include wages and salaries for commercial, collection and technical support employees. This expense category increased slightly to €49.0 million in 2013 from €46.8 million in 2012.
- *Consumption.* Consumption expense is primarily comprised of payments to sub-operators. This expense decreased by 16.4% from €39.0 million in 2012 to €32.6 million in 2013. This decrease was primarily attributable to lower payments made to sub-operators due to the combination of lower organic slot machine revenues in Spain and the impact of the renegotiation of profit-sharing agreements with slot operators.
- *External Supplies and Services.* This expense category increased by 4.2% from €69.3 million in 2012 to €72.2 million in 2013, primarily due to start-up costs associated with the deployment of VLTs in Italy, including opening new sites and promotional activities.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses decreased by 3.6% from €59.8 million in 2012 to €57.6 million in 2013. The decrease was primarily attributable to the €5.1 million impairment adjustment made in 2012, which partly offset the increase in depreciation costs associated with our investments in slot machines in Spain and slot machines and VLTs in Italy during 2012 and 2013.

EBIT. EBIT for our Slots Division decreased from €33.5 million in 2012 to negative €3.9 million in 2013.

EBITDA and Adjusted EBITDA. EBITDA for our Slots Division decreased from €93.3 million in 2012 to €53.7 million in 2013. Adjusted EBITDA decreased by 3.9% from €93.3 million in 2012 to €89.7 million in 2013. Adjusted EBITDA margin (Adjusted EBITDA as a percentage of segment net operating revenues) decreased from 18.7% in 2012 to 17.2% in 2013. The decrease in Adjusted EBITDA and Adjusted EBITDA margin is primarily due to the effects of the higher VLT gaming tax rate in Italy during 2013, which increased by 100 basis points on January 1, 2013.

In Spain, EBITDA increased by 13.0% to €59.5 million in 2013 from €52.6 million in 2012. This increase was due to the July 2013 acquisition of approximately 4,500 slot machines and the positive impact of the discontinuation of underperforming slot machines, which offset the effects of the economic downturn and smoking ban in Spain.

Our Italian business recorded EBITDA of negative €5.8 million in 2013 compared to €40.7 million in 2012, reflecting the payment of the CdC settlement. Adjusted EBITDA decreased by 25.8% from €40.7 million in 2012 to €30.2 million in 2013. The decrease reflects the combined impact of the higher VLT gaming taxes in Italy during 2013 and decreased operating margins at newer VLT locations due to increased competition in the VLT market.

Casinos

| | Year ended December 31, | | |
|---|----------------------------|--------------|-------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Operating Revenues⁽¹⁾ | 565.4 | 581.4 | 15.9 |
| Variable rent | (4.0) | (3.5) | 0.6 |
| Net Operating Revenues | 561.4 | 577.9 | 16.5 |
| Consumption..... | (12.7) | (10.4) | 2.3 |
| Personnel expenses | (113.9) | (117.2) | (3.4) |
| Gaming taxes | (107.3) | (109.2) | (1.9) |

| | | | |
|---|--------------|--------------|-------------|
| External supplies and services | (123.7) | (115.3) | 8.4 |
| Depreciation, amortization and impairment | (71.3) | (72.5) | (1.2) |
| EBIT | 132.4 | 153.2 | 20.8 |
| EBITDA | 203.7 | 225.8 | 22.0 |

(1) In accordance with IFRS, with effect from January 1, 2013, Operating revenues are recorded net of Bingo prizes. Bingo prizes refers to the prizes payable on bingo cards. Operating revenues for 2012 have been restated. Operating revenues for the other periods have not been restated.

Revenues. Operating revenues from our casinos primarily comprise revenues from gaming tables and slot machines located at our casinos. We also generate revenues from restaurant services, admission ticket sales and tips and from bingo operations located at some of our electronic casinos in Latin America. Operating revenues from our casinos increased by 2.8% from €565.4 million in 2012 to €581.4 million in 2013.

Net operating revenues from our Casinos Division represent operating revenues after variable rent payments. Net operating revenues increased by 2.9% from €561.4 million in 2012 to €577.9 million in 2013. The increase in revenues is primarily due to the higher revenues resulting from the expansion of our casinos in Argentina and the installation of additional slot machines in our better performing casinos in Panama. Revenues decreased slightly in Colombia due to the temporary closure of one hall for renovation and the impact of the depreciation of the Colombian peso against the euro.

Costs and Expenses. Costs and expenses from our casinos principally include personnel expenditures, depreciation, amortization and impairment expenses, taxes on gaming and other operating expenses.

Costs and expenses from our casinos decreased from €429.0 million in 2012 to €424.7 million in 2013. The key changes in the components of segment operating expenses are as follows:

- *External Supplies and Services.* External supplies and services expenses for our Casinos Division include costs such as security, travel, professional services, sales and marketing, and lease costs for our casinos. This expense category decreased to €115.3 million in 2013 from €123.7 million in 2012. As a percentage of net operating revenues, this expense category decreased to 20.0% in 2013 compared to 22.0% in 2012. The decrease is primarily attributable to the impact of our operating efficiencies programs.
- *Gaming Taxes.* Gaming taxes increased commensurate with our revenues by 1.8% to €109.2 million in 2013 as compared to €107.3 million in 2012.
- *Personnel Expenses.* Personnel expenses increased 3.0% to €117.2 million in 2013 compared to €113.9 million in 2012. As a percentage of net operating revenues, this expense category remained unchanged at 20.3% in 2013 from 20.3% in 2012.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased slightly to €72.5 million in 2013, as compared to €71.3 million in 2012.
- *Consumption.* Consumption costs principally include ordinary course costs such as playing cards and chips and food and beverage expenses. Consumption expenses decreased to €10.4 million in 2013 from €12.7 million in 2012.

EBIT. EBIT from our Casinos Division increased to €153.2 million in 2013 from €132.4 million in 2012. EBIT margin (EBIT as a percentage of segment net operating revenues) for the Casinos Division increased to 26.5% in 2013 from 23.6% in 2012.

EBITDA. EBITDA for our Casinos Division increased 10.8% to €225.8 million in 2013 from €203.7 million in 2012. EBITDA margin (EBITDA as a percentage of segment net operating revenues) increased to 39.1% in 2013 as compared to 36.3% in 2012. The EBITDA growth in 2013 was driven by our casinos in Argentina and Panama. EBITDA for our Colombian casinos decreased due to the

temporary closure of one hall for renovation and the impact of the depreciation of the Colombian peso against the euro. EBITDA for our Spanish casinos improved slightly. The improvement in EBITDA margin is primarily attributable to operating efficiencies, the expansion of our existing casino halls in Panama, the installation of additional machines in our better performing halls and the reduction of slot machines in low performing halls.

Bingo

| | Year ended December 31, | | |
|---|----------------------------|---------------|---------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Operating Revenues⁽¹⁾ | 240.2 | 222.6 | (17.5) |
| Variable rent | (9.2) | (7.8) | 1.5 |
| Net Operating Revenues | 230.9 | 214.9 | (16.1) |
| Consumption..... | (10.1) | (8.9) | 1.2 |
| Personnel expenses | (44.1) | (43.3) | 0.8 |
| Gaming taxes | (78.5) | (68.9) | 9.6 |
| External supplies and services | (72.3) | (68.2) | 4.1 |
| Depreciation, amortization and impairment | (29.3) | (39.6) | (10.4) |
| EBIT | (3.4) | (14.1) | (10.7) |
| EBITDA | 25.9 | 25.6 | (0.4) |

- (1) In accordance with IFRS, with effect from January 1, 2013, Operating revenues are recorded net of Bingo prizes. Bingo prizes refers to the prizes payable on Bingo cards. Operating revenues for 2012 have been restated.

Revenues. Operating revenues from our Bingo Division include revenues from sales of traditional bingo cards, net of prize payouts, and revenues from electronic bingo and roulette games and slot machines located in our bingo halls. Operating revenues also include revenues from the Bingo Division's 20 halls in Mexico, which have a broad entertainment offer, including casino-style slot machines.

The following table set forth the number of bingo halls operated by our Bingo Division as of December 31, 2013 and 2012:

| As of December 31 | 2012 | 2013 |
|-------------------|-----------|-----------|
| Spain | 49 | 48 |
| Mexico | 21 | 20 |
| Italy | 10 | 12 |
| Total | 80 | 80 |

Operating revenues from our Bingo Division decreased 7.3% from €240.2 million in 2012 to €222.6 million in 2013. Net operating revenues from our Bingo Division represent operating revenues after variable rent. Net operating revenues decreased by 7.0% from €230.9 million in 2012 to €214.9 million in 2013. The decrease in revenues is primarily due to the ongoing effects of the economic downturn and smoking ban in Spain.

Net operating revenues from our bingo halls in Mexico decreased by 1.7% to €66.0 million in 2013 compared to €67.2 million in 2012. The growth in net operating revenues is primarily due to the installation of additional slot machines in our better performing bingo halls and the opening of a new bingo hall in Mexico in July 2013. This increase was partially offset by the closure of one bingo hall in Mexico during the first quarter of 2013.

Costs and Expenses. Costs and expenses from our bingo operations principally include personnel expenditures, depreciation, amortization and impairment expenses, taxes on gaming and other operating expenses.

Costs and expenses for the Bingo Division decreased slightly by 2.3% from €234.3 million in 2012 to €228.9 million in 2013, consistent with the decrease in net operating revenues. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes decreased by 12.2% to €68.9 million in 2013 from €78.5 million in 2012 primarily due to lower revenues in Spain.
- *Personnel Expenses.* Personnel expenses are primarily comprised of the wages and salaries and employee benefits of our bingo hall staffs. Personnel expenses decreased by 1.8% from €44.1 million in 2012 to €43.3 million in 2013. As a percentage of segment net operating revenues, personnel expenses increased from 19.1% in 2012 to 20.1% in 2013.
- *Consumption.* Consumption expense for our Bingo Division primarily relate to the ordinary course materials required to operate bingo halls, such as food and beverages and bingo supplies. Consumption expense decreased 11.9% from €10.1 million in 2012 to €8.9 million in 2013.
- *Depreciation, Amortization and Impairment Expenses.* Depreciation, amortization and impairment expenses increased from €29.3 million in 2012 to €39.6 million in 2013. In 2013, an impairment charge of €16.6 million was recorded, compared to an impairment charge of €7.6 million in 2012.
- *External Supplies and Services.* This expense category primarily relates to the costs of the installation of new gaming machines in our Mexican bingo halls. External expenses decreased by 5.7% to €68.2 million in 2013 from €72.3 million in 2012.

EBIT. EBIT from our Bingo Division decreased from negative €3.4 million in 2012 to negative €14.1 million in 2013.

EBITDA. EBITDA for our Bingo Division decreased slightly to €25.6 million in 2013 from €25.9 million in 2012. EBITDA margin (EBITDA as a percentage of net operating revenues) increased to 11.9% in 2013 from 11.2% in 2012. The decrease in EBITDA is due to the impact of lower net operating revenues in Spain. The Mexican business contributed EBITDA of €17.3 million in 2013, as compared to €17.4 million in 2012.

The improvement in EBITDA margin is largely due to operating efficiencies.

B2B

| | Year ended December 31, | | |
|--|----------------------------|-------------|---------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Net Operating Revenues | 103.5 | 91.6 | (11.9) |
| Consumption | (39.8) | (32.3) | 7.5 |
| Personnel expenses | (18.9) | (17.9) | 1.0 |
| Gaming taxes | (1.1) | (1.3) | (0.2) |
| External supplies and services | (21.4) | (17.9) | 3.5 |
| Depreciation, amortization and impairment..... | (5.0) | (2.9) | 2.1 |
| EBIT | 17.3 | 19.3 | 2.0 |
| EBITDA | 22.3 | 22.2 | (0.1) |

Revenues. The revenues of our B2B Division include revenues from sales of our slot machines and gaming kits and sales of slot machines produced by third parties by our distribution companies. Also included are revenues generated from supporting the Slots Division in Italy, lottery business in Argentina, and interlinked bingo games in Madrid, Andalusia and Catalonia. Net operating revenues from our B2B Division decreased by 11.5% to €91.6 million in 2013 from €103.5 million in 2012. The decline in revenues is due to the negative impact of the economic downturn in Spain and the reduction in the overall size of the Spanish slot machine market. In addition, a number of slot machine

customers have elected to purchase lower-price slot machine kits to change games or upgrade existing slot machines rather than invest in new slot machines cabinets.

Costs and Expenses. Costs and expenses from our B2B Division are comprised principally of cost of components, direct labor costs, sub-contracting costs, personnel expenditures, depreciation, amortization and impairment expenses and other expenditures such as research and development costs (to the extent not capitalized) and marketing costs.

Costs and expenses for our B2B Division decreased by 16.1%, from €86.2 million in 2012 to €72.3 million in 2013, which cost decrease represents a higher decrease than our 11.5% decrease in revenues.

The key changes in the components of segment operating expenses are as follows:

- *Consumption.* Consumption expenses primarily are comprised of purchases of semi-finished and finished components. Consumption expenses decreased 18.8% from €39.8 million in 2012 to €32.3 million in 2013 primarily as a result of lower sales and the change in sales mix from slot machine cabinets to gaming kits.
- *External Supplies and Services.* External supplies and services expenses decreased 16.4% from €21.4 million in 2012 to €17.9 million in 2013.
- *Personnel Expenses.* Personnel expenses decreased by 5.2% from €18.9 million in 2012 to €17.9 million in 2013.
- *Depreciation, Amortization and Impairment Expenses.* For our B2B Division, this expense category includes depreciation, amortization and impairment expenses and variation in operating provisions. Depreciation, amortization and impairment expenses decreased from €5.0 million in 2012 to €2.9 million in 2013.

EBIT. EBIT from our B2B Division increased from €17.3 million in 2012 to €19.3 million in 2013.

EBITDA. EBITDA for our B2B Division decreased by 0.5% from €22.3 million in 2012 to €22.2 million in 2013. EBITDA margin (EBITDA as a percentage of segment net operating revenues) improved to 24.2% in 2013 from 21.5% in 2012. The increase in EBITDA margin is primarily due to the shift in sales mix to higher margin gaming kits and the impact of cost and productivity improvement initiatives in relation to our manufacturing activities.

On-Line Gaming

| | Year ended December 31, | | |
|---|----------------------------|--------------|--------------|
| | 2012 | 2013 | Change |
| | (€ in millions) | | |
| Net Operating Revenues | 1.9 | 3.8 | 1.9 |
| Consumption..... | (0.0) | (0.7) | (0.7) |
| Personnel expenses | (1.1) | (1.7) | (0.6) |
| Gaming taxes | (0.6) | (0.8) | (0.2) |
| External supplies and services | (5.7) | (6.0) | (0.3) |
| Depreciation, amortization and impairment | (0.2) | (0.3) | (0.1) |
| EBIT | (5.6) | (5.7) | (0.1) |
| EBITDA | (5.4) | (5.4) | 0.1 |

Our On-Line Gaming Division commenced operations in Spain and Italy during the third quarter of 2012 after obtaining the necessary permissions and licenses. We expect that the Division will require approximately three years to reach EBITDA break even, although there can be no assurance that this will be attained. Our on-line gaming plans do not contemplate any material investments since our operating platform is based on technology partnerships with global suppliers.

In 2013, EBITDA for the On-Line Gaming Division was negative €5.4 million. EBITDA has been positively impacted by the reduction of non-recurring start-up expenses incurred in 2012.

Years ended December 31, 2012 and 2011

The following table sets forth, by business division, operating revenues, net operating revenues, EBIT and EBITDA for the years ended December 31, 2012 and 2011:

| | Year ended December 31, | | |
|--------------------------------|--------------------------------|----------------|---------------|
| | 2011 | 2012 | Change |
| | (€ in millions) | | |
| Operating Revenues: | | | |
| Slots | 706.7 | 712.4 | 5.8 |
| Casinos | 495.5 | 568.1 | 72.7 |
| Bingo | 494.9 | 476.4 | (18.6) |
| B2B..... | 106.2 | 103.5 | (2.7) |
| On-Line Gaming..... | — | 3.4 | 3.4 |
| Other ⁽¹⁾ | (56.5) | (46.2) | 10.2 |
| Total..... | 1,746.8 | 1,817.6 | 70.8 |
| Net Operating Revenues: | | | |
| Slots | 476.2 | 498.6 | 22.4 |
| Casinos | 490.1 | 561.4 | 71.3 |
| Bingo | 241.2 | 230.9 | (10.2) |
| B2B..... | 106.2 | 103.5 | (2.7) |
| On-Line Gaming..... | — | 1.9 | 1.9 |
| Other ⁽¹⁾ | (56.5) | (46.2) | 10.2 |
| Total..... | 1,257.2 | 1,350.0 | 92.9 |
| EBIT: | | | |
| Slots | 34.5 | 33.5 | (1.0) |
| Casinos | 105.5 | 132.4 | 26.9 |
| Bingo | (6.4) | (3.4) | 3.1 |
| B2B..... | 16.2 | 17.3 | 1.1 |
| On-Line Gaming..... | — | (5.6) | (5.6) |
| Other ⁽¹⁾ | (14.9) | (11.9) | 3.0 |
| Total..... | 134.9 | 162.5 | 27.5 |
| EBITDA: | | | |
| Slots | 99.3 | 93.3 | (6.0) |
| Casinos | 172.5 | 203.7 | 31.2 |
| Bingo | 18.0 | 25.9 | 7.9 |
| B2B..... | 20.6 | 22.3 | 1.7 |
| On-Line Gaming..... | — | (5.4) | (5.4) |
| Other ⁽¹⁾ | (20.5) | (17.8) | 2.7 |
| Total..... | 290.0 | 322.0 | 32.0 |

(1) Other includes central corporate services and certain inter-segment consolidation adjustments.

Year ended December 31, 2012 compared to year ended December 31, 2011

Group Results of Operations

Net Operating Revenues

Net operating revenues increased by €92.9 million, or 7.4%, to €1,350.0 million in 2012 from €1,257.2 million in 2011. The increase in net operating revenues was primarily due to the growth in revenues from the Latin American casinos and the Italian slots businesses, which offset the decline in revenues from the Bingo Division and B2B Division and our slots and casinos businesses in Spain.

EBIT

EBIT increased from €134.9 million in 2011 to €162.5 million in 2012. EBIT margin (EBIT as a percentage of net operating revenues) was 12.0% in 2012 as compared to 10.7% in 2011.

EBITDA

EBITDA increased 11.0% from €290.0 million in 2011 to €322.0 million in 2012. EBITDA margin (EBITDA as a percentage of net operating revenues) was 23.9% in 2012 as compared to 23.1% in 2011. EBITDA growth was primarily attributable to the performance of our Latin American casinos in Argentina, Colombia and Panama, which offset the decreased EBITDA from our Slots Division. The Bingo Division and the B2B Division also contributed, to a lesser extent, to the growth in EBITDA.

Financial Results

Financial result was negative €90.5 million in 2012 as compared to negative €96.8 million in 2011. Financial result in 2011 was adversely impacted by one-time costs of €23.2 million associated with the redemption of the 2012 Notes.

Foreign Exchange Results

Foreign exchange results was negative €6.3 million in 2012 as compared to negative €6.2 million in 2011.

Income Tax Expense

Income tax expense increased to €56.1 million in 2012 from €43.7 million in 2011, reflecting the increased profitability of our international operations and our losses in Spain, partially offset by a provision related to our inability to utilize Spanish tax credits.

Net Profit

As a result of the foregoing, net profit, after minority interests, was €0.2 million in 2012 as compared to negative €25.4 million in 2011.

Results of Operations by Division

Slots

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|--------------|---------------|
| | <u>2011</u> | <u>2012</u> | <u>Change</u> |
| | (€ in millions) | | |
| Operating Revenues | 706.7 | 712.5 | 5.8 |
| Bingo prizes..... | - | (0.8) | (0.8) |
| Variable rent..... | (230.5) | (213.1) | 17.5 |
| Net Operating Revenues | 476.2 | 498.6 | 22.4 |
| Consumption | (41.9) | (39.0) | 2.9 |
| Personnel expenses..... | (46.2) | (46.8) | (0.7) |
| Gaming taxes..... | (222.3) | (250.1) | (27.9) |
| External supplies and services..... | (66.5) | (69.3) | (2.8) |
| Depreciation, amortization and impairment | (64.8) | (59.8) | 5.1 |
| EBIT | 34.5 | 33.5 | (1.0) |
| EBITDA | 99.3 | 93.3 | (6.0) |

Revenues. Operating revenues from our Slots Division principally represent revenues collected from our slot machines before prize payouts. Operating revenues also include the revenues from the *Sportium* sports betting joint venture. Operating revenues increased 0.8% from €706.7 million in 2011 to €712.5 million in 2012. Net operating revenues from our Slots Division represent operating revenues after bingo prizes and variable rent payments made to site owners. Net operating revenues increased 4.7% from €476.2 million in the year ended December 31, 2011 to €498.6 million in the year ended December 31, 2012.

In Spain, net operating revenues decreased by 0.4% in 2012 as compared to 2011, principally due to the negative effects of the smoking ban in Spain and of the economic downturn. The number of slot machines decreased marginally as a result of our strategy to increase the quality of our slots portfolio through the disposal of underperforming slot machines and sites and the pursuit of highly-selective acquisitions. Average revenues per unit increased in 2012 as compared to 2011. We had 20,813 slot machines in operation in Spain as of December 31, 2012 compared to 22,310 units as of December 31, 2011.

In Italy, net operating revenues increased 9.1% in 2012 as compared to 2011, primarily due to the steady growth and diversification of our operations in Italy through the addition of 561 VLTs and 419 AWP slot machines. As of December 31, 2012, in Italy we operated 10,413 slot machines and provided third-party interconnection services for an additional 4,141 slot machines, as compared to the operation of 9,994 slot machines and provision of interconnection services for 4,666 slot machines as of December 31, 2011. We have installed over 2,200 VLTs in Italy as of December 31, 2012, and expect to complete during 2013 the deployment of the entire 2,583 VLTs for which we have secured a license.

Costs and Expenses. Costs and expenses for our Slots Division principally include taxes on gaming activities, payments to sub-operators under participation agreements, personnel expenditures, depreciation, amortization and impairment expenses and external supplies and services expenses.

Overall costs and expenses for our Slots Division increased by 5.3% to €465.0 million in 2012 as compared to €441.7 million in 2011. As a percentage of segment net operating revenues, costs and expenses were 93.3% in 2012 and 92.8% in 2011. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes, which in Spain are incurred annually based on a fixed amount for each machine but in Italy are incurred at a variable rate based on machine revenues, increased by 12.5% from €222.3 million in 2011 to €250.1 million in 2012. This increase is largely attributable to the increase in revenues in Italy, the 200 basis point increase in the gaming tax rate in Italy with effect from January 1, 2012, and the operation of additional VLTs in Italy, which are subject to a higher tax rate than slot

machines. As a percentage of segment net operating revenues, gaming taxes increased to 50.2% in 2012 from 46.7% in 2011.

- *Personnel Expenses.* Personnel expenses include wages and salaries for commercial, collection and technical support employees. This expense category increased slightly to €46.8 million in 2012 from €46.2 million in 2011.
- *Consumption.* Consumption expense is primarily comprised of payments to sub-operators. This expense decreased by 6.9% from €41.9 million in 2011 to €39.0 million in 2012. This decrease was primarily attributable to lower payments made to sub-operators due to the decline in slot machine revenues in Spain.
- *External Supplies and Services.* This expense category increased by 4.2% from €66.5 million in 2011 to €69.3 million in 2012, primarily due to start-up costs associated with the deployment of VLTs in Italy, including opening new sites and promotional activities.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses decreased by 7.8% from €64.8 million in 2011 to €59.8 million in 2012. The decrease was primarily attributable to the impact of an impairment adjustment in 2011 that offset the increase of the depreciation costs associated with our investment in slot machines in Italy and Spain in 2011 and 2012. In 2011 and 2012, an impairment charge of €12.0 million and €5.2 million was recorded, respectively.

EBIT. EBIT for our Slots Division decreased from €34.5 million in 2011 to €33.5 million in 2012. EBIT margin (EBIT as a percentage of segment net operating revenues) decreased from 7.2% in 2011 to 6.7% in 2012.

EBITDA. EBITDA for our Slots Division decreased from €99.3 million in 2011 to €93.3 million in 2012. EBITDA margin (EBITDA as a percentage of segment net operating revenues) decreased from 20.9% in 2011 to 18.7% in 2012.

In Spain, EBITDA decreased by 2.8% to €52.6 million in 2012 from €54.2 million in 2011. EBITDA was impacted in 2012 by lower revenues due to the ongoing effects of the economic downturn and the smoking ban in Spain.

Our Italian business recorded EBITDA of €40.7 million in 2012 compared to €45.2 million in 2011. The EBITDA decrease in Italy is primarily due to the 200 basis point increase in the gaming tax rate with effect from January 1, 2012.

Casinos

| | Year ended December 31, | | |
|---|--------------------------------|--------------|---------------|
| | 2011 | 2012 | Change |
| | (€ in millions) | | |
| Operating Revenues | 495.5 | 568.1 | 72.7 |
| Bingo prizes..... | (2.7) | (2.7) | 0.0 |
| Variable rent..... | (2.7) | (4.0) | (1.3) |
| Net Operating Revenues | 490.1 | 561.4 | 71.3 |
| Consumption | (12.0) | (12.8) | (0.8) |
| Personnel expenses..... | (98.3) | (113.9) | (15.6) |
| Gaming taxes..... | (94.0) | (107.3) | (13.3) |
| External supplies and services..... | (113.3) | (123.7) | (10.4) |
| Depreciation, amortization and impairment | (67.0) | (71.3) | (4.3) |
| EBIT | 105.5 | 132.4 | 26.9 |
| EBITDA | 172.5 | 203.7 | 31.2 |

Revenues. Operating revenues from our casinos primarily comprise revenues from gaming tables and slot machines located at our casinos. We also generate revenues from restaurant services, admission ticket sales and tips and from bingo operations located at some of our electronic casinos in Latin America. Operating revenues from our casinos increased by 14.7% from €495.5 million in 2011 to €568.1 million in 2012.

Net operating revenues from our Casinos Division represent operating revenues after payment of bingo prizes and variable rent payments. Net operating revenues increased by 14.6% from €490.1 million in 2011 to €561.4 million in 2012. The increase in revenues is primarily due to our Latin American casinos, and the positive effect of the appreciation of the U.S. dollar and the Colombian peso against the euro. Revenues benefited from the expansion of our existing casino halls in Panama and Colombia and the installation of additional machines in our better performing halls, including Casino de Rosario. Net operating revenues from our Spanish casinos decreased 19.8% in 2012 as compared to 2011, largely due to the impact of the economic downturn and the smoking ban in Spain.

Costs and Expenses. Costs and expenses from our casinos principally include personnel expenditures, depreciation, amortization and impairment expenses, taxes on gaming and other operating expenses.

Costs and expenses from our casinos increased to €429.0 million in 2012 compared to €384.6 million in 2011. The key changes in the components of segment operating expenses are as follows:

- *External Supplies and Services.* External supplies and services expenses for our Casinos Division include costs such as security, travel, professional services, sales and marketing, and lease costs for our casinos. This expense category increased 9.2% to €123.7 million in 2012 from €113.3 million in 2011. As a percentage of net operating revenues, this expense category decreased to 22.0% in 2012 compared to 23.1% in 2011.
- *Gaming Taxes.* Gaming taxes increased by 14.2% to €107.3 million in 2012 as compared to €94.0 million in 2011. The increase is primarily due to higher gaming tax rates in Panama and in Argentina.
- *Personnel Expenses.* Personnel expenses increased 15.9% to €113.9 million in 2012 compared to €98.3 million in 2011. As a percentage of net operating revenues, this expense category increased to 20.3% in 2012 from 20.1% in 2011.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased to €71.3 million in 2012 from €67.0 million in 2011. The increase is primarily attributable to the investments made in 2011 and 2012 in our casinos in Panama, Colombia and Argentina.
- *Consumption.* Consumption expenses increased to €12.8 million in 2012 from €12.0 million in 2011.

EBIT. EBIT from our Casinos Division increased to €132.4 million in 2012 from €105.5 million in 2011. EBIT margin (EBIT as a percentage of segment net operating revenues) for the Casinos Division increased to 23.6% in 2012 from 21.5% in 2011.

EBITDA. EBITDA for our Casinos Division increased 18.1% to €203.7 million in 2012 from €172.5 million in 2011. EBITDA margin (EBITDA as a percentage of segment net operating revenues) increased to 36.3% in 2012 as compared to 35.2% in 2011. The EBITDA growth in 2012 was driven by our casinos in Latin America, particularly Panama and Colombia. The improvement in EBITDA margin is attributable to operating efficiencies, the expansion of our existing casino halls in Panama and Colombia and the installation of additional machines in our better performing halls. EBITDA for our Spanish casinos was flat.

Bingo

| | Year ended December 31, | | |
|--|--------------------------------|--------------|---------------|
| | 2011 | 2012 | Change |
| | (€ in millions) | | |
| Operating Revenues | 494.9 | 476.4 | (18.6) |
| Bingo prizes | (245.0) | (236.2) | 8.8 |
| Variable rent..... | (8.7) | (9.2) | (0.5) |
| Net Operating Revenues | 241.2 | 230.9 | (10.2) |
| Consumption | (12.6) | (10.1) | 2.5 |
| Personnel expenses | (48.9) | (44.1) | 4.7 |
| Gaming taxes | (92.8) | (78.5) | 14.3 |
| External supplies and services | (68.9) | (72.2) | (3.4) |
| Depreciation, amortization and impairment..... | (24.5) | (29.2) | (4.8) |
| EBIT | (6.4) | (3.4) | 3.1 |
| EBITDA | 18.0 | 25.9 | 7.9 |

Revenues. Operating revenues from our Bingo Division include revenues from sales of traditional bingo cards before prize payouts and revenues from electronic bingo and roulette games and slot machines located in our bingo halls. Operating revenues also include revenues from the Bingo Division's halls in Mexico, which have a broad entertainment offer, including casino-style slot machines.

The following table set forth the number of bingo halls operated by our Bingo Division as of December 31, 2012 and 2011:

| As of December 31 | 2011 | 2012 |
|--------------------------|-------------|-------------|
| Spain | 51 | 49 |
| Mexico | 20 | 21 |
| Italy | 10 | 10 |
| Total | 81 | 80 |

Operating revenues from our Bingo Division decreased 3.8% from €494.9 million in 2011 to €476.4 million in 2012. Net operating revenues from our Bingo Division represent operating revenues after prize payouts and variable rent. Net operating revenues decreased by 4.3% from €241.2 million in 2011 to €230.9 million in 2012. The decrease in revenues is primarily due to the ongoing effects of the economic downturn and smoking ban in Spain and the closure of underperforming halls in Spain in the third and fourth quarters of 2011.

Operating revenues from our bingo halls in Mexico increased by 8.7% to €76.4 million in 2012 compared to €70.3 million in 2011 due to the expansion and the installation of additional slot machines in our better performing halls. The overall increase in revenues was despite the adverse impact of the temporary removal of certain types of multiplayer slot machines from our bingo halls in August 2011 and the residual impact on attendance of the events associated with the criminal arson attack on a competitor's hall in 2011.

Costs and Expenses. Costs and expenses from our bingo operations principally include personnel expenditures, depreciation, amortization and impairment expenses, taxes on gaming and other operating expenses.

Costs and expenses for the Bingo Division decreased by 5.4% from €247.6 million in 2011 to €234.3 million in 2012, consistent with the decrease in net operating revenues. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes decreased by 15.5% to €78.5 million in 2012 from €92.8 million in 2011 primarily due to lower revenues in Spain.
- *Personnel Expenses.* Personnel expenses are primarily comprised of the wages and salaries and employee benefits of our bingo hall staffs. Personnel expenses decreased by 9.7% from €48.9 million in 2011 to €44.1 million in 2012. As a percentage of segment net operating revenues, personnel expenses decreased from 20.3% in 2011 to 19.1% in 2012 primarily due to the reduction of the number of halls in operation.
- *Consumption.* Consumption expense for our Bingo Division primarily relate to the ordinary course materials required to operate bingo halls, such as food and beverages and bingo supplies. Consumption expense decreased 19.6% from €12.6 million in 2011 to €10.1 million in 2012. The decrease was primarily attributable to the reduction in the number of halls in operation.
- *Depreciation, Amortization and Impairment Expenses.* Depreciation, amortization and impairment expenses increased from €24.5 million in 2011 to €29.2 million in 2012. The increase was primarily attributable to the investments made in our Mexican business and the impact of an impairment adjustment recorded in 2012. In 2012, an impairment charge of €7.6 million was recorded, compared to an impairment charge of €3.3 million in 2011.
- *External Supplies and Services.* This expense category primarily relates to the costs of the expansion of, and installation of new gaming machines in our Mexican bingo halls. External expenses increased by 5.0% to €72.2 million in 2012 from €68.9 million in 2011.

EBIT. EBIT from our Bingo Division increased from negative €6.4 million in 2011 to negative €3.4 million in 2012.

EBITDA. EBITDA for our Bingo Division improved to €25.9 million in 2012 from €18.0 million in 2011. EBITDA margin (EBITDA as a percentage of net operating revenues) increased to 11.2% in 2012 from 7.5% in 2011. The Mexican business contributed EBITDA of €17.4 million in 2012, as compared to €12.4 million in 2011.

The improvement in EBITDA and EBITDA margin is largely due to the closure of underperforming bingo halls in Spain during 2011 and the positive performance of our Mexican operations. In Mexico, despite a difficult operating environment, EBITDA remained stable due to operating efficiencies and the expansion of, and installation of additional slot machines in, our better performing bingo halls.

B2B

| | Year ended December 31, | | |
|---|--------------------------------|--------------|---------------|
| | 2011 | 2012 | Change |
| | (€ in millions) | | |
| Net Operating Revenues | 106.2 | 103.5 | (2.7) |
| Consumption | (45.0) | (39.8) | 5.2 |
| Personnel expenses | (19.4) | (18.9) | 0.5 |
| Gaming taxes | (1.0) | (1.1) | (0.1) |
| External supplies and services | (20.1) | (21.4) | (1.2) |
| Depreciation, amortization and impairment | (4.3) | (5.0) | (0.6) |
| EBIT | 16.2 | 17.3 | 1.1 |
| EBITDA | 20.6 | 22.3 | 1.7 |

Revenues. The revenues of our B2B Division include revenues from sales of our slot machines and gaming kits and sales of slot machines produced by third parties by our distribution companies. Also included are revenues generated from supporting the Slots Division in Italy, lottery

business in Argentina, and interlinked bingo games in Madrid, Andalusia and Catalonia. Net operating revenues from our B2B Division decreased by 2.5% to €103.5 million in 2012 from €106.2 million in 2011. The decline in revenues is due to the negative impact of the economic downturn in Spain. Furthermore, a number of slot machine customers have elected to purchase lower-price slot machine kits to change games or upgrade existing slot machines rather than invest in new slot machines.

Costs and Expenses. Costs and expenses from our B2B Division are comprised principally of cost of components, direct labor costs, sub-contracting costs, personnel expenditures, depreciation, amortization and impairment expenses and other expenditures such as research and development costs (to the extent not capitalized) and marketing costs.

Costs and expenses for our B2B Division decreased by 4.2%, from €89.9 million in 2011 to €86.2 million in 2012, which cost decrease represents a higher decrease than our 2.5% decrease in revenues.

The key changes in the components of segment operating expenses are as follows:

- *Consumption.* Consumption expenses primarily are comprised of purchases of semi-finished and finished components. Consumption expenses decreased 11.6% from €45.0 million in 2011 to €39.8 million in 2012 primarily as a result of lower sales.
- *External Supplies and Services.* External supplies and services expenses increased 6.0% from €20.1 million in 2011 to €21.4 million in 2012.
- *Personnel Expenses.* Personnel expenses decreased by 2.5% from €19.4 million in 2011 to €18.9 million in 2012.
- *Depreciation, Amortization and Impairment Expenses.* For our B2B Division, this expense category includes depreciation, amortization and impairment expenses and variation in operating provisions. Depreciation, amortization and impairment expenses increased from €4.3 million in 2011 to €5.0 million in 2012.

EBIT. EBIT from our B2B Division increased from €16.2 million in 2011 to €17.3 million in 2012.

EBITDA. EBITDA for our B2B Division increased by 8.2% from €20.6 million in 2011 to €22.3 million in 2012. EBITDA margin (EBITDA as a percentage of segment net operating revenues) improved to 21.5% in 2012 from 19.4% in 2011. The increase in EBITDA and EBITDA margin are primarily due to the impact of cost and productivity improvement initiatives in relation to our manufacturing activities.

On-Line Gaming

Our On-Line Gaming Division commenced operations in Spain and Italy during the third quarter of 2012 after obtaining the necessary permissions and licenses. Our on-line gaming plans do not contemplate any material investments since our operating platform is based on technology partnerships with global suppliers.

During 2012, EBITDA for the On-Line Gaming Division was negative €5.4 million, due to initial start up costs.

Liquidity and Capital Resources

Historical Cash Flows

The following is a brief description of certain of the line items that are included in our consolidated cash flow statement:

Current account with Nortia Corporation. We have engaged in a variety of transactions with our principal shareholder, Nortia Corporation, that affect our cash flows. During the period under review, the principal transactions have been purchases of companies from Nortia, transactions pursuant to a cash management agreement and payments of interest on outstanding balances. See “Certain Relationships and Related Party Transactions—Transactions with Nortia.” The cash flows related to these transactions are recorded in our cash flow statement as “Current account with Nortia—Outflows” and “Current account with Nortia—Inflows.”

Purchase and development of intangibles. We capitalize those development costs which qualify for recognition as an asset pursuant to IAS 38 which, in any case, represent a minority portion of the total expenditures in research and development linked to our B2B Division. The total cash outflows associated with these expenditures are included in our cash flow statement as “Purchase and development of intangibles.” Under IFRS, this line item also includes the amounts we pay to owners of the premises where we have our slot machines for exclusivity rights.

Loans granted. We have granted loans to the owners of hotels in the Dominican Republic where we have (or previously had) casinos. Payments with respect to these loans are recorded in “Loans granted” in our consolidated cash flow statement.

Purchase of other financial assets. Variations in the amount of securities we own and variations in deposits and warranties primarily relating to deposits with casino site owners are recorded as “Purchase of other financial assets.” This line item also includes deposits with the Italian slots regulator, the AAMS. See “Regulation—Italy”.

Capital lease payments. Our B2B Division sells slot machines to our Slots Division from time to time pursuant to capital leasing financing provided by financial institutions. Payments of attributable principal under such capital leases by our Slots Division are recorded in “Capital lease payments” in our consolidated cash flow statement, and payments of attributable interest are recorded in “Interest paid on financial debt.” Sales of slot machines by our B2B Division to our Slots Division are treated as intra group sales which are eliminated upon consolidation and are not recorded as net operating revenues in our profit and loss accounts. The net cash effect of the transfer of slot machines from the B2B Division to the Slots Division is, therefore, (i) the receipt of cash by the B2B Division from a finance leasing company and (ii) the payment of cash from the Slots Division to the leasing company over time in an aggregate amount which approximates the initial amount received by the B2B Division upon transfer of the assets to the finance leasing company, plus an additional amount attributable to interest.

Net foreign exchange differences. This line item shows the effects of differences between initial and period-end exchange rates on balances of cash and cash equivalents in currencies other than the euro.

Consolidated Cash Flow Statement

| | Year ended December 31, | | |
|---|--------------------------------|----------------|----------------|
| | 2011 | 2012 | 2013 |
| | (€ in millions) | | |
| Cash flows from operating activities | | | |
| Profit before tax, as per the consolidated profit and loss accounts..... | 26.8 | 65.7 | 29.5 |
| Adjustments for non-cash revenues and expenses: | | | |
| Depreciation, amortization and impairment | 149.6 | 153.4 | 163.0 |
| Allowances for doubtful accounts and inventories | 5.5 | 6.2 | 5.4 |
| Other..... | 1.8 | 1.0 | (5.9) |
| Financial items included in profit before tax: | | | |
| Financial results..... | 96.8 | 90.5 | 93.6 |
| Foreign exchange results | 6.2 | 6.3 | 7.3 |
| Results on sale of non-current assets..... | 5.2 | (0.1) | 3.3 |
| Adjusted profit before tax from operations before changes in net operating assets | 291.9 | 323.1 | 296.2 |
| Variations in: | | | |
| Receivables..... | 2.2 | (9.0) | (4.5) |
| Inventories..... | 0.8 | 1.7 | (1.3) |
| Payables..... | 0.4 | 0.4 | (13.9) |
| Taxes payable on gaming | 2.5 | (10.8) | (12.8) |
| Accruals, net..... | (11.4) | (16.4) | (15.7) |
| Cash generated from operations..... | 286.3 | 288.9 | 247.9 |
| Income taxes paid | (42.8) | (48.9) | (43.5) |
| Net cash flows from operating activities..... | 243.5 | 240.0 | 204.4 |
| Cash flows from (used in) investing activities | | | |
| Purchase and development of property, plant and equipment..... | (127.5) | (127.3) | (81.5) |
| Purchase and development of intangibles | (32.6) | (17.5) | (36.6) |
| Acquisition of participating companies, net of cash acquired..... | (14.9) | (11.3) | (22.5) |
| Current account with Nortia Corporation—Outflows..... | (56.8) | (61.1) | (110.3) |
| Current account with Nortia Corporation—Inflows..... | 56.8 | 61.1 | 110.3 |
| Proceeds from sale of assets..... | 4.9 | 16.2 | 20.9 |
| Purchase of other financial assets | (10.4) | (2.9) | (2.9) |
| Interest received on loans granted and cash revenues from other financial assets | 6.4 | 7.2 | 7.0 |
| Net cash flows used in investing activities | (174.2) | (135.6) | (115.6) |
| Cash flows from (used in) financing activities | | | |
| Proceeds from bank borrowings..... | 1,093.7 | 886.3 | 1,327.6 |
| Repayment of bank borrowings | (1,111.0) | (874.4) | (1,381.6) |
| Issuance of bonds (8.75% Senior Notes due 2018)..... | 285.7 | - | 101.7 |
| Repayment of bonds | (239.5) | - | - |
| Purchase/sale of bonds..... | (4.2) | 5.1 | - |
| Capital lease payments..... | (12.3) | (10.8) | (5.3) |
| Interest paid on financial debt..... | (96.3) | (93.7) | (96.2) |
| Proceeds from / repayment of other borrowings | 22.2 | (9.9) | (12.3) |
| Other | (5.6) | (14.6) | (15.3) |
| Net cash flows from (used in) financing activities..... | (67.3) | (112.0) | (81.3) |
| Net variation in cash and cash equivalents..... | 2.0 | (7.6) | 7.4 |
| Net foreign exchange differences..... | (0.5) | (3.9) | (4.2) |
| Cash and cash equivalents at January 1 | 65.2 | 66.7 | 55.2 |
| Cash and cash equivalents at December 31 | 66.7 | 55.2 | 58.4 |

Cash Flows from Operating Activities. Our net cash flow from operating activities was €204.4 million in 2013 as compared to €240.0 million in 2012. The difference was principally due to the €36 million settlement payment to the CdC.

Our net cash flow from operating activities was €240.0 million in 2012 as compared to €243.5 million in 2011. The difference is principally higher levels of cash used to pay income taxes in 2012, partly offset by higher EBITDA in 2012.

Cash Flows used in Investing Activities. Our net cash flow used in investing activities was €115.6 million in 2013 as compared to €135.6 million in 2012, reflecting lower capital expenditure levels in 2013.

Our net cash flow used in investing activities was €135.6 million in 2012 as compared to €174.2 million in 2011, reflecting lower capital expenditure levels in 2012.

Cash Flows used in Financing Activities. Our net cash flow used in financing activities was €81.3 million in 2013 as compared to €112.0 million in 2012.

Our net cash flow used in financing activities was €112.0 million in 2012 as compared to €67.3 million in 2011. In 2011, we issued €280.0 million of the 2018 Notes and redeemed the entire €220.0 million principal amount of the outstanding 2012 Notes.

Working Capital Requirements

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

| | Year ended December 31, | | |
|-----------------------------|--------------------------------|----------------------|----------------------|
| | 2011 | 2012 | 2013 |
| | (€ in millions) | | |
| Variations in: | | | |
| Receivables..... | 2.2 | (9.0) | (4.5) |
| Inventories..... | 0.8 | 1.7 | (1.3) |
| Payables..... | 0.4 | 0.4 | (13.9) |
| Tax payable on gaming | 2.5 | (10.8) | (12.8) |
| Accruals, net..... | (11.4) | (16.4) | (15.7) |
| Total..... | <u>(5.5)</u> | <u>(34.1)</u> | <u>(48.2)</u> |

The operation of our various businesses, in the aggregate, is not working capital intensive. Our working capital requirements largely arise in our B2B Division. We manage our working capital requirements on a centralized basis at the Group level rather than by business division or by geographic area. We have historically funded our operating cash flow requirements through funds generated from our operations, from borrowings under bank facilities and through funds from other finance sources. Although our Casinos Division and Slots Division do have certain limited working capital requirements, particularly for cash, we believe that these divisions are cash-generative and fund a substantial portion of the working capital needs of the B2B Division.

Our results of operations can be impacted by the level of allowances for doubtful accounts. Movements in these allowances are recorded in “Change in trade provisions” in our profit and loss account. Changes in trade provisions changed from €5.5 million in 2011 to €6.2 million in 2012 and €5.4 million in 2013 .

During the period under review, our working capital has been principally driven by the level of demand for the slot machines of our B2B Division. The total variation in working capital changed from negative €5.5 million in 2011 to negative €34.1 million in 2012 to negative €48.2 million in 2013. The increase in working capital is attributable to a decline in the relative number of full cabinets versus gaming kits ordered by B2B division customers.

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 any significant increase in demand for slot machines produced by us.

Capital Expenditures

We define capital expenditures to include the following items of consolidated cash flow statement: “Purchase and development of property, plant and equipment” and “Purchase and development of intangibles.” The following table, which is derived from our consolidated cash flow statement, sets forth our capital expenditures for the periods indicated:

| | <u>Year ended December 31,</u> | | |
|---|--------------------------------|---------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| | <u>(€ in millions)</u> | | |
| Purchase and development of property, plant and equipment | 127.5 | 127.3 | 81.5 |
| Purchase and development of intangibles..... | 32.6 | 17.5 | 36.6 |
| Total Capital Expenditures..... | <u>160.1</u> | <u>144.8</u> | <u>118.1</u> |

Our capital expenditures primarily consist of investments to maintain the quality of our facilities, to expand our capacity in our Slots, Bingos and Casinos Divisions and to fund research and development expenditures made by our B2B Division. We do not expect to make material capital expenditures in our On-line Gaming Division. The following table sets forth our capital expenditures by business division:

| | <u>Year ended December 31,</u> | | |
|--|--------------------------------|---------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| | <u>(€ in millions)</u> | | |
| Capital expenditures by business division | | | |
| Slots..... | 57.2 | 34.3 | 35.1 |
| Casinos | 62.8 | 82.9 | 61.4 |
| Bingo | 36.4 | 22.3 | 16.7 |
| B2B..... | 3.3 | 2.4 | 3.4 |
| On-line Gaming..... | - | 2.9 | 0.9 |
| Structure | 0.4 | - | 0.6 |
| Total Capital Expenditures..... | <u>160.1</u> | <u>144.8</u> | <u>118.1</u> |

Our total capital expenditures for 2011 was €160.1 million. Our major capital expenditures in 2011 included €9.7 million for the deployment of VLTs in Italy, €16.9 million to acquire 1,700 slot machines in Spain, €5.9 million to acquire a 33.3% ownership interest in a gaming hall in Buenos Aires, and €55.4 million in connection with the expansion and installation of gaming machines in 12 casinos in Argentina, Panama and Colombia.

Our total capital expenditures for 2012 was €144.8 million. Our major capital expenditures in 2012 included:

- €61.1 million for the expansion of our existing halls in Panama, Colombia and Argentina;
- €11.4 million in connection with the enlargement of key halls in Mexico; and
- €25.9 million to replace 6,700 slot machines in Spain.

Our total capital expenditures for 2013 was €118.1 million. Our major capital expenditures in 2013 included:

- €87.4 million of maintenance expenditures; and
- €30.7 million for expansion of our Latin American casinos businesses;

Contractual Obligations

We have numerous contractual commitments providing for payments pursuant to, among other things, leases for casinos, production plants, warehouses and office facilities, equipment leases, automobile leases and payments to site owners and sub-operators in our slots businesses. We also have, and will have, payment obligations pursuant to our outstanding borrowings, including the financial obligations arising from the notes.

Our consolidated contractual obligations as of December 31, 2013 were as follows:

| Contractual Obligations | Payments due by period | | | |
|--|------------------------|---------------------|-------------|------------------|
| | Total | Less than 1 year | 1–3 years | After 4 years |
| | | (€ in millions) | | |
| Long term debt | 851.2 | — | 65.9 | 785.3 |
| Promissory notes | 14.9 | 5.8 | 9.1 | — |
| Capital lease agreements (short term)..... | 10.1 | 10.1 | — | — |
| Other obligations (short term) | 90.7 | 90.7 | — | — |
| Multigroup and affiliated companies..... | 4.1 | 0.8 | 3.3 | — |
| Total contractual obligations..... | 971.0 | 107.4 | 78.3 | 785.3 |

Off-Balance Sheet Arrangements

We generally do not utilize off balance sheet arrangements, other than performance bonds for obligations for gaming taxes and prizes and other obligations. See note 15 to our 2013 consolidated financial statements and “—Market Risks.”

Liquidity

Intra Group Funding

The liquidity needs of Cirsa and its subsidiaries are met through a combination of internally generated cash flow, dividends, intercompany loans, capital contributions, intra-Group payment obligations and payments under management services agreements and other arrangements.

Cirsa’s subsidiaries may be restricted from providing funds to Cirsa and its other subsidiaries (including Cirsa Funding) under some circumstances. Certain subsidiaries are subject to corporate law and contractual restrictions, including restrictions under debt instruments, that limit their ability to pay dividends or make other payments. See “Risk Factors—Risks relating to Notes—Cirsa is a holding company and is dependent on payments from its subsidiaries in order to be able to make payments under the funding loans” and “Description of Certain Indebtedness.”

A significant portion of the Group’s revenues and EBITDA is generated by its Latin American businesses. The Argentine authorities, including the Argentine Central Bank, have, in the past, imposed restrictions of the transfer of funds outside of Argentina and may do so again in the future. We incur significant expenses in repatriating funds from our Argentine businesses to Spain. If we were unable to repatriate some or all of its profits from our Latin American businesses, we would not be able to use the cash flow from these businesses to fund the liquidity needs of the other members of the Group.

External Sources of Liquidity

Our principal external sources of liquidity during 2011, 2012 and 2013 have been the issuance of debt securities, borrowings under long-term and short-term credit facilities (including the Revolving Credit Facility with Deutsche Bank AG, London Branch), gaming tax deferrals, local lines of credit and overdraft facilities, as well as capital leases. In addition, we expect that as in the past, certain of our

partners in joint ventures and companies in which we hold a minority interest will provide funding for these joint ventures and companies.

We continue to monitor and limit our exposure to short-term borrowings in Spain and Italy given the restrictions on liquidity that the Spanish banking and Italian systems have been experiencing. We also seek to limit our exposure to cross-border risk in our financings. In furtherance of these objectives, we are seeking to improve our debt maturity profile and to strengthen our balance sheet. We also have been exploring opportunities to obtain local financings in certain jurisdictions in which we operate, and have obtained bank facilities in Colombia, Argentina and Italy.

We have substantial debt and debt service obligations. As of December 31, 2013, we had approximately €966.9 million of debt. Our level of debt has increased significantly during the last five years. In addition, we may incur substantial additional debt in the future. See “Risk Factors—Risks relating to the Notes—Our substantial debt and debt service obligations could adversely affect our business, financial condition and results of operations.”

We will continue to need significant cash resources to, among other things:

- meet our debt service requirements under the notes and our other indebtedness;
- fund our working capital requirements, particularly for our B2B Division;
- make capital investments to comply with our existing contractual obligations and the terms of our licenses, to acquire new slot machines and to maintain and to expand our slots business in Spain, our slots business in Italy, our casino operations in Latin America and our bingo hall business in Mexico;
- make other investments in the gaming business, including joint ventures and minority investments, and acquiring majority control of existing joint ventures and investments; and
- fund our research and development activities.

We believe that our cash flow from operations and available cash and our other available external financing sources will be adequate to meet our future liquidity needs for the foreseeable future, although we cannot assure you that this will be the case. See “Risk Factors—Risks relating to the Notes—We require a significant amount of cash to service our debt and for other general corporate purposes. Our ability to generate sufficient cash depends on many factors beyond our control.”

If we are required to borrow additional amounts, our ability to do so could be restricted by the terms of the indenture governing the notes and the terms of our bank indebtedness. See “Risk Factors—Risks relating to the Notes—We are subject to significant restrictive debt covenants, which limit our operating flexibility.”

In addition, the availability and the terms of external financing have been adversely affected by the onset of the credit crisis since the summer of 2007. In Spain, this condition has been exacerbated since 2010 and in Italy, conditions have been increasingly difficult since 2011. The public debt of both Spain and Italy have been downgraded by rating agencies on a number of occasions in recent years. In addition, the recent negative developments with respect to Eurozone financial markets have resulted in higher costs of bank financing in these countries.

We have in the past engaged in repurchases of our debt and may do so again in the future.

Our future operating performance and our ability to service or refinance the notes are subject to future economic conditions, financial, business and other factors, many of which are beyond our control.

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. Argentina experienced inflationary effects in 2002. During 2002, the Argentine consumer price index increased 41% and the wholesale price index increased 118%.

Effects of Related Party Transactions

We have engaged in a significant number and variety of transactions with our principal shareholder, Mr. Manuel Lao Hernández, his holding company, Nortia, and certain other companies associated with Mr. Manuel Lao Hernández and Nortia. See “Certain Relationships and Related Party Transactions.”

Cirsa has not paid any dividends to its shareholders during the period under review. We have from time to time extended credit to Nortia and provided credit support for the obligations of Nortia and Mr. Lao Hernández. See “Certain Relationships and Related Party Transactions.”

Employee Benefit Plans

We maintain employee benefit plans for certain employees in our Bingo Division. Additionally, we have approved an Incentive Plan designed to retain strategic senior managers and optimize their results (the “*Plan de Incentivo Dinero Plurianual 2012-2016*” or “Multiyear Incentive Plan 2012-2016”). We do not have any material pension commitments or other similar obligations.

Critical Accounting Policies

Our financial statements and the accompanying notes contain information that is pertinent to this discussion and analysis of our financial position and results of operations. 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, revenue and expenses, and the related disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimates under different assumptions or conditions. 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 2013 consolidated financial statements.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts related to our accounts, contracts and notes receivable that we have deemed to have a high risk of collectability. We analyze historical collection trends, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment patterns when evaluating the adequacy of our allowance for doubtful accounts. While we believe that our estimates for these matters are reliable and calculated with due care, if we changed our assumptions and estimates, our bad debt expense could change, which could impact our operating income.

Inventory

We regularly review inventory quantities on hand and record charges for excess and obsolete inventory, based primarily on our estimated forecast of product demand and production requirements. The determination of obsolete or excess inventory requires us to estimate the future demand for our slot machines and gaming kits within specific time horizons. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we may need to record additional charges for inventory obsolescence, which would have a negative impact on our operating income.

Intangible assets

Our intangible assets include capitalized development costs, authorizations or licenses and installation rights.

We assign useful lives to our intangible assets based on the period of time that the assets is expected to contribute directly or indirectly to our future cash flows. We consider certain factors when assigning useful lives such as legal, regulatory and contractual provisions, as well as the effects of obsolescence, demand, competition and other economic factors. We are required to use judgment and make estimates to determine the useful lives of intangible assets. We amortize our intangible assets to reflect the pattern in which the economic benefits for the assets will be consumed based on projected revenues.

Impairment

Impairment—Non-Financial Assets

We assess for impairment at year end for all non-financial assets which carrying amount could be unrecoverable. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually, or when there is evidence of impairment.

We assess at each year end whether there is an indication that a non-current asset may be impaired. If any indication exists, and when an annual impairment test is required, we estimate the asset's recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use, and it is established for each separate asset, unless for assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and its carrying amount is reduced to the recoverable amount. To assess value in use, expected cash flows are discounted to their present value using risk free market rates, adjusted by the risks specific to the asset. Impairment losses from continuing activities are recognized in the consolidated statement of comprehensive income based on the nature of the impaired asset.

We assess at year end indicators of impairment losses previously recorded in order to verify whether they have disappeared or decreased. If there are indicators, we estimate a new recoverable amount. A previously recognized impairment loss is reversed only if the circumstances giving rise to it have disappeared, since the last loss for depreciation was recognized, except that goodwill impairment losses cannot be reversed in future periods. In this regard, the asset's carrying amount increases to their recoverable amount. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset.

The reversal is recognized in the consolidated statement of comprehensive income. Upon such reversal, the depreciation expense is adjusted in the following periods to amortize the asset's revised book value, net of its residual value, systematically over the asset's useful life.

Impairment—Financial assets

We assess at year end if financial assets or group of financial assets are impaired. To assess the impairment of certain assets, the following criteria are applied:

- Assets measured at amortized cost

If there is objective evidence that there is an impairment loss of loans and other receivables recorded at amortized cost, the loss is measured as the difference between the net carrying amount and the present value of estimated cash flows, discounted at the current market rate upon initial recognition. The net carrying amount is reduced by an allowance, and the loss is recorded in the consolidated statement of comprehensive income.

Impairment loss is reversed only if the circumstances giving rise to it have ceased to exist. Such reversal is limited to the carrying amount of the financial asset that would have been recognized on the reversal date had no impairment loss been recognized.

In regard with trade and other receivables, when there is objective evidence of not collecting them, an allowance is made based on identified bad debts risk.

- Available-for-sale financial assets

If a financial asset available-for-sale is impaired, the difference between its cost (net of any repayment) and present fair value, less any previous impairment loss recognized in equity are taken to the consolidated statement of comprehensive income. Reversals related to equity instruments classified as available-for-sale are not recognized in the consolidated statement of comprehensive income, but the associated increase in value is directly recorded in equity.

Business combinations and goodwill

For each business combination, we assess the fair value of assets, liabilities and acquired contingent liabilities, allocating the cost of the business combination to the identified elements. Likewise, goodwill arising from acquisitions is assigned to its corresponding cash-generating unit, based on expected synergies, for subsequent impairment tests.

Income taxes

For financial reporting, we use estimates and judgments to determine our current tax liability as well as taxes deferred until future periods. Deferred taxes account for temporary differences between taxable income and accounting income. Deferred tax assets and tax credits from tax loss carry forwards are recognized when it is probable that sufficient taxable profits exist to realize such tax asset. When we or a participating company recognize deferred tax assets, the estimated taxable profits that will be generated in future years are reviewed at year end in order to assess their recoverability, and any impairment loss is recognized accordingly.

Change in Accounting Policies

For information regarding recent and pending changes to accounting policies, see note 2.3 to our 2013 consolidated financial statements.

Market 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 and trade receivables. We maintain cash and cash equivalents with financial institutions in Spain with high credit standards. Concentration of credit risks with respect to accounts receivable is limited, due to our large number of customers.

Interest Rate Risks

A substantial portion of our indebtedness is comprised of fixed rate debt securities. However, we are subject to interest rate risks related to our borrowings. Almost all of our bank borrowings are in euros with floating interest rates based on EURIBOR. We do not currently hedge our interest rate exposure and do not expect to do so in the future. See “Description of Certain Indebtedness.”

Foreign Currency Risks

Our principal exchange rate exposure relates to euro/Argentine peso for translation related exposure. We also have exchange rate exposure to the euro/U.S. dollar. We currently have no swaps to hedge our exchange rate exposure outstanding.

10. MANAGEMENT

Board of Directors

Pursuant to Spanish corporate law, Cirsa's Board of Directors has ultimate responsibility for the organization and management of its affairs, including the appointment of key members of management, subject to the provisions of the *estatutos sociales* (the "by-laws") and the resolutions of shareholders at the *Junta General de Accionistas* ("General Shareholders' Meeting"). To the extent permitted to do so, Cirsa's Board of Directors has delegated all of its powers to Manuel Lao Hernández and Manuel Lao Gorina, who are Cirsa's Managing Directors. Pursuant to Spanish corporate law, Cirsa's Board of Directors has also granted limited powers of attorney to certain individuals to conduct its affairs.

Cirsa's by-laws provide for a Board of Directors of a minimum of three and a maximum of 15 directors appointed by the General Shareholders' Meeting. The term of office of a director is five years and a director may serve any number of consecutive terms. If a director ceases to hold office prior to the expiration of his term, the Board of Directors may fill the vacancy by appointing, from among the shareholders of the company, a new interim director to replace the outgoing director. The director so appointed will hold office until the next General Shareholders' Meeting, when his appointment may be confirmed. A director may resign or be removed from office by a resolution of the General Shareholders' Meeting at any time. Shareholders may vote to appoint themselves to the Board of Directors.

The following is information about the members of the Board of Directors as of December 31, 2013:

| <u>Name</u> | <u>Age</u> | <u>Title</u> |
|-------------------------------|------------|--|
| Manuel Lao Hernández | 68 | Chairman of the Board and Managing Director |
| Manuel Lao Gorina | 42 | Vice Chairman of the Board and Managing Director |
| María Esther Lao Gorina | 37 | Communication and Advertising Executive |

Manuel Lao Hernández founded Cirsa in 1978 and has been Chairman of the Board of Directors and Managing Director since 1982 when we adopted a Board of Directors corporate structure. He has acted in the position of Sole Administrator of Nortia from its inception to 1997 and in the position of Joint and Several Administrator of Nortia since 1997. Manuel Lao Hernández is also the Chairman of each of the *Fundación Estudios del Ocio* (Foundation for Leisure Studies) since 1993 and the *Confederación de Asociaciones y Federaciones de Empresarios del Recreativo* (Confederation of Associations and Federations of Leisure Businesses) since 1994. Manuel Lao Hernández is also a member of the *Consejo Consultivo de la Confederación Empresarial de Cataluña, Fomento del Trabajo Nacional* (Advisory Council to the Business Confederation of Catalonia, Promotion of National Employment). Since January 1999, he has been a member of the Advisory Council to the Chairman of the *Confederación de Empresarios de Andalucía* (Confederation of Businesses of Andalusia).

Manuel Lao Gorina, the son of Manuel Lao Hernández, has been Vice-Chairman of Cirsa since 1998 and Joint and Several Administrator of Nortia since 1997. He was appointed to our Board of Directors in 1995. He has served with Cirsa and its affiliates for 10 years in various capacities, including as commercial agent for slot machine management, operational manager for slot machines, manager of hotel and real estate investments and services companies and Vice-Chairman. In 1997, he was appointed Chairman of the *Asociación Nacional de Centros Familiares y de Diversión* (National Association of Family Entertainment Centers). In 1998, he became a member of the *Cambra de Comerç i Indústria de Terrassa* (Chamber of Commerce and Industry of Terrassa). He received degrees in Business Management from *Escuela Superior de Administración de Empresas* (ESADE) in 2002 and from Sonnenfeld in 1990.

María Esther Lao Gorina, the daughter of Manuel Lao Hernández, has been a member of the Board of Directors since March 2000. She has served with Cirsa for five years in the position of Communication and Advertising Executive. Prior to joining Cirsa, she worked for Manufacturas Antonio Gassol, S.A. in the Marketing Department. She received a degree in Enterprise Communications from the *Instituto Superior de Administración y Comunicación de Barcelona* in 1997.

Executive and Divisional Officers

The following table presents, as of December 31, 2013, our executive and divisional officers that are not members of Cirsa's Board of Directors:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|---------------------------|------------|------------------------------------|
| Joaquim Agut | 59 | Chief Executive Officer |
| Business Divisions | | |
| Carlos Duelo..... | 45 | Manager, Slots Division |
| Enric Barba..... | 57 | Manager, B2B Division |
| Carlos Font..... | 52 | Manager, Casinos Division |
| Manel Estany..... | 51 | Manager, Bingo Division |
| Corporate Areas | | |
| Isaac Lahuerta | 55 | General Manager, Corporate Areas |
| David Royo | 55 | Chief Financial Officer |
| Miquel Vizcaino..... | 50 | Legal |
| Xavier Cots..... | 52 | Human Resources |
| Antonio Hostench..... | 46 | Corporate Development and Strategy |

Set forth below is certain biographical information concerning the above individuals:

Joaquim Agut (Chief Executive Officer) joined Cirsa in 2006. Prior to joining Cirsa, Mr. Agut served as a leader of the European Corporate Executive Council of General Electric, Executive Chairman of Terra Lycos (2000-2003), and as Chairman and Chief Executive Officer of Endemol, B.V. (2004-2006). He received degrees in Business Administration from I.E.S.E. (1980) and electrical engineering from the *Universidad Politécnica de Catalunya* (1977).

Carlos Duelo (Manager, Slots Division) joined Cirsa in 1994. Mr. Duelo has served in a number of positions within the Slots Division. He received a degree in Economics from the *Universitat Autònoma de Barcelona* (1993) and a degree in Marketing from ESIC (1998).

Enric Barba (Manager, B2B Division) joined Cirsa in November 2006. Prior to joining Cirsa, Mr. Barba served as Senior Vice-President for Engineering at Terra Networks and General Manager for TV Manufacturing at Sony Spain. He received a PhD in Telecommunications Engineering (1992), a Masters in Business Administration (1990) and a degree in Telecommunications Engineering (1978) from the *Universidad Politécnica de Catalunya*.

Carlos Font (Manager, Casinos Division) joined Cirsa in March 2007. Prior to joining Cirsa, he served as a senior manager of Grupo Corporativo ONO S.A., Biocentury S.L. and the Joyco Group. He received a degree in Business Administration from ESADE.

Manel Estany (Manager, Bingo Division) joined Cirsa in 2009. Prior to joining Cirsa, Mr. Estany served as Marketing Manager for Moët Hennessy Spain and as General Manager for La Sirena. He received a degree in Business Administration from ESADE (1986).

Isaac Lahuerta (General Manager, Corporate Areas) joined Cirsa in 1999. Prior to joining Cirsa, he served as Managing Director of Banco Santander de Negocios (1989-1993) and as General Manager International Division of Ferrovial (1993-1997). He received degrees in Business Administration from ESADE (1986) and Engineering from ETSICC (1980).

David Royo (Director, Chief Financial Officer) joined Cirsa in 2000. Prior to joining Cirsa, Mr. Royo served as Managing Director of Financial Planning for Grupo Financiero Serfin (1992-1997) and as Managing Director of Grupo Financiero Bancrecer (1997-1999). He received a degree in Business Administration from ESADE (1982).

Miquel Vizcaino (Director, Legal) joined Cirsa in 1990. Prior to joining Cirsa, Mr. Vizcaino served as Legal Counselor of Gilabert Servicios S.L. (1987-1990). He received a degree in Business Law from IE (1987) and a degree in Law from *Universidad Autónoma de Barcelona* (1986).

Xavier Cots (Director, Human Resources) joined Cirsa in 2000. Prior to joining Cirsa, he served as Director of Human Resources of Gates Vulca (1996-1998) and as Director of Human Resources Europe for BIC Graphic Europe S.L. (1998-2000). He received a degree in Law from U.O.C. (2005), a degree in Business Administration from *Universidad de Barcelona* (1985) and a degree in Human Resources Management from EADA (1993).

Antonio Hostench (Manager, Corporate Development and Strategy) joined Cirsa in June 2008. Prior to joining Cirsa, he served as General Manager of N+1 Corporate Finance (2005-2008) and Managing Partner of Roland Berger Strategy Consultants (1996-2005). He received degrees in Business Administration from IESE (1994) and Engineering from the *Universidad Politecnica de Catalunya* (1990).

Compensation of Managers and Executive and Divisional Officers

For the year ended December 31, 2013, we paid an aggregate of approximately €4.8 million to our directors and executive and divisional officers, including cash compensation for salary and bonuses. In 2017, our deferred compensation program will result in payments to certain of our executive and divisional officers in an approximate aggregate amount of €4.5 million. In addition, company cars have been provided for certain of our directors and executive and divisional officers.

11. PRINCIPAL SHAREHOLDERS

As of December 31, 2013, Cirsa Funding Luxembourg S.A. had issued and outstanding 20,310 ordinary shares, all of which were held by Cirsa.

The following table sets forth, as of December 31, 2013, information regarding beneficial ownership of Cirsa's outstanding ordinary shares (excluding treasury shares):

| Name and Address of Owner of Record | Number of Shares of Record | Percentage of Shares of Record |
|--|---|---|
| Manuel Lao Hernández Ctra. de Castellar, 298 08226 Terrassa Barcelona, Spain..... | 57,322,923 | 47.08% |
| Nortia Business Corporation, S.L. ⁽¹⁾ Ctra. de Castellar, 338-340 08226 Terrassa Barcelona, Spain..... | 64,432,777 | 52.92% |

(1) Manuel Lao Hernández owns 96.37% of the ordinary shares of Nortia. Members of his immediate family own the remaining 3.63%. Accordingly, Manuel Lao Hernández beneficially owns 100% of Cirsa's ordinary shares.

As of December 31, 2013, a total of 32,003,250 of Cirsa's ordinary shares, or 26.04% of Cirsa's issued and outstanding ordinary shares, are subject to pledges to secure certain obligations of Nortia under bank debt.

12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with Nortia

Transactions in the ordinary course of business

We enter into a significant number of transactions on a regular basis with Nortia. Transactions in the ordinary course of business include lease agreements, professional and other corporate services, the charter of airplanes and the sale of goods.

We lease a majority of the premises used to conduct our business (including various corporate buildings, certain office space for our slot machine operators and bingo halls) from Nortia or its subsidiaries, pursuant to lease agreements with aggregate annual payments of approximately €6.3 million. Most of these lease agreements are for a term of one year and are automatically renewable for subsequent yearly periods.

Nortia and its affiliates provide professional and other corporate services (public relations and marketing activities, real estate management, travel and insurance brokerage) which amounted to €2.9 million, €3.1 million and €4.3 million, for 2011, 2012 and 2013 respectively. We regularly provide to Nortia and its affiliate's corporate management services, such as information technology, administrative, legal, financial and human resources, that amounted to €0.9 million in 2011, €0.9 million in 2012 and €0.9 million in 2013.

In addition to the above, and according to our business needs from time to time, we charter one or more airplanes from Executive Airlines, S.L. ("Executive Airlines"), a subsidiary of Nortia. Executive Airlines, in turn, leases the airplanes we charter under three leasing arrangements. The total amounts paid to Executive Airlines for the charter of airplanes in 2011, 2012 and 2013 were €2.1 million, €1.8 million and €1.6 million respectively.

We expect to continue to enter into these types of transactions with Nortia in the future.

Financial Transactions

A long-term loan from Cirsa to Nortia is outstanding. This loan bears interest at a rate of 8.75% per annum and matures on December 31, 2017. In connection with our acquisition of a majority interest in the Winner Group, we acquired a 9% ownership interest from Nortia for a total consideration of \$10 million. This amount was deducted from the intercompany loan between Nortia and Cirsa, and did not involve any cash payment. On July 12, 2013, we acquired a majority interest in seven small Spanish slot route operator companies that were formerly part of the Opesa group (the "Acquired Group") for total cash consideration of €17.1 million, from Nortia. The minority interest in the Acquired Group not acquired will continue to be held by independent local partners in Spain. On September 30, 2013, Nortia made a voluntary cash prepayment of €12.0 million on the outstanding intercompany loan. As of December 31, 2013, the aggregate amount of this loan was €31.4 million.

At December 31, 2011 and 2012, and 2013 Nortia owed Cirsa, €4.8 million, €4.2 million and €3.6 million respectively, under certain promissory notes issued in connection with real estate transfers between Cirsa and Nortia. This includes promissory notes issued in 2004 in connection with the sale of property comprising the Unidesa R&D Center to Nortia.

As of December 31, 2013, a total of 32,003,250 of Cirsa's ordinary shares, or 26.04% of Cirsa's issued and outstanding ordinary shares, are subject to pledges to secure certain obligations of Nortia under bank debt.

Transactions with Opesa

We make direct sales of slot machines to subsidiaries of Opesa Internacional S.A. (“Opesa”), which holds controlling and non-controlling interests in slot machine operators. Opesa is a subsidiary of Nortia in which Mr. Manuel Lao Hernández and his family together own a 100% interest. Opesa and its subsidiaries compete directly with us in the slot machine operations business. For the years ended December 31, 2011, 2012 and 2013, approximately €10.4 million, €9.2 million and €0.7 million respectively, of our B2B sales of slot machines were to subsidiaries of Opesa, which benefits from significant volume discounts.

In addition, we regularly provide Opesa and its subsidiaries with corporate management services, such as information technology and legal and human resources, that amounted to €0.9 million, €0.8 million and €0.8 million in 2011, 2012 and 2013, respectively.

Transactions with Directors

Cirsa maintains a cash account with shareholders and directors for the purpose of clearing business expenses. As of December 31, 2013, the balance of this cash account was €0.8 million.

13. DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of certain of our significant indebtedness as of December 31, 2013. The summary is not complete and reference should be made to the full text of the documents for such indebtedness, including the indenture for the notes and the intercreditor agreement.

| | <u>Payments due</u> <u>by period ending December 31,</u> | | | | | <u>After</u> | <u>Total</u> |
|---------------------------------------|---|-------------|-------------|-------------|-------------|------------------------------------|--------------|
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>December</u> <u>31, 2018</u> | |
| | (€ in millions) | | | | | | |
| Bank loan agreements..... | 60.8 | 27.0 | 21.8 | 9.0 | 5.2 | 11.1 | 134.9 |
| Revolving facilities..... | 10.3 | — | — | — | — | — | 10.3 |
| Receivables financing..... | 0.3 | — | — | — | — | — | 0.3 |
| Total bank debt..... | 71.4 | 27.0 | 21.8 | 9.0 | 5.2 | 11.1 | 145.5 |
| Capital leasing agreements..... | 10.1 | 4.5 | 2.3 | 0.8 | 0.9 | 3.0 | 21.6 |
| Notes..... | 5.3 | — | — | — | — | 764.7 | 770.0 |
| Gaming tax deferrals..... | 11.6 | 0.2 | 0.1 | 0.1 | 0.1 | 0.3 | 12.5 |
| Promissory notes and other loans..... | 8.2 | 3.6 | 2.8 | 2.6 | — | — | 17.3 |
| Total..... | 106.6 | 35.3 | 27.1 | 12.6 | 6.2 | 779.2 | 966.9 |

As of December 31, 2013, we had total debt of €966.9 million (including principal amount and accrued interest).

Bank Loan Agreements

As of December 31, 2013, we were party to 134 bank loan agreements with 39 banks. As of December 31, 2013, the aggregate outstanding principal amount under these loans was €145.5 million with interest rates ranging between 1.1% and 9.5%. Some of these loan agreements are secured by certain of the assets of our Marbella casino. One loan agreement is secured by the shares of certain companies in our Bingo Division, as well as certain of their assets. The loan agreements typically contain financial maintenance and certain restrictive covenants.

Revolving Facilities

As of December 31, 2013, we were party to 55 revolving facilities with 21 banks which agreements provide for, subject to satisfaction of certain drawn down conditions, aggregate borrowings of up to €20.4 million. As of December 31, 2013, the aggregate outstanding principal amount under these credit facilities was €10.3 million with interest rates ranging between 2.5% and 7.8%.

These revolving facilities have an average term of three years, but can be terminated at the discretion of the lender annually.

Receivables Financing

We have entered into financing arrangements under which we obtain loans backed by a portion of our trade receivables. These arrangements do not have a maturity of more than 180 days. As of December 31, 2013, we were party to 10 receivable financing agreements with 8 banks which allow for borrowings of up to €5.8 million. As of December 31, 2013, the aggregate outstanding principal amount under these financing arrangements was €0.3 million, with interest rates ranging from between 3.8% and 4.3%.

Capital Leasing Agreements

As of December 31, 2013, we were party to 103 capital leasing agreements with 23 financial institutions. Most of these leasing agreements are granted under master leasing agreements that set forth the main terms and conditions of each lease and have a term of three to four years.

At December 31, 2013, the aggregate outstanding principal amount (including accrued interest) of these leasing agreements was €21.6 million.

Gaming Tax Deferrals

In Spain, gaming tax accrues annually and, in most of the Spanish autonomous regions, gaming tax is required to be paid in quarterly installments.

We generally apply for a deferment of the payment of the gaming tax with the tax authorities of the various Spanish autonomous regions in which we operate for a period ranging from three to six months. Typically, gaming taxes may be deferred for three to six months, but, from time to time, some tax authorities expressly authorize the deferment of gaming taxes for a period greater than one year. As of December 31, 2013, our aggregate amount of deferred gaming taxes was €12.5 million.

Promissory Notes

We issue promissory notes from time to time to finance the purchase of gaming assets and primarily slot machine operations. As of December 31, 2013, the aggregate outstanding amount of such promissory notes was €2.6 million. Some of these notes may be secured by the assets of the acquired companies.

Casino de Rosario Loan Agreement

On April 3, 2008, Casino de Rosario S.A. entered into two loan agreements of up to \$50 million each with International Game Technology providing for an aggregate of up to \$100 million of advances. The loan agreements each have a term of six years, and interest is based on LIBOR. Both loan agreements are secured by substantially all of the assets of Casino de Rosario. Cirsa and Casino Buenos Aires are parties to one of the \$50 million loan agreements between Casino de Rosario and International Game Technology, and have provided limited credit support in respect of the loan agreement. Cirsa's partner in the Casino de Rosario joint venture, Casino Club S.A., is a party to the second of the \$50 million loan agreements between Casino de Rosario and International Game Technology. Advances were drawn on a pro rata basis under the two loan agreements. The proceeds from the advances were used to fund a portion of the costs of the construction of the Rosario casino. The Rosario casino and related hotel complex commenced operations in October 2009. As of December 31, 2013, the aggregate outstanding amount payable by us under the two loan agreements was €2.4 million (or \$3.2 million).

Other Obligations

In addition to obligations under our indebtedness, we have a number of contingent obligations. Among other things, as is customary in the gaming industry, we obtain performance bonds from financial institutions and other providers in order to guarantee our compliance with gaming regulations. We also obtain performance bonds for other purposes, such as tenders for gaming concessions and the purchase of materials and equipment. As of December 31, 2013, we had obtained approximately 647 performance bonds from approximately 37 financial institutions in an aggregate amount of €105.3 million. None of these performance bonds have been called during the last three fiscal years.

As of December 31, 2013, we had long-term obligations to our joint ventures and minority investees of €3.4 million, and short-term obligations to such entities of €0.8 million. Our net debt owed to our joint ventures and minority investees was €10.0 million.

2018 Notes

On May 5, 2010, Cirsa Funding completed the issuance of €400 million of 8.75% Senior Notes due 2018 pursuant to an indenture. On January 18, 2011, Cirsa Funding completed a tap offering for the issuance of €280 million of additional 2018 Notes. On February 5, 2013, Cirsa Funding completed a tap offering for the issuance of €100 million of additional 2018 Notes. On January 14, 2014, Cirsa Funding completed a tap offering for the issuance of €120 million of additional 2018 Notes. The 2018 Notes will mature on May 15, 2018. Interest will accrue from May 5, 2010 at the rate of 8.75% per annum, and will be paid on May 15 and November 15 of each year.

At any time on or after May 15, 2014, Cirsa Funding may redeem the 2018 Notes in whole or in part by paying the following redemption prices plus accrued and unpaid interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below:

Redemption period Percentage

| | |
|-------------------------------|----------|
| 2014 | 104.375% |
| 2015 | 102.188% |
| 2016 and thereafter | 100.000% |

The 2018 Notes (and the Guarantees thereof) are subject to the terms of the Intercreditor Agreement. See “—Intercreditor Agreement.”

Revolving Credit Facility

On May 5, 2010, Cirsa, as original borrower, and the Guarantors and Global Bingo Corporation S.A., as original guarantors (the “RCF Guarantors”), entered into the Revolving Credit Facility with Deutsche Bank AG, London Branch, as arranger, original lender, facility agent (“RCF Facility Agent”) and security trustee (“Security Trustee”). We amended the Revolving Credit Facility on February 4, 2011 to, amongst other things, increase the aggregate committed amount under the Revolving Credit Facility from €30 million to €50 million. The indenture for the notes and the Intercreditor Agreement permit up to €100 million to be drawn under a senior facility and for such facility to have the benefit of the Intercreditor Agreement as described herein.

In addition to loans, the Revolving Credit Facility may be used to issue letters of credit. In addition, part of the Revolving Credit Facility can be designated, from time to time, as ancillary facilities.

Interest and maturity

The loans under the Revolving Credit Facility presently bear interest at EURIBOR (or LIBOR, as applicable) plus a margin of 4.125% per annum (plus mandatory costs, if any) payable on the last day of each applicable interest period (as determined in accordance with the terms of the Revolving Credit Facility).

The current termination date of the Revolving Credit Facility, as amended, is January 31, 2018.

Covenants and events of default

The Revolving Credit Facility contains certain covenants and events of default which, subject to certain conforming amendments, reflects the covenants and events of default contained in the notes. The Revolving Credit Facility also contains certain customary representations and warranties and information undertakings for facilities of this type.

Security and guarantees

The obligations under the Revolving Credit Facility are secured by a pledge over the shares of certain of Cirsa’s subsidiaries granted by Cirsa International Gaming Corporation S.A., and Global Bingo Corporation S.A. and a pledge over certain credit rights from current account agreements entered into by Global Bingo Corporation S.A. with certain of such subsidiaries (the “RCF Security”). Guarantees have been provided by Cirsa and the RCF Guarantors, subject to certain customary limitations relating to such matters as unlawful financial assistance or which would result in directors or officers acting in contravention of their fiduciary duties and/or would subject them to civil or criminal or personal liability as a result of providing such guarantees.

While the aggregate principal committed amount made available under the Revolving Credit Facility is presently €50 million, the lenders of any additional amounts that may be committed thereunder (up to an aggregate of €100 million) likewise shall have the benefit of such security (subject any local law limitations) and shall benefit from the terms of the intercreditor agreement.

Voluntary prepayments

Cirsa has the option to voluntarily prepay or cancel all or part of the Revolving Credit Facility in tranches of at least €1 million with five business days' notice (or such shorter period as the majority lenders under the Revolving Credit Facility may agree). Cirsa has the option to voluntarily prepay an individual lender in the event that any sum payable to that lender is required to be increased due to a tax gross-up or indemnification or where increased costs are payable in certain circumstances.

Mandatory prepayments

Mandatory prepayment and cancellation of the Revolving Credit Facility will occur upon (i) certain change of control events and upon disposal of certain assets or (ii) it being illegal for a lender to provide or continue to provide funding (such prepayment will be limited to such lender's share). In the case of any voluntary prepayment or mandatory prepayment, Cirsa would be required to pay break costs (if any).

Intercreditor Agreement

To establish the relative rights of our creditors under the Revolving Credit Facility and the indenture for the notes, Cirsa Funding, Cirsa, the RCF Guarantors (Cirsa and the RCF Guarantors, together the "Obligors") and Group Companies that are creditors in respect of certain intercompany debt have entered into an intercreditor agreement (the "Intercreditor Agreement") dated May 5, 2010, with, among others, the lenders under the Revolving Credit Facility, the RCF Facility Agent, the Security Trustee and Deutsche Trustee Company Limited, as trustee for the notes (and any additional creditors providing additional revolving credit facility financing up to an aggregate of €100 million shall accede to the Intercreditor Agreement at such time as such party provides additional financing). By accepting a note, holders of notes will be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement.

The Intercreditor Agreement sets out:

- the relative ranking of the indebtedness under the Revolving Credit Facility and the indebtedness under the notes and the Guarantees;
- certain provisions concerning enforcement action that can be taken in respect of that debt;
- the procedure of enforcement of the transaction security or any guarantee of the Revolving Credit Facility or the Guarantees and the allocation of proceeds resulting from such enforcement;
- the terms pursuant to which certain intercompany debt will be subordinated upon the occurrence of certain insolvency events; and
- turnover provisions.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and, as such, we urge you to read that document because it, and not the discussion that follows, defines certain rights (and restrictions on entitlement) of the holders of the notes.

Priority of debts

The Intercreditor Agreement provides that outstanding debt under the Revolving Credit Facility (including the guarantees thereof), the notes and the Guarantees will rank, without any preference between them, in priority to any intercompany loans.

Enforcement

The Intercreditor Agreement sets forth procedures for the enforcement of the RCF Security.

The lenders under the Revolving Credit Facility may not independently enforce the RCF Security. Enforcement with respect to such security may only be taken by the Security Trustee upon the instruction of the RCF Facility Agent.

The proceeds of enforcement of any transaction security or any guarantees of the Revolving Credit Facility or the Guarantees and all other amounts paid to the Security Trustee under the Intercreditor Agreement shall be applied in the following order:

- first, in payment pari passu and ratably (i) of the fees, costs, expenses and liabilities (and all interest thereon) of the RCF Facility Agent, the Security Trustee, and any receiver, delegate, attorney or agent appointed under the security documents or the Intercreditor Agreement and (ii) owing to the trustee for the notes in respect of Notes Trustee Ordinary Course Amounts (as defined below);
- second, in payment pari passu and ratably of unpaid costs and expenses of the RCF Facility Agent and any other finance party under the Revolving Credit Facility (other than the Security Trustee, any receiver or delegate);
- third, in payment to the RCF Facility Agent for application towards the balance of the Revolving Credit Facility;
- fourth, in payment to the trustee for the notes for application towards the balance of the notes and the Guarantees; and
- fifth, in payment of the surplus (if any) to the Obligors or other persons entitled to it for intercompany liabilities or otherwise.

As used in the Intercreditor Agreement, the term “Notes Trustee Ordinary Course Amounts” means the fees, costs and expenses of the trustee for the notes (including any amount payable to that trustee for the notes personally by way of indemnity, remuneration or to reimburse it for expenses incurred) payable for its own account pursuant to the notes documents in respect of the ongoing day-to-day administration of the notes documents and the costs of any enforcement action (including legal and other professional advisory fees) which are recoverable pursuant to the terms of the indenture for the notes or any other document entered into in connection with the issuance of the notes.

Release of Transaction Security, Guarantees and Intercompany Debt

Each holder of the notes, the lenders in respect of intercompany loans, the lenders under the Revolving Credit Facility and all other creditors (other than the Security Trustee) irrevocably authorizes the Security Trustee to unconditionally release in any manner whatsoever any guarantees of the Revolving Credit Facility, Guarantees, intercompany loans and/or transaction security and/or other liabilities in respect of such debt in connection with any Enforcement Action taken or to be taken by the Security Trustee in accordance with the provisions of the Intercreditor Agreement and the other relevant Finance Documents, and the Security Trustee (and the RCF Facility Agent, trustee for the notes and relevant intercompany lender) shall promptly execute any such release or take such other action as is reasonably required to effect any such release at the expense of Cirsa.

It is a condition to the release of any Guarantees of the notes and other liabilities in respect of the notes and the Guarantees that the proposed Enforcement Action taken or to be taken by the Security Trustee involves the sale of shares and/or assets and that:

- either (a) such sale is made pursuant to a public auction or a process or proceedings approved or supervised by or on behalf of any court of law; or (b) in connection with such sale, an internationally recognized investment bank selected by the Security Trustee has delivered an opinion to the trustee for the notes that the sale price is fair from a financial

point of view after taking into account all of the relevant circumstances in connection with such sale;

- the proceeds of such sale will be received by the Security Trustee in the form of cash (or substantially all cash);
- immediately prior to or concurrently with the completion of such sale, the relevant Guarantor and each of its Subsidiaries is or will be simultaneously and unconditionally released from all guarantees of the Revolving Credit Facility, other liabilities in respect of the Revolving Credit Facility and any secured hedging obligations relating thereto and all intercompany debt owed by such Group Company (or such debt is sold or otherwise disposed of by the relevant creditors to the purchaser of the relevant Group Company) and such obligations are not assumed by the purchaser of such Guarantor or an affiliate of such purchaser; and
- the net cash proceeds of sale are applied as described under “—Enforcement.”

Intercompany debt

Pursuant to the Intercreditor Agreement, Cirsa and its subsidiaries party thereto that are creditors in respect of intercompany debt have agreed to subordinate intercompany debt to debt under the Revolving Credit Facility, the notes and related guarantees.

In addition, neither Cirsa nor any of its subsidiaries that are creditors in respect of intercompany debt may accept the benefit of any security, guarantee, indemnity or other assurance against financial loss in respect of intercompany debt. Neither Cirsa nor any obligor may make any payment on or otherwise acquire or satisfy any intercompany debt if an enforcement action has occurred or is continuing in relation to the Revolving Credit Facility or the notes without the consent of the RCF Facility Agent.

Cirsa has agreed to procure that any Group Company that makes available intercompany debt to an Obligor or Group Company over which security has been granted to the lenders under the Revolving Credit Facility shall become a party to the Intercreditor Agreement in respect of such intercompany debt.

Turnover

If any creditor (defined in the Intercreditor Agreement as the trustee for the notes on behalf of the holders of the notes, the Security Trustee, the lenders under the Revolving Credit Facility, the RCF Facility Agent and any receiver or delegate) or Cirsa or any of its subsidiaries receives or recovers a payment in contravention of the Intercreditor Agreement, such creditor shall hold such payment in trust and pay over such amounts to the Security Trustee for application in accordance with the provision described above under “—Enforcement.”

In addition, if the trustee for the notes on behalf of the holders or the Cirsa Funding receives any amount from a member of the Group after enforcement of the notes or the Revolving Credit Facility, such person shall hold such amount in trust and pay over to the Security Trustee for application in accordance with the provisions described under “—Enforcement.”

14. RISK FACTORS

An investment in the notes involves a high degree of risk. You should carefully consider the risk factors described below and all other information contained in this annual report. These risks and uncertainties are not the only ones we face. We also face additional risks and uncertainties that are not currently known to us or that we currently consider immaterial. The occurrence of the risks described below or such additional risks could have a material adverse impact on our business, financial condition and results of operations, including our ability to make payments on the notes or on the trading price of such notes. Various statements in this annual report, including the following risk factors, contain forward looking statements.

Risks Relating to the Gaming Industry and Our Business

Our business will be negatively impacted by the economic downturn in Spain and other markets in which we operate.

For the year ended December 31, 2013, our operations in Spain accounted for 35.3% of our consolidated net operating revenues and 25.5% of our consolidated EBITDA. Spain is currently experiencing a significant economic downturn. Spain entered into a recession in the third quarter of 2008, and the effects of the global economic downturn have been exacerbated by a real estate crisis and pressures from a relatively high fiscal deficit and external indebtedness. Spain's public debt has been downgraded by rating agencies on a number of occasions commencing in 2010. The unemployment rate was reported to be 25.6% at the end of December 2013 and the gross domestic product contracted by 1.4% in 2012 and 1.2% in 2013. The economic downturn has had, and will likely continue to have, a number of negative impacts on our operations in Spain. For example, the aggregate number of visitors to our slots arcades and bingo and casino halls in Spain as well as their average visit length and amount wagered have decreased commencing in 2009, and have not yet recovered. The decrease in visitors and length of visit have, in turn, adversely affected our results of operations since 2009. The economic downturn in Spain and the effects of the credit crisis have also adversely impacted the availability and cost of our bank financing in Spain, and we believe that these conditions will continue.

Our results of operations are also dependent on the economic conditions of other markets in which we operate, including Italy, Argentina, Panama, Colombia and other parts of Latin America, some of which have experienced declines recently and during various periods in the past decade. Our business is particularly sensitive to reductions in discretionary consumer spending, which may be affected by such negative economic conditions. Economic contraction, economic uncertainty and the perception by our customers of weak or weakening economic conditions may cause a decline in demand for entertainment in the forms of the gaming services that we offer. In addition, changes in discretionary consumer spending or consumer preferences could be driven by factors such as an unstable job market or perceived or actual disposable consumer income and wealth. Economic downturns and volatility in the various markets in which we operate may adversely affect our results of operations and financial condition.

There are risks associated with our operations outside of Spain.

For the year ended December 31, 2013, net operating revenues and Adjusted EBITDA from our operations outside of Spain accounted for 64.7% of our consolidated net operating revenues and 74.5% of our consolidated Adjusted EBITDA, respectively. We have operations in seven countries outside of Spain, including Italy and six countries in Latin America. Over the past ten years, we have expanded our operations into Latin America and Italy and may continue to expand selectively into new geographic markets. Pursuing this strategy has placed and may continue to place us in new markets and businesses in which the gaming industry and taxation and related regulatory environment are, in many cases, less developed than in Spain. See "Regulation." Taxes on slot machines or other gaming activities may be created or increased or new and more detailed regulations may be enacted. These tax increases or regulatory changes could increase our cost of regulatory or tax compliance and could have a material adverse effect on our operations. For example, the Italian government has increased the rate of gaming taxes on VLTs on several occasions in 2012 and 2013, which adversely impacted the

EBITDA of our Italian business. In many international markets in which we operate, we invest in or enter into partnership arrangements with local gaming market operators. These investments and arrangements are subject to a number of risks.

A significant portion of our international presence, representing 65.2% of consolidated EBITDA, is in Latin America, including Argentina, Panama, Colombia, Mexico, Dominican Republic, and Peru. In these markets, we are often exposed to substantial political, economic and currency risks because the governments, economies and currencies of many of these countries are more volatile than the countries of the European Union. Governments in Latin America frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business may be adversely affected by this volatility.

In addition, the costs and revenues of our operations outside the European Union are denominated in currencies other than the euro. Because our financial statements are denominated in euros, exchange rate movements between the euro and the other relevant currencies have in the past adversely impacted, and may continue to adversely impact, our results of operations. For example, our results of operations and financial position have been materially and adversely affected by the depreciation of the Argentine peso against the euro at different times over the past five years, as well as in earlier historical periods. We expect that our results of operations and financial condition will continue to be impacted by the effect of currency fluctuations in the future, particularly as we do not engage in, or have immediate plans to enter into, any currency hedging transactions. Moreover, these currency fluctuations may make period-to-period comparisons of our results from operations difficult to evaluate.

Our business in Argentina generates a significant amount of our revenues and EBITDA, and any adverse developments with respect to it could negatively impact our financial condition and results of operations.

We currently depend, and we expect to continue to depend, on our Buenos Aires riverboat casino business to generate a significant portion of our revenues and EBITDA. Our main Argentine subsidiary, Casino Buenos Aires, contributed approximately 12.8% of our consolidated Adjusted EBITDA in 2013. In addition, we have made significant investments in our Rosario casino, in which we hold a 50% interest. The Rosario casino commenced operations in October 2009, and accounted for 10.3% of our consolidated Adjusted EBITDA in 2013. We are additionally party to certain strategic arrangements with another Argentine casino operator, Casino Club, with respect to our Argentina business. In November 2011, we acquired a 33% share of a bingo hall in Buenos Aires and in November 2013 we entered into a joint venture to operate two additional bingo halls in the Province of Buenos Aires. In the future we may increase our exposure to the Argentine market through further acquisitions and/or expansion. See “Business—Strategic Arrangements in Argentina” and “Risk Factors—We do not control certain of our businesses.”

Our businesses in Argentina are subject to a wide variety of risks, including the risk of adverse legal and regulatory developments, political, social or economic instability in Argentina, depreciation of the Argentine peso, restrictions on transfer of funds and various operational risks.

Legal and Regulatory Risk. The License. The validity of the license granted to us by the State Lottery of Argentina (*Lotería Nacional Sociedad del Estado*) for the operation of our casinos in Buenos Aires has been subject to local governmental challenge and related litigation. The City of Buenos Aires alleged that the State Lottery of Argentina did not have the authority to issue the license. In 2003, the City of Buenos Aires and the State Lottery of Argentina entered into a settlement agreement, in which the parties agreed (i) that the State Lottery of Argentina has the regulatory authority over our casinos in Buenos Aires, (ii) a method for the distribution of gaming royalties and related fees between them, and (iii) to the termination of all pending litigation between them, in each case, without acknowledgement by either party of any underlying rights. The settlement agreement acknowledges the extension of the term of the license to 2019 and our right to open a second riverboat casino at the same site. The settlement agreement has a four-year renewable term, and either the State Lottery of Argentina or the City of Buenos Aires may terminate the settlement agreement by giving notice within 120 days prior to the expiration of any four-year period. Under the settlement agreement, the current term expires in

December 2015. If upon termination of the settlement agreement, the City of Buenos Aires decides to initiate new legal proceedings challenging the State Lottery of Argentina's regulatory authority over our casinos in Buenos Aires, or otherwise interferes with its operation, we believe we may be able to prevent such interference under temporary restraining orders issued at our request and currently in force against the City of Buenos Aires, or by requesting new restraining orders in the future. However, we cannot assure you that any such temporary restraining orders will be granted or enforced. If upon termination of the settlement agreement, the City of Buenos Aires challenges the continuing validity of the license, we cannot assure you that the validity of the license will be upheld. Our Argentine counsel has advised us that proceedings challenging the validity of the license may take six to 10 years to conclude.

Our existing second riverboat casino, Princess Casino, commenced operations in January 2006 and has a license to operate which expires in 2019.

In March 2005, in response to a complaint brought by an individual against the City of Buenos Aires, a City court in the City of Buenos Aires ruled that the settlement agreement was void and that the law ratifying the settlement agreement was contrary to the constitution of the City of Buenos Aires, and ordered that our first riverboat casino in Buenos Aires, Estrella de la Fortuna, be closed. The City of Buenos Aires appealed this decision in proceedings to which we were not a party, and we additionally requested that the Argentine Federal Court issue injunctions against the Buenos Aires City court order. On March 27, 2006, the City court of the City of Buenos Aires ordered that our second riverboat, Casino Princess, be closed. Upon our urgent request, the Federal Court issued various orders upholding the ruling issued in the Federal Court case and ordering the immediate re-opening of the second riverboat. On October 6, 2006, the Supreme Court of the City of Buenos Aires (the highest court of the city of Buenos Aires) held that the legal proceedings pursuant to which the City court had declared void the settlement agreement between City of Buenos Aires and the State Lottery of Argentina were null and void. There can be no assurance that the settlement agreement between the City of Buenos Aires and the State Lottery of Argentina will not be challenged in a federal court. See "Business—Litigation."

Municipal Turnover Tax. The City of Buenos Aires has claimed that the riverboat casinos in Buenos Aires are subject to a so-called municipal turnover tax and has made several attempts to inspect our premises in Buenos Aires in order to obtain the necessary evidence and information to be able to assess and collect such tax. We do not believe that we are subject to the turnover tax on a variety of grounds. Among other things, it is our position that the riverboat casinos are not located within the jurisdiction of the City of Buenos Aires. Under the provisions of a recent amendment to the settlement agreement between the City of Buenos Aires and the State Lottery of Argentina, Casino Buenos Aires has undertaken to make certain additional payments to the State Lottery earmarked for the City of Buenos Aires. Upon the receipt of these funds the City of Buenos Aires is to extinguish its various claims (including those relating to the municipal turnover tax) against our riverboat casinos. Implementation of this amendment is subject to the approval of various Argentine governmental bodies. We believe that if the amendment to the settlement agreement is approved as it stands as of the date of this annual report, its terms will prevent the City from continuing these claims. See "Business—Litigation—Litigation in connection with the casino license—Amendment to the Settlement Agreement". Nevertheless, the amendment may be rejected or, even if approved, the City of Buenos Aires may subsequently revoke its terms. If we were found to be subject to such tax and required to pay such tax, it could have a material adverse effect on our results of operations.

For a discussion of these and other legal proceedings and claims faced by our business in Argentina, see "Business—Litigation."

Political and Currency Risk. Over the past decade, the Argentine economy has experienced a severe recession, as well as a political and social crisis, and the abandonment of U.S. dollar Argentine peso parity in 2002 led to a significant depreciation of the Argentine peso against major international currencies. In recent years, the Argentine peso has depreciated against the euro and the U.S. dollar and the inflation rate has increased.

Since the abandonment of the U.S. dollar Argentine peso parity in January 2002, the Argentine government has implemented measures attempting to address its effects, recover access to financial markets, restore liquidity to the financial system, reduce unemployment and generally

stimulate the economy. Although general political, economic and social conditions in Argentina improved since 2003, significant uncertainties remain regarding the country's economic and political future. There have been a number of negative economic and political developments since 2008 and more recently that have increased the level of uncertainty. The country has experienced high rates of inflation in recent years and it is possible that Argentina will enter a deeper recession and experience higher levels of inflation, unemployment and social unrest in the future. Argentine government measures concerning the economy, including measures related to inflation, interest rates, foreign exchange controls, currency exchange rates and privatization measures have had and may continue to have a material adverse effect on private sector entities, including Casino Buenos Aires and the Rosario casino. For example, in recent years, the government of Argentina has taken various measures that have troubled foreign investors, including the nationalization of YPF S.A., one of the largest oil and gas producers in Argentina. In June 2012, there were reports in the Argentine media regarding the possible nationalization of the private sector gaming industry. We have not received any communication from the Argentine government in this regard and are unaware of any plans regarding a proposed change of ownership; however, we cannot guarantee the Argentine government will continue to permit private sector gaming in the country.

Restrictions on transfer of funds. Under current foreign exchange regulations, there are restrictions on the transfer of funds into and outside of Argentina. In 2001 and 2002, the Argentine government imposed a number of monetary and currency exchange control measures that included restrictions on the disposition of funds deposited with banks and restrictions on transferring funds abroad. In October 2011, the Argentine government introduced additional restrictions in connection with the transfer of funds. These measures require certain Argentine oil, gas and mining companies to repatriate 100% of their foreign currency earnings, insurance companies to sell all their foreign assets and repatriate the proceeds, and require official approval to buy U.S. dollars, which approval is contingent on previous tax declarations proving the necessary income. There can be no assurance that the Argentine government will not impose new restrictions on the transfer of funds outside of Argentina. The current restrictions do not affect the payment of dividends to us by our Argentine businesses. However, the transfer of U.S. dollars out of Argentina requires prior government approval and is therefore subject to prevailing political and fiscal conditions at the time such transfer request is made. We also incur significant transactional costs transferring funds out of Argentina. Additionally, there is a possibility that the government could further restrict, either directly or indirectly, the transfer of dividends from local companies to their foreign shareholders in the future. If we were unable to repatriate funds from Argentina, we would not be able to use the cash flow from Casino Buenos Aires and our other Argentine businesses to finance our operating requirements elsewhere and satisfy our debt obligations, including the notes.

Furthermore, there are separate restrictions governing the transfer of funds into Argentina. Specifically, regulations impose obligations regarding minimum repayment terms and a mandatory one year deposit requirement for funds transferred into Argentina in connection with indebtedness of non-Argentine residents, certain investments made by non-Argentine residents, and the repatriation of funds by Argentine residents. Certain transactions are exempt from the mandatory one year deposit requirement, including: foreign loans to finance imports and exports, loans to the non-financial sector with an average term of at least two years (including principal and interest payments) if such funds are used exclusively for investments in non-financial assets, direct investments from non-residents and financing obtained to repay foreign financial debt when the proceeds of the loan are used to repay such foreign debt. There can be no assurance that these restrictions will not affect our ability to finance our operations in Argentina.

Operational Risks. Dockside and riverboat facilities are subject to risks, in addition to those associated with land-based casinos, relating to weather, flood or mechanical failure and must comply with applicable regulations. Gaming operations conducted on riverboat casinos or at dockside facilities could be lost from service for a variety of reasons, including terrorism, casualty, forces of nature, movement of vessels, mechanical failure, extended or extraordinary maintenance or labor disputes. Our riverboats must also comply with various regulatory requirements as to boat design, on-board facilities, equipment, personnel and safety. Between 2006 and 2008, our riverboat casinos were closed on multiple occasions for extended periods of time due to work stoppages by employees. See "Business—Employees."

We do not control certain of our businesses.

We operate a number of our businesses through strategic partnerships, joint ventures and alliances. For example, we have entered into a *Unión Transitoria de Empresas* (“UTE”) agreement with a local partner with respect to the operation and development of our gaming operations in the City of Buenos Aires. We also hold a 50% ownership interest in the Rosario casino in Argentina and, in November 2011, we acquired a 33% share in a bingo hall in Buenos Aires. We have entered into a 50:50 joint venture with Ladbrokes PLC for sports betting in Spain, which since December 2013, also covers our online gaming activities in Spain, and we have a 50% interest in Majestic Casino in Panama. We are also operating a significant portion of our VLT business in Italy through a 50:50 joint venture arrangement. There can be no assurance that the arrangements will be successful and/or achieve their planned objectives. The performance of all such operations in which we do not have a controlling interest will depend on the financial and strategic support of the other shareholders. Such other shareholders may make ill-informed or inadequate management decisions, or may fail to supply or be unwilling to supply the required operational, strategic and financial resources, which could materially adversely affect these operations. If any of our strategic partners were to encounter financial difficulties, change their business strategies or no longer be willing to participate in these strategic partnerships, joint ventures and alliances, our business, financial condition and results of operations could be materially adversely affected. Moreover, in a number of these businesses, we do not have the power to control the payment of dividends or other distributions, so even if the business is performing well, we may not be able to receive payment of our share of any profits. Finally, there could be circumstances in which we may wish or be required to acquire the ownership interests of our partners, and there can be no assurance that we will have access to the funds necessary to do so, on commercially reasonable terms or at all. For example, under recent amendments to the Spanish Capital Companies Act (“*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*”) applicable to unlisted companies and entry expected to come into force on January 1, 2015, from the fifth financial year following registration of a Spanish company in the Commercial Registry, a member voting in favor of distribution of profits will be entitled to withdraw ownership if the general meeting does not resolve to distribute at least one third of legally distributable operating corporate profits obtained during the prior financial year. Under such circumstances, we might seek or be required to acquire the ownership interests of our partners.

We may experience significant losses with respect to individual events or betting outcomes in our On-Line Gaming Division and the failure to determine accurately the odds at which we will accept bets in relation to any particular event or any failure of our risk management processes may adversely affect our results.

In our Casino business division, some of our products involve betting where winnings are paid on the basis of the stake placed and the odds quoted, rather than derived from a pool of stake money received from all customers. Such products give rise to either a liability to make a certain payment to a customer, or the retention by us of the stake placed by such customer. However, as a result of significant winnings or losses event by event and day by day, our earnings in our business can be volatile and we cannot guarantee positive returns. In exceptional circumstances, the payout ratio could even exceed 100%. As a result, in the short term, there is less certainty of generating a positive result, and we may experience, and have from time to time experienced, significant losses with respect to individual events or betting outcomes. Any significant losses due to a high payout could have a material adverse effect on our cash flow and therefore an adverse effect on our business, results of operations, and financial condition.

In our Sportium joint venture with Ladbrokes, our odds as bookmaker are determined so as to provide an average return to us over a large number of events and therefore, over the long term, to maintain payout percentage fairly constant. Notwithstanding this, there is an inherently high level of variation in payout percentage event by event and day by day. Although Sportium has systems and controls in place that seek to reduce the risk of daily losses occurring due to high payout, there can be no assurance that these will be effective in reducing our exposure to this risk. There also can be no assurance that errors of judgment or other mistakes will not be made in relation to the compilation of odds or that the systems that Sportium has in place to limit risk will be consistently successful.

The technological solutions we have in place to block access to our online services by players in certain jurisdictions may prove inadequate, which may harm our business and expose us to liability.

Historically, the regulation of the gaming industry has been enacted and enforced at national and state levels and, currently, there is no international gaming regulatory regime. Although we seek to comply with and monitor the relevant laws and regulations, we are exposed to the risk that jurisdictions from which our advertisements may be accessed through the internet may have conflicting laws and regulations (or interpretations of such laws and regulations) with regard to the legality or appropriate regulatory compliance of our activities. Accordingly, we may be subject to the application of existing or potential laws and regulations, and fees or levies in jurisdictions in which our advertisements can be accessed through the internet. Any such laws, regulations, fees or levies may have an adverse effect on our business, financial condition and results of operations. Our exposure to this risk will increase with the expected growth of our online operations.

Although the regulatory regime for offline gaming operations is well established in many countries, the gaming laws in such countries may not necessarily have been amended to take account of the internet and the ability to offer gaming and services online. As a result, there is uncertainty as to the legality of online gaming in a number of countries. In the United States, the offer of gaming products and services online is illegal in most states. We have systems and controls in place seeking to ensure that we offer gaming products through the internet to residents in the countries in which we operate only and that we exclude access to our system from certain jurisdictions (such as the United States). The systems and controls include monitoring and analyzing information provided by potential customers' registered addresses methods and of customers' payment, specific registration procedures (for example, access to our online betting system is permitted only to customers who have completed a registration process and can provide a valid residence address and a fiscal code of the relevant country), as well as a geo-locator filtering technology that identifies the location of users logging onto our website. In addition, we do not currently accept bets or wagers from customers that we determine are located in the United States.

Despite the adoption of these measures, our procedures may not be effective. A court or other governmental authority in any jurisdiction could take the position that our systems and controls are inadequate, either currently or as the result of technological developments affecting the internet, or that our current or past business practices in relation to such jurisdiction violated applicable law. If any such actions were brought against us, whether successful or not, we may incur considerable legal and other costs, management's time and resources may be diverted, and any resulting dispute may damage our reputation and brand image and have an adverse effect on our business, financial condition and results of operations.

The gaming industry is subject to extensive regulation and licensing requirements, and our business may be adversely affected by our inability to comply with these extensive regulation and licensing requirements, regulatory changes and increases in the taxation of gaming.

Our operations are subject to significant regulation and oversight and require licenses from gaming authorities and other governmental or regulatory bodies. These regulations, among other things, govern payouts and wagers for slot machines, the types of gaming tables permitted at casinos and permissible forms of bingo. In addition to limiting the scope of our permitted activities, these regulations may limit the number of slot machines, casinos or bingo halls we may operate. Gaming authorities, governments or other regulatory bodies may deny, revoke or suspend our licenses and impose fines or seize our assets if we are found to be in violation of any of these regulations. For example, we have been involved in protracted litigation since 2007 with respect to the conduct of our Italian slot network operations with the CdC and AAMS. In 2013, we resolved the CdC litigation by paying a €37.5 million (final settlement payment of €36.0 million plus €1.5 million of interest) and the presiding court in the AAMS litigation ruled in our favor rejecting the AAMS claims (which ruling was appealed by the AAMS on January 21, 2014). The AAMS recently filed new claims unrelated to the prior litigation which we are also contesting. We also had certain of our casino licenses revoked (or threatened to be revoked) in Panama in 2009, and we were only able to secure the return, reissuance or renewal of the necessary licenses after agreeing to make substantial payments. In Ecuador, as a result of the passage of a referendum to ban gaming activities, we permanently closed our business in that country in 2012.

We also from time to time experience delays in the renewal of our gaming licenses, which can result in our operating our businesses without valid licenses and could subject us to fines and penalties, including the temporary or final closure of our facilities. Upon the expiration of a license, a regulatory could decide that in the future a given license will be available to multiple licensees, even if the previous license was exclusively granted to only one licensee. Renewing a license can be costly and time consuming, and our current license may not be renewed upon its expiration on favorable terms or at all. Any failure to renew or obtain any such license could have a material adverse effect on our business or results of operations and financial condition. Furthermore, our licenses are subject to revocation upon the occurrence of certain events, which are different for each license. Under certain circumstances, a license could be revoked upon a change of control or if determined to be against the public interest. For example, our license may be revoked if we fail to pay the applicable fees to the regulatory authority or, in certain cases, if we fail to communicate to the regulatory authority certain changes in our corporate structure. Under several of our licenses the transfer of the ownership of the license agreement is prohibited or restricted. In addition, under our licenses we are not entitled to compensation for our initial investment or loss of anticipated profits in case of early termination as a result of a breach of terms.

In addition, changes in existing regulations, including regulations not relating to the gaming industry, such as anti-money laundering and labor laws, could impair our profitability and restrict our ability to expand our business. Future increases in national or regional taxation of slot machines, casinos and bingo halls could also affect our profitability. See “Regulation”.

Our business may be adversely affected by the implementation of anti-smoking laws.

The implementation of anti-smoking laws in the countries in which we operate may have a significant adverse effect on the number of visitors to our slots arcades and bingo halls, as well as on the length of their visits. Such anti-smoking laws may also require us to make certain investments, in particular to facilitate the access of our customers to smoking areas, or may result in the closure of bars, cafés and restaurants in which our slot machines are located. For example, the results of our Bingo Division have been adversely impacted by the introduction of an anti-smoking law in Spain in 2006, and we have been required to make significant capital investment in order for our bingo halls to comply with such legislation. As of January 2, 2011, a more stringent anti-smoking law took effect in Spain that bans all smoking in many types of establishments, including bars, restaurants and casinos. This new law has had an adverse impact on our revenues and we believe that it will continue to have an adverse impact in the future.

Failure to maintain our on-line gaming licenses or comply with on-line gaming rules and regulations could adversely affect our business.

We started to expand our business into on-line internet gaming in Spain and Italy during the third quarter of 2012, after obtaining the necessary permissions and licenses. For example, in 2012, one of our competitors, Codere, challenged the granting of our Spanish on-line gaming licenses, as well as those of thirteen other gaming operators. While Codere withdrew the action in February 2013, we cannot predict if the challenges made by Codere will be resumed at a later time, and if resumed, whether such challenge will be successful. See “Regulation—Spain—On-line Gaming.” Failure to maintain these licences could negatively impact our financial condition and results of operations. We are working together with third-party advisers and service providers to establish the necessary systems, controls and procedures to ensure that we are, or will be in compliance with applicable rules, laws and regulations in our Spanish and Italian operations and have technical systems and controls in place which seek to ensure that we do not offer our gaming products and services into certain restricted jurisdictions. However, the systems, controls and procedures adopted by us may not be sufficient to comply with all applicable on-line gaming rules, laws and regulations or we may not be able to successfully block users resident in countries which restrict or prohibit on-line gaming or in which we are not licensed to conduct on-line gaming operations, such as the United States, from accessing our on-line gaming sites. Failure to comply with such rules, laws and regulations or block such users could place us in breach of licenses or key contracts or result in civil, criminal or administrative proceedings, injunctions, fines and penalties and substantial litigation expenses that could strain our management resources and may adversely affect our results of operations and financial condition.

Our failure to keep up with technological developments in the on-line gaming market could negatively impact our business, results of operations and financial condition.

The market for on-line gaming products and services is characterized by rapid technological developments, frequent new product and service offerings and evolving industry standards. The emerging character of these products and services and their evolution requires us to use technologies effectively, enhance our current products and services and continue to improve the performance, features and reliability of our technology and information systems. In addition, the widespread adoption of new internet technologies or standards could require substantial expenditure to replace, upgrade, modify or adapt our technology and systems, which could negatively impact our business, results of operations and financial condition.

There can be no assurance that the technology we are currently using will be successful, or that it will not be rendered obsolete by new technologies and more advanced systems introduced in the industry. In addition, new technology we use may contain design flaws or other defects and require modifications and/or result in a loss of confidence in our products and services by our customers. Moreover, we depend on third-party technology providers for the development and maintenance of our systems, and any failure to maintain relationships with such providers would negatively impact our business, financial condition and results of operations.

Our failure to comply with regulations regarding the use of personal customer data could subject us to lawsuits or result in the loss of goodwill of our customers.

We process sensitive personal customer data (including name, address, age, bank details and betting and gaming history) as part of our On-Line Gaming division and therefore must comply with strict data protection and privacy laws in all jurisdictions in which we operate. Such laws restrict our ability to collect and use personal information relating to players and potential players including the marketing use of that information. We also rely on third party contractors to maintain our databases and we seek to ensure that procedures are in place to ensure compliance with the relevant data protection regulations. Notwithstanding such efforts, we are exposed to the risk that data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf. If we or any of the third party service providers on which we rely fail to transmit customer information on-line in a secure manner, or if any such loss of personal customer data were otherwise to occur, we could face liability under data protection laws. This could also result in the loss of the goodwill of our existing customers and deter new customers from using our services which would have a material adverse effect on our business, financial condition and results of operations.

Our systems may be vulnerable to hacker intrusion, distributed denial of service attack, malicious viruses and other cyber crime attacks.

As with all on-line gaming and gambling companies, we may be vulnerable to cyber crime attacks which could adversely affect our business. Examples include distributed denial of service attacks (attacks designed to cause a network to be unavailable to its intended users) and other forms of cyber crime, such as attempts by computer hackers to gain access to our systems and databases for the purposes of manipulating results, which may cause systems failure, business disruption and have a materially adverse effect on our financial condition. While we will employ prevention measures, such attacks are by their nature technologically sophisticated and may be difficult or impossible to detect and defend. If our prevention measures should fail or be circumvented, our reputation may be harmed, which in turn could have a material adverse effect on our financial condition.

We may be materially and adversely affected by breaches of security and systems intrusion conducted for the purpose of stealing personal information of our customers. Any such activity would harm our reputation and deter current or potential customers from using our services, which could have a material adverse effect on our financial condition.

We may not be able to manage growth in our business.

We intend to pursue strategic acquisitions of operational assets in the gaming industry in Spain and Latin America as a part of our business plan and will expand our existing businesses on a selective basis into new gaming products and new geographic markets and new divisions. We started to

expand our business into internet gaming in Spain and Italy during the third quarter of 2012. Growth can place significant strain on our management resources and financial and accounting control systems as it requires that management identify and execute upon appropriate investments and subsequently integrate, train and manage increased numbers of employees. Unprofitable investments or expansions or an inability to integrate or manage new investments or expansions could adversely affect our operating results. More recently, we have made investments in our On-Line Gaming Division and we may be unable to recoup our investment or achieve positive EBITDA within the expected timeframe or at all. We may experience cost overruns, delays and operational difficulties with respect to these and other future projects, which could have an adverse effect on our business and results of operation. Likewise, any future acquisitions or expansions also will involve risks regarding the potential inability to raise the required capital, difficulties in obtaining regulatory approvals and the lack of the necessary experience to enter new markets. We may not successfully overcome problems encountered in connection with potential acquisitions, completed acquisitions or other expansion, and such problems could have a material adverse effect on our operating results.

We are dependent upon our ability to provide secure gaming products and maintain the integrity of our employees in order to attract customers, and any event damaging our reputation could adversely affect our business.

The real and perceived integrity and security of a gaming operation is critical to attracting gaming customers. We strive to set exacting standards of personal integrity for our employees and security for the gaming systems and devices that we provide to our customers, and our reputation in this regard is an important factor in our business dealings with customers and governmental authorities. For this reason, an allegation or a finding of improper conduct on our part, or on the part of one or more of our employees, or an actual or alleged system security defect or failure, could materially adversely affect our business and financial condition.

We are in a competitive business environment and, as a result, our market share and business position may be adversely affected by factors beyond our control.

Each of our divisions faces intense competition from other industry participants.

Slots Division. Due to the fragmentation of the slot machine segment in Spain, we compete with a large number of regional and, generally, much smaller slot machine operators. There are, however, several significant competitors, including Codere and Orenes. As the market for slot machines is consolidating, we may compete with these companies to acquire new or existing slot machine sites. This competition is based on providing site operators with the best service and most attractive revenue sharing arrangements, and could adversely impact our strategy for optimizing our slot machine operations in Spain and reduce our future profit margins. In our other geographic market, Italy, we compete with a number of other slot and VLT operators, some of which are substantially larger than us.

Casinos Division. Although casino owners have had limited direct competition from other casinos due to the limited number of licensed casinos in Spain and Buenos Aires, we may face competition from other forms of gaming, such as bingo halls, lotteries and internet gaming. In Spain, the number of casino licenses issued may increase and, as a result, there may be an increase in direct competition between casinos. The principal competitive factors in the industry include the quality and location of the facility, the nature and quality of the amenities offered and the implementation of successful marketing programs. We cannot assure you that new licenses will not be issued to competitors, thus increasing our competition in that area.

Bingo Division. Although the domestic market in Spain is dominated by a few large companies, we compete with a large number of regional bingo hall operators. Our principal competitors, each of which is substantially smaller than us, are Grupo Bingo Reunidos, Grupo Ballesteros, Grupo Rank and Grupo Orenes Franco. In addition, we estimate that independent owners operate several hundred bingo halls throughout the country. In Mexico, we compete with other licensed and unlicensed bingo hall operators. Operators of bingo halls also face competition from other forms of gaming.

B2B Division. In the manufacturing of slot machines for Spain, there is a high level of competition between a small number of manufacturers who dominate the Spanish market. We believe that the Spanish slot machine market is a separate market from the international slot machine market due to consumer preferences and Spanish regulations which impose, among other matters, specific design requirements on slot machines that are not placed in casinos. In slot machine manufacturing, our main competitors in Spain are Recreativos Franco and SENTE.

Manufacturers of slot machines can be expected to continue to improve the design and performance of their slot machines and to introduce new popular games with greater revenue producing potential and more competitive prices. From time to time, one or more of our new games may prove unsuccessful, which may erode our market share and decrease our profitability. Although we have been successful in introducing popular new games in the past, we cannot assure you that we will continue to produce popular new games in the future.

Technological Change. Constant innovation is particularly important in the manufacture of slot machines, because they have a short commercial life. For instance, we believe that the average commercial life of an installed slot machine is approximately four to five years in Spain. In addition, because of a possible novelty effect whereby customers are initially more attracted to new slot machines, initial results from these machines may be higher than expected, but may not be sustained throughout the life of the machine. Moreover, existing technology (such as internet gaming), as well as proposed or as yet undeveloped technologies may become more popular in the future and render our products less profitable or even obsolete. We cannot assure you that the technology we currently possess and the technology we may develop in the future will allow us to continue to innovate and compete effectively.

Other Factors. We believe that operators in each of the principal Spanish gaming markets (slot machine operators, casinos and bingo halls) are consolidating into larger diversified gaming companies and that this could lead to increased competition at the national and international levels. Some competitors, particularly potential foreign competitors, have greater financial and other resources than we do, especially with respect to a particular region or gaming activity, and we may not be able to compete successfully with them.

We compete to a limited extent with lotteries (the public gaming market), which comprise national (*Lotería Nacional*), regional (*Entitat Autònoma de Jocs i Apostes* which operates only in Catalonia) and charitable lotteries (ONCE).

Changes in consumer preferences could also harm our business.

Our business is dependent on the appeal of our gaming offering to our customers. Our gaming offerings compete with various other forms of gaming venues and opportunities. For example, the rapid expansion of internet gaming may render our products obsolete or oblige us to incur significant capital expenditures to meet customer demand. Changes in consumer preferences and any inability on our part to anticipate and react to such changes could result in reduced demand for our offerings and erosion of our competitive and financial position. Gaming competes with other leisure activities as a form of consumer entertainment, and may lose popularity as new leisure activities arise or as other leisure activities become more popular. The popularity and acceptance of gaming is also influenced by the prevailing social mores, and changes in social mores could result in reduced acceptance of gaming as a leisure activity. To the extent that the popularity of gaming in traditional gaming establishments declines as a result of either of these factors, the demand for our gaming offerings may decline and our business may be adversely affected.

Our success is dependent on maintaining and enhancing our brand.

Our success is dependent in part on the strength of our brand. We believe that we have a long-established, trusted, and widely recognized brand and reputation in the markets in which we operate and that our brand represents a competitive advantage in the development of our activities. We also believe that, as the gaming industry becomes increasingly competitive, our success will be dependent on maintaining and enhancing our brand strength.

There is no assurance that any of our other marketing initiatives, will be successful. If we are unable to maintain and enhance the strength of our brand, then our ability to retain and expand our customer base may be impaired, and our business, results of operations, and financial condition may be adversely affected. If we fail to maintain and enhance our brand successfully, our business, results of operations, and financial condition may be adversely affected.

We may fail to detect money laundering or fraudulent activities of our customers or third parties.

We are exposed to the risk of money laundering and fraudulent activities by our customers and third parties, including collusion between online customers and the use of sophisticated computer programs that play poker and other skill games automatically in our On-Line Gaming division. In connection with our online betting activities, we have implemented internal control systems that monitor unusual transaction volumes or unusual transaction patterns and screen the personal details of the customer, in order to minimize opportunities for money laundering and fraud, but may not always be successful in protecting ourselves and our customers from such activities. In addition, we could be targeted by third parties, including criminal organizations, for fraudulent activities, such as attempts to compromise our system that processes and collects payment information or attempts to use our betting services to engage in money laundering.

Our distribution network partners are required to abide by applicable laws, including by identifying customers placing bets. Through we have controls in place, we may fail to detect non-compliance with applicable laws or with our policies by our distribution network partners. To the extent we are not successful in protecting ourselves or our customer from money laundering and fraud activities, we could be subject to criminal sanctions and administrative fines and could directly suffer loss or lose the confidence of our customer base, which could have a material adverse effect on our business, results of operations, and financial condition. Failure by us to comply with such provisions could result in the imposition of criminal sanctions on our directors and/or administrative and civil fines on us, penalties, revocation of concessions and licenses and operational bans, and therefore have a material adverse effect on our financial condition and results of operations.

Furthermore, illegal gaming may drain significant portions of gaming volumes away from the regulated industry and adversely affect our business. A significant threat for the entire gaming industry arises from illegal activities such as illegal slot machines and, more generally, all forms of gaming that circumvent public regulation, including offshore gaming. Such illegal activities drain gaming volumes away from the regulated industry. The loss of such volumes could have an adverse effect on our business, results of operations and financial condition.

We are dependent on credit card payment service providers and other financial institutions in our On-Line Gaming division to process payments and handle cash generated by our business.

In our On-Line Gaming Division, we currently accept credit and debit card payments from customers. Certain U.S.-based card schemes and card-issuing institutions currently restrict the use of their credit cards for online gaming transactions. Should all or an additional number of the major card programs or card issuing companies stop accepting payment transactions for betting and gaming operations, our business, results of operations and financial condition could be adversely affected.

Our business is dependent on banks, credit card companies, payment processors and other financial institutions, networks and suppliers to enable funds to be paid in and withdrawn by our customers. Each of these entities depends upon an intricate network to facilitate international and multi-currency fund transfers. Any disruption in those systems or relationships could have a material adverse effect on our business, results of operations and financial condition. As a result, our business, results of operations and financial condition could be materially adversely affected.

Our results of operations could be adversely affected by a disruption of operations at our manufacturing facilities.

We conduct all of our slot machine manufacturing operations at facilities in Terrassa, Spain. Operations at these facilities are subject to a variety of risks, including:

- equipment failure;

- failure to comply with applicable regulations, including environmental regulations, and to maintain necessary permits and approvals;
- labor force shortages or work stoppages; and
- natural disasters.

Besides the revenues that we generate from selling the slot machines that we produce for third parties, our Slots Division purchases many of its products from our B2B Division. A disruption of operations at our manufacturing facilities could consequently adversely impact the results of operations of the Slots Division. Any significant disruptions in operations resulting from such events or other events may adversely affect our results of operations.

We are exposed to the risk of strikes, work stoppages and other industrial actions. We estimate that approximately 15% of our employees are members of labor unions. Nevertheless, in the future we may experience lengthy consultations with labor unions or strikes, work stoppages or other industrial actions. We are subject to different national and regional industry-wide collective bargaining agreements in each of the respective sectors in which we operate, except for our casinos in Marbella, Valencia, Puçol, La Toja and Buenos Aires, whose employees are party to collective bargaining agreements directly with us. In addition, we are a party to a collective bargaining agreement with the employees of Universal de Desarrollos Electronicos, S.A., a slot machine manufacturing subsidiary, concerning hours of employment. Although we believe that we have good relations with our employees, strikes called by employees or unions could disrupt our operations. For example, during 2006, 2007 and 2008, the operations of our Buenos Aires riverboat casinos were adversely impacted by multiple industrial actions involving the labor unions that represent employees. Strikes and other industrial actions, as well as the negotiation of new collective bargaining agreements or salary increases in the future, could disrupt our operations and make it more costly to operate our facilities, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We are subject to taxation which is complex and often requires us to make subjective determinations.

We are subject to many different forms of taxation including but not limited to income tax, gaming taxes, value added tax, social security and other payroll related taxes. Tax law and administration is complex and often requires us to make subjective determinations. The tax authorities may not agree with the determinations that are made by us with respect to the application of tax law. Such disagreements could result in lengthy legal disputes and, ultimately, in the payment of substantial amounts for tax, interest and penalties, which could have a material effect on our results of operations.

Our founder, principal shareholder and chairman, Manuel Lao Hernández, has a significant influence on our business prospects and has participations in competing business interests.

We depend significantly on Manuel Lao Hernández to develop our existing businesses and to find new corporate opportunities. The loss of his services could adversely affect our business prospects. Manuel Lao Hernández is also the chairman of our board of directors. He has the power to elect the members of Cirsa's board of directors, who in turn appoint managing directors who are responsible for the management of our day-to-day activities. Currently, the other directors on our board of directors are the son and daughter of Manuel Lao Hernández. He has significant influence on all matters to be decided by a vote of shareholders, including resolutions relating to corporate reorganizations, mergers, certain amendments to our articles of association and by-laws, the payment of dividends and the remuneration of the members of our board of directors.

Manuel Lao Hernández and his immediate family own 100% of Nortia and by extension its wholly owned subsidiary Opesa International S.A. ("Opesa"). Nortia is one of our significant shareholders, with which we maintain intercompany loan arrangements and from which we lease a number of our properties, including our corporate headquarters. We provide management, financial and other corporate services to Nortia and some of its subsidiaries, including Opesa. Opesa holds controlling and non-controlling stakes in other slot machine operators in Spain. These slot machine

operators, which are managed by third parties, collectively represent significant competition to our Slots Division.

We have in the past engaged, and expect in the future to engage, in transactions with affiliates of Manuel Lao Hernández, many of which may not have been, and may not be in the future, on an arm's length basis. See "Certain Relationships and Related Party Transactions."

Certain countries in which we operate have been subject to significant security issues in the past several years, and if such issues continue or worsen, our operations could be materially adversely affected.

Certain countries in which we operate have been subject to significant security issues in the past several years, and if such issues continue or worsen, our operations and proposed expansion plans in such countries could be materially adversely affected. For example, in the past several years, Mexico has experienced increased criminal violence, primarily due to the activities of organized crime. High crime rates and violence resulting from organized crime are particularly acute in several areas of Mexico in which we operate. The gaming hall of an illegal bingo hall operator in Monterrey, Mexico, was the subject of organized-crime-related arson. This event negatively affected our operations in Mexico through reduced attendance at our gaming halls as well as through the temporary closure of certain other halls as a result of widespread government inspections. In response to the surge in criminal activity, the Mexican government has implemented various security measures and strengthened its military and police forces. Despite these efforts, crime rates remain high. Similarly, any increase in criminal violence in other countries in which we operate could have a material adverse effect on our operations.

Terrorist attacks and other acts of violence or war may affect our business and results of operations.

Terrorist attacks and other acts of violence or war may negatively affect our business and results of operations. There can be no assurance that there will not be terrorist attacks or armed conflicts that may directly impact us, our customers or partners. Any of these occurrences could cause a significant disruption in our business and could adversely affect our results of operations.

Negative perceptions and negative publicity surrounding the gaming industry could damage our reputation or lead to increased regulation or taxation, which could adversely affect our business.

The gaming industry is exposed to negative publicity and attention generated by a variety of sources, including citizen's groups, non-governmental organizations, media sources, local authorities, and other groups and institutions. In particular, in recent years, public attention has been drawn to findings or allegations of underground betting and gaming, participation or alleged participation in gaming activities by minors, the location and concentration of gaming machines, risks related to social ills such as addiction to gaming and risks related to data protection and payment security in connection with online gaming. In addition, publicity regarding social issues related to the gaming industry, even if not directly connected to us and our businesses, could adversely impact our business, financial condition and results of operations. If the perception develops that the gaming industry is failing to address such concerns adequately, the resulting political pressure may result in the gaming industry becoming subject to increased regulation or taxation. For example, a number of local authorities in Italy have recently issued orders and enacted regulations that purport to place further restrictions on where VLTs can be located. Such increases in regulation or taxation could adversely impact our reputation, business, results of operations and financial condition.

Risks Relating to the Notes

Our substantial debt and debt service obligations could adversely affect our business, financial condition and results of operations.

We have substantial debt and debt service obligations. As of December 31, 2013, we had approximately €966.9 million of total debt and, following the January 14, 2014 issuance of the Third Additional Notes, we had approximately €1,047.9 million of total debt. See "Capitalization". Our level

of debt has increased significantly over the last several years. Our substantial debt could have important consequences to you, including, but not limited to:

- making it more difficult for us to satisfy our debt obligations, including the notes;
- increasing our vulnerability to a downturn in our business or economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, business opportunities and other corporate requirements;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which means that this cash flow will not be available to fund our operations, product research and development efforts, capital expenditures or other corporate purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry.

We may incur substantial additional debt in the future which could be senior to the notes or the Guarantees, could be secured or could mature prior to the notes. The terms of the indenture for the notes limit our ability to incur additional debt, but do not prohibit us from doing so. The incurrence of additional debt would increase the leverage related risks described in this annual report.

We require a significant amount of cash to service our debt and for other general corporate purposes. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on our debt, and to fund working capital, product development, international operations and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control, as well as the other factors discussed in these “Risk Factors” and elsewhere in this annual report.

Our business may not generate sufficient cash flows from operations and additional debt and equity financing may not be available to us in an amount sufficient to enable us to pay our debts when due, including the notes, or to fund our other liquidity needs. For a discussion of our cash flows and liquidity, see the section in this annual report entitled “Operating and Financial Review and Prospects.”

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities, research and development and capital expenditures;
- sell assets;
- obtain additional debt or equity financing; or
- restructure or refinance all or a portion of our debt, including the notes, on or before maturity.

We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our debt, including the notes, limit, and any future debt that we may incur, may limit our ability to pursue any of these alternatives.

In addition, the availability and the terms of external financing have been affected by the credit crisis that started in the summer of 2007. This could adversely impact our ability to service or refinance our debt, including the notes, and to fund our other liquidity needs. In Spain, this condition has been exacerbated during 2010 and 2011 and has deteriorated further in 2012 and 2013. Spain’s

public debt has been downgraded by rating agencies on a number of occasions since 2010. In addition, recent negative developments with respect to Eurozone financial markets, including the Greek financial crisis, have resulted in higher costs of bank financing in Spain and Italy.

We are subject to significant restrictive debt covenants, which limit our operating flexibility.

The indenture for the notes and the agreements governing some of our other indebtedness contain covenants which impose significant restrictions on the way we and our subsidiaries can operate, including restrictions on our and our subsidiaries' ability to:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- enter into any agreement that would limit the ability of Cirsa's subsidiaries to pay dividends or make other payments to Cirsa;
- transfer or sell assets;
- enter into transactions with affiliates;
- enter into sale-leaseback transactions; and
- merge or consolidate with other entities.

These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

The indenture for the notes permits us to incur future debt that may have substantially the same or more restrictive covenants. A senior credit facility may require us to maintain specified financial ratios and satisfy specified financial tests and to observe covenants that are more restrictive than the covenants under the indenture for the notes. Our ability to meet these financial ratios and tests may be affected by events beyond our control and, as a result, we may not be able to meet these ratios and tests. In the event of a default under such senior credit facility, the lenders could terminate their commitments and declare all amounts owed to them to be due and payable. Borrowings under other debt instruments that contain cross acceleration or cross default provisions, including the notes, may as a result also be accelerated and become due and payable. We may be unable to pay these debts in such circumstances.

The issuer of the notes is a finance subsidiary that has no revenue generating operations of its own and depends on cash received under its funding loans in order to be able to make payments on the notes.

Cirsa Funding is a finance subsidiary that was formed by Cirsa in order to offer and issue debt securities. Cirsa Funding conducts no business operations of its own, and has not engaged in, and will not be permitted to engage in, any activities other than the issuance of the notes and certain other indebtedness, the lending of the gross proceeds from such issuances to Cirsa, which is the borrower under the funding loans, and the servicing of its obligations under the notes and any such other indebtedness. Cirsa Funding has no subsidiaries, and its only material asset and only source of revenue is its right to receive payments from Cirsa. The ability of Cirsa Funding to make payments on the notes is therefore entirely dependent on the cash flows received under its funding loans. If the payments under such funding loans are not made by Cirsa, for whatever reason, Cirsa Funding does not expect to have any other sources of funds available to it that would permit it to make payments on the notes. In such circumstances, holders of the notes would have to rely upon claims for payment under the Guarantees, and payment under the Guarantees is subject to the risks and limitations described in “—

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees may adversely effect the validity and enforceability of the Guarantees.”

Cirsa is a holding company and is dependent on payments from its subsidiaries in order to be able to make payments under the funding loans.

Cirsa is the sole obligor under the funding loans in respect of the notes from Cirsa Funding. However, Cirsa is a holding company that conducts substantially all of its operations through first-tier holding companies and their respective operating subsidiaries. Cirsa will therefore be dependent upon the cash flow from its subsidiaries and the receipt of funds from them in the form of dividends, intercompany loans or otherwise to make payments on the funding loans. Cirsa’s operating subsidiaries may not generate cash flow sufficient to enable Cirsa to meet its payment obligations under the funding loan.

In addition, Cirsa’s subsidiaries may be restricted from providing funds to Cirsa and Cirsa Funding of the notes under some circumstances. These circumstances include:

- restrictions under Spanish corporate law which require, among other things, each of Cirsa’s Spanish subsidiaries to retain at least 10% of annual net income in a legal reserve until the reserve reaches at least 20% of such company’s share capital and that, after payment of any dividend, shareholders’ equity must exceed such company’s share capital;
- restrictions under Argentine corporate law which require a corporation to retain at least 5% of its annual net income in a legal reserve until the reserve reaches at least 20% of the company’s share capital and similar restrictions under other applicable laws;
- restrictions under Italian corporate law which require a company to retain at least 5% of its annual unconsolidated net income to legal reserve until the reserve reaches at least 20% of the aggregate nominal value of the company’s share capital;
- restrictions under foreign exchange laws and regulations that could limit or tax the remittance of dividends or transfer payments abroad; and
- existing and future contractual restrictions, including restrictions in credit facilities and other indebtedness, that affect the ability of Cirsa’s subsidiaries to pay dividends or make other payments to Cirsa or Cirsa Funding in the future.

Moreover, a significant portion of our total assets represent interests in companies that are not 100% controlled subsidiaries. The ability of Cirsa to receive funds from these companies may be limited by, in addition to the foregoing circumstances, shareholders’ agreements with the other investors in those companies, borrowing arrangements at those companies and the need of those companies to reinvest their cash flow in their operations.

Although the indenture for the notes limits the ability of Cirsa’s restricted subsidiaries to enter into consensual restrictions on their ability to pay dividends and make payments, there are significant qualifications and exceptions to these limitations.

Cirsa Funding may not be able to recover any amounts under its funding loans because its right to receive payments under such funding loans is subordinated to all third party liabilities of Cirsa.

Under Spanish insolvency law, each of the funding loans between the issuer of the notes and Cirsa will be classified as subordinated claims of Cirsa, meaning that in an insolvency proceeding they would be subordinated to the preferential and ordinary claims of Cirsa.

Not all of our subsidiaries have guaranteed, or will guarantee, the notes, and any claim by us or any of our creditors, including the holders of the notes, against such non-guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of those non-guarantor subsidiaries.

Not all of our existing and future subsidiaries have guaranteed, or will guarantee, the notes. In particular, none of the subsidiaries in our Latin American businesses (other than Gaming & Services de

Panama, S.A.) will guarantee the notes. The indenture for the notes does not limit the transfer of assets to, or the making of investments in, any of our restricted subsidiaries, including our non-guarantor subsidiaries. Accordingly, non-guarantor subsidiaries could account for a higher portion of our assets, liabilities, net sales and net income in the future.

In the event that any of our non-guarantor subsidiaries becomes insolvent, liquidates, reorganizes, dissolves or otherwise winds up, the assets of those non-guarantor subsidiaries will be used first to satisfy the claims of its creditors, including its trade creditors, banks and other lenders. Consequently, any claim by us or our creditors, including holders of the notes, against a non-guarantor subsidiary will be structurally subordinated to all of the claims of the creditors of such non-guarantor subsidiary.

You may not be able to recover any amounts under the Guarantees due to subordination provisions and releases.

Under the terms of the intercreditor agreement, the proceeds from enforcement actions under the Revolving Credit Facility and the notes and Guarantees will be applied first to repay amounts due under the Revolving Credit Facility. See “Description of Certain Indebtedness—Intercreditor Agreement.” In the event of an enforcement action under the Revolving Credit Facility, certain of the Guarantees may be released. If you (or the trustee on your behalf) receive any proceeds of an enforcement action prior to the satisfaction of the claims of those that are superior or ratable with those of the notes or Guarantees, you (or the trustee on your behalf) will be required to turn over such proceeds until superior claims, such as the obligations under the Revolving Credit Facility, are satisfied and until ratable claims are equally satisfied. Hence, you will recover less from the proceeds of an enforcement action than you otherwise would have. As a result of these and other provisions in the intercreditor agreement, you may not be able to recover any amounts under the Guarantees in the event of a default on the notes.

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees may adversely affect the validity and enforceability of the Guarantees.

Cirsa and the other Guarantors have guaranteed the payment of the notes. The notes, the Guarantees and the funding loan may be subject to claims that they should be limited, subordinated or voided in favor of our existing and future creditors under Luxembourg, New York, Spanish, Panamanian or Italian law.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance laws, a court could subordinate or void any Guarantee if it found that:

- the Guarantee was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor;
- the Guarantor did not receive fair consideration or reasonably equivalent value for the Guarantee, and the Guarantor:
 - was insolvent or was rendered insolvent because of the Guarantee;
 - was undercapitalized or became undercapitalized because of the Guarantee;
 - intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity; or
 - the Guarantee was not in the best interests or for the corporate benefit of the Guarantor.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they became due. If a court decided that any Guarantee was a fraudulent conveyance and voided such Guarantee, or held it unenforceable for any other reason, you would cease to have any

claim in respect of the Guarantor and would be a creditor solely of the issuer and the remaining Guarantors.

Under Italian law, granting of a guarantee is subject to compliance with the rules on corporate benefit and corporate authorization. If a guarantee is being provided in the context of an acquisition, group reorganization or restructuring, financial assistance issues may also be triggered.

Under the indenture, the notes are guaranteed by Cirsa Italia S.p.A. for a maximum amount of €59.6 million. The maximum amount guaranteed under the Guarantee issued by Cirsa Italia S.p.A. is subject to reduction in order to comply with the Italian law corporate benefit provisions. Following to the one-time settlement payment to the Italian CdC made on November 15, 2013, the net assets (*patrimonio netto*) of Cirsa Italia S.p.A. decreased from €47.6 million (based on the financial statements for the year ending on 31 December 2012) to €19.9 million as of December 31, 2013.

An Italian company granting a guarantee must receive a real and adequate benefit in exchange for the guarantee. Whilst corporate benefit for a downstream guarantee (i.e., a guarantee granted to secure financial obligations of direct or indirect subsidiaries of the relevant guarantor) is usually self-evident, the validity and effectiveness of an up-stream or cross stream guarantor (i.e., a guarantee granted to secure financial obligations of the direct or indirect parent or sister companies of the relevant guarantor) granted by an entity organized under the laws of Italy depend on the existence of a real and adequate benefit in exchange for the granted guarantee. The concept of real and adequate benefit is not defined in the applicable legislation and is determined on a case-by-case basis. In particular, in case of upstream and cross stream guarantee for the financial obligations of group companies, examples may include financial consideration in the form of access to cash flows through intercompany loans from other members of the group. The general rule is that the risk assumed by an Italian guarantor must not be disproportionate to the direct or indirect economic benefit to it.

Absence of a real and adequate benefit could render the guarantee provided by an Italian company *ultra vires* and potentially affected by conflict of interest. Thus, civil liabilities may be imposed on the directors of the Italian guarantor if it is assessed that they did not act in the best interest of the company and that the acts they carried out do not fall within the corporate purpose of the company. The lack of corporate benefit could also result in the imposition of civil liabilities on those companies or persons ultimately exercising control over the Italian guarantor or having knowingly received an advantage or profit from such improper control. Moreover, the guarantee granted by an Italian company could be declared null and void if the lack of corporate benefit was known or presumed to be known by the third party and such third party acted intentionally against the interest of the Italian company.

As to corporate authorizations, the granting of guarantees by an Italian company must be permitted by the by-laws (*statuto*) of the Italian company. Finally, as to the financial assistance aspects, the granting of a guarantee by an Italian company cannot include any liability which would result in unlawful financial assistance within the meaning of Article 2358 or 2474, as the case may be, of the Italian Civil Code pursuant to which, subject to specific exceptions, it is unlawful for a company to give financial assistance (whether by means of loans, security, guarantees or otherwise) to support the acquisition or subscription by a third party of its own shares or quotas or those of any entity that (directly or indirectly) controls the Italian company. Financial assistance for refinancing indebtedness originally incurred for the purchase or subscription of its own shares or quotas or those of its direct or indirect parent company would also be a violation.

Spanish and other applicable insolvency laws may not be as favorable to you as U.S. bankruptcy laws.

Cirsa and the other Guarantors are organized under the laws of Spain, Italy and Panama and the Cirsa Funding is incorporated in Luxembourg. All of Cirsa's other subsidiaries are incorporated in jurisdictions other than the United States. The insolvency laws of Spain and some of these other jurisdictions may not be as favorable to holders of the notes as the laws of the United States or some other jurisdictions.

The following is a brief description of certain aspects of insolvency law in Spain, Italy, Panama and Luxembourg. In the event that any one or more of the Cirsa Funding, Cirsa, the other

Guarantors or any other of Cirsa's subsidiaries experienced financial difficulty, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

Spanish Insolvency Law. Under Spanish insolvency law, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws.

The Spanish insolvency law (Law 22/2003), as further amended, regulates court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

The insolvency proceedings, which are called "*concurso de acreedores*," are applicable to all persons or entities. These proceedings may lead either to the restructuring and continuation of the business or to the liquidation of the assets of the debtor.

A debtor is entitled to apply for insolvency proceedings when it is in an insolvency situation, meaning that it is not able to meet its current obligations or when it expects that it will shortly be unable to do so. In this sense, insolvency proceedings are available as a type of legal protection that the debtor may request in order to avoid the attachment of its assets by its creditors. A debtor (or, in the case of a company, its directors) is legally obliged to file for insolvency proceedings within a period of two months, when it becomes insolvent, i.e., when it fails to meet its current outstanding obligations on a regular basis.

The insolvency order contains an express request for the creditors to declare debts owed to them, within a one-month period, providing original documentation to justify such debts. Based on the documentation provided by the creditors and documentation held by the debtor, the court receivers draw up a list of acknowledged creditors and classify them according to the categories established under law:

- Claims benefiting from special privileges, representing security on certain assets (basically in rem securities). These privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year. Privileged creditors are not subject to the restructuring arrangement, except if they give their express support by voting in favor of the restructuring arrangement. In the event of liquidation, they are the first to collect payment against the assets on which they are secured.
- Claims benefiting from general privileges, including among others labor and public debts. Public debts, other than those corresponding to tax withholdings and certain social security obligations, and debts held by the creditor taking the first initiative to apply for the corresponding insolvency proceedings, are recognized for half their amount. The holders of general privileges are not to be affected by the restructuring provided for the insolvency proceedings if they do not agree to the restructuring arrangement and, in the event of liquidation, they are entitled to collect payment before ordinary course and subordinated creditors, in the order established under law.
- Ordinary claims (non-subordinated and non-privileged creditors) such as ordinary commercial suppliers of the company. They will be paid on a pro rata basis.
- Subordinated claims (thus classified by virtue of an agreement or pursuant to law). Subordinated claims include, among others, those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the administrators, group companies and any shareholders holding more than 5% (for companies which have issued securities listed on an official secondary market) or 10% (for companies which have not issued securities listed in an official secondary market) of the share capital. Subordinated creditors are second level creditors; they may not vote on an arrangement and have very limited chances of collection, according to the ranking established by law. Under Spanish insolvency law, the funding loan between Cirsa and Cirsa Funding will be treated as subordinated claim.

- Claims against the estate of the debtor. These include any claims of the debtor accrued after a judicial decision declaring the insolvency proceeding (e.g. those entered into order to continue the business) as well as other claims prescribed by law, such as claim of salaries (including salaries accruing during the last 30 days before the insolvency proceeding are initiated and in an amount not exceeding two times the minimum professional salary) and judicial costs and expenses caused by the insolvency proceeding. These claims are immediately payable or payable when accrued, although the insolvency law authorizes the court receivers to alter such rule postponing payment of some of such claims when it is presumed that all claims against the estate will be paid and they deemed such delay convenient to the interest of the insolvency proceeding

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings.

When compatible, in order to protect the interests of the debtor and creditors, the law extends the jurisdiction of the court dealing with insolvency proceedings, which is, then, legally authorized to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labor or administrative law).

There is no claw-back date. Therefore, there are no prior transactions that automatically become void as a result of initiation of the insolvency proceedings. The court receivers may only challenge those transactions that could be deemed as detrimental or having "damaged" the insolvency estate, provided that they have taken place within two years prior to the declaration of insolvency (transactions taking place earlier than two years before insolvency has been declared may be rescinded subject to ordinary civil code based actions). Those transactions that are classified as "ordinary" transactions, according to the business of the debtor, are not subject to challenge. "Damage" does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interests. In any case, the law refers to transactions that are somehow exceptional: damage exists (as a non-rebuttable presumption) in case of donations and early payment of obligations maturing after the insolvency declaration and damage is deemed to exist (as a rebuttable presumption) in case of transactions entered into with special related persons and when rights in rem have been created in order to protect already existing (non-secured) obligations; in the remaining cases, damage would have to be proved.

Italian Insolvency Law. In Italy, the courts play a central role in the insolvency process. Moreover, the enforcement of security interests by creditors in Italy can be time consuming.

The two primary aims of Royal Decree No. 267 of March 16, 1942 (the main Italian bankruptcy legislation), as reformed and currently in force (the "Italian Bankruptcy Law"), are to maintain employment and to liquidate the debtor's assets for the satisfaction of creditors' claims. These competing aims have often been balanced by selling businesses as going concerns and ensuring that employees are transferred along with the businesses being sold.

Under the Italian Bankruptcy Law, bankruptcy must be declared by a court, based on the insolvency (*insolvenza*) of a company. Insolvency occurs when a debtor is no longer able to regularly meet its obligations as they become due. This must be a permanent, and not a temporary, status in order for a court to hold that a company is insolvent.

The following forms of debt restructuring and bankruptcy are available under Italian law for companies in a state of crisis and for insolvent companies:

- *Restructuring outside of judicial process (concordato stragiudiziale).*

It is preferable to deal with the insolvency of a company in the context of an in-court insolvency proceeding because informal arrangements put in place to effect an out-of-court restructuring are susceptible to being reviewed by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions. However, in cases where a company is in distress, it may

be possible for it to enter into an out-of-court arrangement with its creditors, which may safeguard the existence of the company.

- *Out of court reorganization plans (piani di risanamento) pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law.*

Out-of-court debt restructuring agreements are based on reorganization plans (*piani di risanamento attestati*) prepared by companies, usually with the assistance of third party advisors, in order to restructure their indebtedness and to ensure the restoration of their financial condition. An independent expert appointed by the debtor has to verify the feasibility of the reorganization plan and the truthfulness of the business data provided by the company.

- *Debt restructuring agreements with creditors (accordi di ristrutturazione dei debiti) pursuant to Article 182-bis of the Italian Bankruptcy Law.*

Out-of-court agreements for the purpose of restructuring of indebtedness of a company which are entered into by the company with those of its creditors to which at least 60% of the company's outstanding debts are owed can be ratified by the court. An expert appointed by the debtor must assess the truthfulness of the business data provided by the company and declare that the agreement is feasible and, particularly, that it ensures that the debts of the non-participating creditors can be fully satisfied within the following time frames: (i) 120 days from the date of ratification of the agreement by the court, in the case of debts which are due and payable to the non-participating creditors as at the date of the ratification of the agreement by the court; and (ii) 120 days from the date on which the relevant debts fall due, in case of receivables which are not due and payable to the non-participating creditors as at the date of the ratification of the agreement by the court. Only a debtor who is insolvent or in a state of crisis can initiate this process and request the court's ratification (*omologazione*) of the debt restructuring agreement entered into with its creditors.

The debt restructuring agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

Creditors and other interested parties may oppose the agreement within 30 days from the publication of the agreement in the companies' register. The court will, after having settled the oppositions (if any), validate the agreement by issuing a decree, which may be appealed within 15 days of its publication.

Pursuant to the new Article 182 *quinquies* of the Bankruptcy law, the Court may authorize the debtor to incur in new indebtedness deductible, provided that the expert appointed by the debtor declares the aim of the new financial indebtedness results in a better satisfaction of the creditors, and to pay debts deriving from the supply of services or goods, already payable and due, provided that the expert declares that such payment is essential for the keeping of company's activities.

- *Court supervised pre-bankruptcy composition with creditors (concordato preventivo).*

A company which is insolvent or in a situation of crisis, but has not been declared insolvent by the court, has the option to make a composition proposal to its creditors, under court supervision, in order to compose its overall indebtedness and/or reorganize its business, thereby avoiding a declaration of insolvency and the initiation of bankruptcy proceedings. Such composition proposal can be made by a commercial enterprise which meets the requirements to be declared bankrupt (*fallimento*) (i.e. has had assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million for the three preceding fiscal years, gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for the three preceding fiscal years, and has total indebtedness in excess of €0.5 million). The debtor company (which has the sole power to do so) can then file a petition with the court for a *concordato preventivo* (attaching, among others, the composition proposal and a report prepared by an independent expert appointed by the debtor assessing the feasibility of the composition proposal and the truthfulness of the business data provided by the company), which from the date published in the companies register, stays enforcement and interim relief actions by the creditors (whose debt became due before the sanctioning of the *concordato preventivo* by the court) are stayed. During this time, pre-existing creditors cannot obtain security interests (unless authorised by the court) and mortgages registered within the 90 days

preceding the date on which the petition for the *concordato preventivo* is published in the companies' register are ineffective against such pre-existing creditors.

The composition proposal filed in connection with the petition may provide for: (i) the restructuring of debts and the satisfaction of creditors' claims (including through extraordinary transactions, such as the granting to creditors and to their subsidiaries or affiliated companies of shares, bonds (including bonds convertible into shares), or other financial instruments and debt securities); (ii) the transfer to a receiver (*assuntore*) of the operations of the debtor company making the composition proposal; and (iii) the division of creditors into classes (according to their similar legal standing and economic interests) and providing for different treatment of creditors belonging to different classes. The composition proposal may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

The filing of the petition for the *concordato preventivo* may be preceded by the filing of a preliminary petition for a *concordato preventivo*. The debtor company may file such petition along with its financial statements from the latest three financial years and a list of its creditors pointing out the relevant credit amounts in order to ask the court to set a deadline for the filing of the petition for the *concordato preventivo* (along with all relevant documentation, as outlined above). The court may then set a deadline of between 60 and 120 days from the date of the filing of the preliminary petition, subject to one possible further extension of up to 60 days, where there are reasonable grounds for such extension. Furthermore, in its decree setting the terms for the presentation of the documentation, the court may also appoint the judicial commissioner (*commissario guidiziale*). In advance of such deadline, the debtor may also file a petition for the approval of a debt restructuring agreement (pursuant to Article 182-*bis* of the Italian Bankruptcy Law).

The petition may propose that (i) the debtor's company's business continues to be run by the debtor's company as a going concern; or (ii) the business is transferred to one or more companies and any assets which are no longer necessary to run the business are liquidated. In both cases, the petition for the *concordato preventivo* should fully describe the costs and revenues which are expected as a consequence of the continuation of the business as a going concern, as well as the financial resources and support which will be necessary. The report of the independent expert shall also certify that the continuation of the business is conducive to the satisfaction of creditors' claims to a greater extent than if such composition proposal was not implemented.

If the court determines that the composition proposal is admissible, it appoints a judge (*giudice delegato*) to supervise the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditor's meeting. During the implementation of the proposal, the company generally continues to be managed by its board of directors, but is supervised by the appointed judicial officers and judge.

The implementation of the *concordato preventivo* is voted on at a creditors' meeting and must be approved by the majority (by value of claims) of the creditors entitled to vote and, where there are different classes of creditors, by the majority of classes. Creditors who have not voted will be deemed to approve the *concordato preventivo* proposal if they fail to notify their objection via telegraph, fax, mail or e-mail to such proposal within 20 days from the relevant meeting. Secured creditors are not entitled to vote on the proposal of *concordato preventivo* unless and to the extent they waive their security, or the *concordato preventivo* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. If an objection to the implementation of the *concordato preventivo* is filed by a dissenting class or, in the case the proposal does not provide for more classes of creditors, a number of dissenting creditors representing 20% of the credits admitted to vote, the court may nevertheless sanction the *concordato preventivo* if it deems that the relevant creditors' claims are likely to be satisfied to a greater extent as a result of the *concordato preventivo* than would otherwise be the case.

After the approval by the creditors' meeting, the court (having settled possible objections raised by the dissenting creditors, if any) confirms the *concordato preventivo* proposal by issuing a confirmation order.

If the creditors' meeting does not approve the *concordato preventivo*, the court may, upon request of the public prosecutor or a creditor, and having decided that the appropriate conditions apply, declare the company bankrupt.

- *Bankruptcy (fallimento)*.

A request to declare a debtor company bankrupt and to commence a bankruptcy proceeding (*fallimento*) and the judicial liquidation of the debtor company's assets can be filed by the debtor company itself, any of its creditors and, in certain cases, by the public prosecutor. The bankruptcy is declared by the competent bankruptcy court. The Italian Bankruptcy Law is applicable only to commercial enterprises (*imprenditori commerciali*) if certain thresholds are met (i.e. the company has had assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million for the last three fiscal years, gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for the last three fiscal years and has total indebtedness in excess of €0.5 million).

On the commencement of bankruptcy proceedings:

- all actions of creditors are stayed and creditors must file any claims for their debts within a prescribed period. However, in certain circumstances and subject to certain procedures, some security interests can continue to be enforced, i.e. secured claims are paid out of the proceeds of liquidation of the secured assets, along with the applicable interest and subject to any relevant expenses. Any outstanding balance will be considered unsecured and will rank *pari passu* with all of the bankrupt's other unsecured debt;
- the administration of the debtor company and the management of its assets pass from the debtor company to the bankruptcy receiver (*curatore fallimentare*); and
- any act of the debtor company done after a declaration of bankruptcy (including payments made) is ineffective against the creditors. Although the general rule is that the bankruptcy receiver is allowed to either continue or terminate contracts where some or all of the obligations have not been performed by both parties, certain contracts are subject to specific rules expressly provided for by Italian Bankruptcy Law.

The bankruptcy proceedings are carried out and supervised by a court-appointed bankruptcy receiver, a deputy judge (*giudice delegato*) and a creditors' committee. The bankruptcy receiver is not a representative of any one of the creditors, but is responsible for the liquidation of the assets of the debtor for the satisfaction of the creditors as a whole. The proceeds from the liquidation are distributed in accordance with statutory priority. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real property. The Italian Bankruptcy Law provides for a priority of payment to certain preferential creditors, including employees, the Italian treasury, and judicial and social authorities.

- *Bankruptcy composition with creditors (concordato fallimentare)*.

A bankruptcy proceeding can terminate prior to liquidation through a bankruptcy composition proposal with creditors. The proposal can be filed, by one or more creditors or third parties, from the declaration of bankruptcy. By contrast, the debtor or its subsidiaries are only permitted to file such proposal after one year, but within two years following a declaration of bankruptcy. Secured creditors are not entitled to vote on the proposal of *concordato fallimentare*, unless and to the extent they waive their security or the *concordato fallimentare* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. The proposal may provide for the division of creditors into classes according to their similar legal standing and economic interests (thereby proposing different treatment among the classes), the restructuring of debts and the satisfaction of creditors' claims in any manner. The *concordato fallimentare* proposal must be approved by the creditors' committee and the creditors holding the majority (by value) of claims (and, if classes are formed, also by a majority (by value) of the claims in a majority of the classes). Final court ratification is also required.

Statutory priorities.

The statutory priority given to creditors under the Italian Bankruptcy Law may be different from that established in the United States, the United Kingdom and certain other E.U. jurisdictions. Neither the debtor nor the court can deviate from the rules of statutory priority by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles. The rules of statutory priority apply irrespective of whether the proceeds are derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset.

Article 111 of the Italian Bankruptcy Law establishes that proceeds of liquidation shall be allocated according to the following order: (i) for payments of "pre-deductible" claims (i.e. claims originated in the insolvency proceeding, such as costs related to the procedure); (ii) for payment of claims which are privileged, such as claims of secured creditors; and (iii) for the payment of unsecured creditors' claims.

Avoidance powers in insolvency.

Under Italian law, there are so-called "clawback" or avoidance provisions that may lead to, *inter alia*, the revocation of payments made or security interests granted by the debtor prior to the declaration of bankruptcy. The key avoidance provisions address transactions made below market value, preferential transactions and transactions made with a view to defraud creditors. Clawback rules under Italian law are normally considered to be particularly favorable to the receiver in bankruptcy, compared to the rules applicable in other jurisdictions.

In a bankruptcy proceeding, depending on the circumstances, the Italian Bankruptcy Law provides for a clawback period of up to either one year or six months in the case of intragroup transactions (which, in the context of extraordinary administration procedures, can be extended to five and three years respectively) and a two-year ineffectiveness period for certain other transactions.

In particular, the Italian Bankruptcy Law distinguishes between acts or transactions which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner, as detailed below.

Acts ineffective by operation of law

Under Article 64 of the Italian Bankruptcy Law, all transactions entered into for no consideration are ineffective against creditors if entered into by the debtor in the two-year period prior to the insolvency declaration. Under Article 65 of the Italian Bankruptcy Law, payments of debts falling due on the day of the declaration of insolvency or thereafter are deemed ineffective against creditors if made by the debtor in the two-year period prior to the insolvency declaration.

Acts which are voidable at the request of the bankruptcy receiver/court commissioner

The following acts and transactions, if done or made during the period specified below, may be voided and declared ineffective unless the other party proves that it had no actual or constructive knowledge of the debtor's insolvency:

- transactions entered into in the year preceding the insolvency declaration, where the value of the debt or of the obligations undertaken by the debtor exceeds by 25% the value of the consideration received by and/or promised to the debtor;
- payments of debts, due and payable, made by the debtor, which were not paid in cash or other customary means of payment in the year preceding the insolvency declaration;
- pledges and mortgages granted by the bankrupt entity in the year preceding the insolvency declaration in order to secure pre-existing debts which have not yet fallen due; and
- pledges and mortgages, granted by the bankrupt entity in the six months preceding the insolvency declaration, in order to secure debts which had fallen due.

The following acts and transactions, if done or made during the period specified below, may be voided and declared ineffective if the bankruptcy receiver proves that the other party knew that the bankrupt entity was insolvent at the time of the act or transaction:

- the payments of debts that are immediately due and payable and any onerous transactions entered into or made in the six months preceding the insolvency declaration; and
- deeds granting security interests over debts (even those of third parties) which are made in the six months preceding the insolvency declaration.

Certain transactions are exempt from clawback actions, including, *inter alia*:

- a payment for goods or services made in the ordinary course of business and in accordance with market practice;
- a remittance on a bank account, provided that it does not reduce the bankrupt entity's debt towards the bank in a material and lasting manner;
- a sale, including an agreement for sale registered pursuant to Article 2645-bis of the Royal Decree No. 262 of March 16, 1942 (the "Italian Civil Code"), currently in force, made for a fair value and concerning a residential property that is intended as the main residence of the purchaser or the purchaser's family (within three degrees of kinship) or a non-residential property that is intended as the main seat of the enterprise of the purchaser, on the condition that, as at the date of the purchase, such activity is actually exercised or the investments for the start of such activity have been carried out;
- transactions entered into, payments made and security interests granted with respect to the bankrupt entity's goods, provided that they concern the implementation of a plan which allows for the restructuring of entity's debt and for the improvement of its financial position (*piano attestato*), provided that the plan is feasible and based upon truthful business data provided by the company as determined by an independent expert registered in the accounting auditors' register and eligible to be appointed as bankruptcy receiver as provided by Article 28 of the Italian Bankruptcy Law and by Article 67, paragraph 3, letter d), of the Italian Bankruptcy Law;
- a transaction entered into, payment made or security interest granted to implement a concordato preventivo (see paragraph above) or an accordo di ristrutturazione dei debiti under Article 182-bis of the Italian Bankruptcy Law (see paragraph above) and transactions entered into, payments made and security interests granted after the filing of the application for a concordato preventivo (see above);
- remuneration payments to the bankrupt entity's employees and consultants; and
- a payment of a debt that is immediately due, payable and made on the due date, with respect to services necessary for access to *concordato preventivo* procedures.

In addition, in certain cases, the bankruptcy receiver can request that certain transactions of the bankrupt entity be declared void within the Italian Civil Code ordinary clawback period of five years (*revocatoria ordinaria*). Under Article 2901 of the Italian Civil Code, a creditor may demand that transactions through which the bankrupt entity disposed of its assets to the detriment to a creditor's rights be declared ineffective with respect to such creditor, provided that the bankrupt entity was aware of such detriment (or, if the transaction was entered into prior to the date on which the claim originated, that such transaction was fraudulently entered into by the debtor to its own detriment) and that, in the case of a transaction entered into for consideration with a third person, the third person was aware of such detriment (and, if the transaction was entered into prior to the date on which the claim originated, such third person participated in the fraudulent scheme).

Extraordinary administration for large companies (amministrazione straordinaria delle grandi imprese in crisi).

An extraordinary administration procedure is available under Italian law for large industrial and commercial enterprises (commonly referred to as the “*Prodi-bis*” procedure). The relevant company must be insolvent, but demonstrating serious recovery prospects. To qualify for this procedure, the company must have employed at least 200 employees in the previous year. In addition, it must have debts equal to at least two-thirds of its assets and two-thirds of its income from sales and services during its last financial year.

Either of one or more creditors, the debtor, a court or the public prosecutor may make a petition to commence an extraordinary administration procedure. The rules which apply to such procedure are largely the same rules as those applicable to bankruptcy proceedings. There are two main phases—an administrative phase and a judicial phase.

Administrative phase

In the administrative phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and, among others things, appoints up to three judicial receivers (*commissario giudiziale*) to investigate whether the company has serious prospects for recovery via a business sale or reorganization. The judicial receiver files a report with the court within 30 days, and within 10 days from such filing, the Italian Productive Activities Minister (the “Ministry”) may make an opinion on the admission of the company to the extraordinary administration procedure. The court then decides (within 30 days from the filing of the report) whether to admit the company to the procedure or to place it into bankruptcy.

Judicial phase

Assuming that the company is admitted to the extraordinary administration procedure, the judicial phase begins and an extraordinary commissioner (or commissioners) is appointed by the Ministry. The extraordinary commissioner(s), prepares a plan which can provide for either the sale of the business as a going concern within one year (or such other term as extended by the Ministry) (the “Disposal Plan”) or a reorganization leading to the company’s economic and financial recovery within two years (or such other term as extended by the Ministry) (the “Recovery Plan”). The plan may also include an arrangement with creditors (e.g. a debt for equity swap, an issue of shares in a new company to whom the assets of the company have been transferred, etc.) (*concordato*). The plan must be approved by the Ministry.

The procedure ends upon successful completion of either a Disposal Plan or a Recovery Plan, failing which the company is declared bankrupt.

- *Restructuring of insolvent large companies (ristrutturazione industriale di grandi imprese in stato di insolvenza).*

Introduced in 2003, the industrial restructuring of large insolvent companies is also known as the “Marzano procedure”. It is complementary to the *Prodi-bis* procedure and, except as otherwise provided, the same provisions apply. The Marzano procedure is intended to be faster than the *Prodi-bis* procedure. For example, although a company must be insolvent, the application to the Ministry is made together with the filing to the court for the declaration of the insolvency of the debtor.

The Marzano procedure only applies to large insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure is commenced and at least €300 million of debt. The decision whether to open a Marzano procedure is taken by the Ministry following the debtor’s request (who must also file an application for the declaration of insolvency). The Ministry assesses whether the relevant requirements are met and then appoints the extraordinary commissioner(s) who will manage the company. The court also decides on the company’s insolvency.

The extraordinary commissioner(s) has/have 180 days (or 270 days if the Ministry so agrees) to submit a Disposal Plan or Recovery Plan. The restructuring through the Disposal Plan or the

Recovery Plan must be completed within two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and open bankruptcy proceedings.

Panama Insolvency Law. Gaming & Services de Panama S.A. will provide a Guarantee of the notes. Under Panama law, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws.

In the case of merchants, Panama's insolvency or bankruptcy provisions are set forth mainly in the Code of Commerce, but certain provisions of the Civil Code and the Judicial Code also apply.

Except for certain types of merchants (such as banks), for which special legislation applies, these provisions establish an orderly court supervised liquidation procedure, the objective of which is the apportionment of assets among creditors in accordance with certain legally established rules and priorities. Court ordered reorganizations are not presently available under Panama law.

Under Panama law, the state of insolvency of a company must be determined and declared by a court as insolvent. Insolvency exists when a debtor fails to pay any debt, so long as the debt is due, expressed in monetary terms and ascertainable. A petition for such a declaration may be filed before the competent courts either by one or more creditors or the debtor, but the failure of a debtor to make such petition when insolvency exists may lead to criminal prosecution.

In the declaration of bankruptcy the court must establish the date as of which the state of insolvency existed, which usually will coincide with the date the petition seeking a declaration of bankruptcy was filed but may be fixed up to four years plus 30 days prior to the date of the petition.

The date of insolvency is important for establishing the period of time during which certain acts of the debtor may be reviewed and set aside or declared void by the court for the benefit of the bankruptcy estate. Acts that may be set aside or declared void include gratuitous acts, the granting of a security interest or a preference in respect of previously contracted obligations, the pre-payment of debts not yet due, and the payment in kind of debts that are past due.

Upon the declaration of bankruptcy by the court the debtor immediately becomes separated from its assets and cannot administer them or dispose of them; administration of a debtor's assets (the bankruptcy estate) is transferred to its creditors represented by a curator or administrator appointed by the court. Upon such declaration, the debts of the bankrupt, whether commercial or civil, are deemed to be due and payable as of the date the bankruptcy is declared; and all such debts cease accruing interest, except for those secured by pledge or mortgage and then only up to the value of the collateral. All judicial proceedings brought against the bankrupt debtor in any court within the four years prior to the date of the declaration of bankruptcy must be accumulated and dealt with in the bankruptcy proceedings. Any attachments over assets of the debtor which are issued by the bankruptcy court are given preference over attachments previously issued, except for attachments relating to property which is subject to a security interest such as a mortgage or pledge.

The Code of Commerce provides that a guarantor may demand that a creditor pursue the principal debtor and its assets before demanding payment from the guarantor or its bankruptcy. If the bankrupt is a guarantor and the obligations of the principal debtor are not due and payable, the Code of Commerce provides that the principal debtor must either prepay the debt or the bankruptcy estate would be released from the guarantee. In effect, the principal debtor is required to obtain a suitable guarantor to replace the bankrupt guarantee.

The Gaming Control Board of Panama has adopted regulations providing that the judicial administrator of an insolvent company with gaming activities authorized by the Gaming Control Board, such as Gaming & Services de Panama S.A., shall not be permitted to continue to engage in gaming activities, such as the operation of casinos, for the benefit of the creditors, unless previous approval from the Gaming Control Board has been obtained.

The Code of Commerce sets forth the following rules with respect to the application of the bankruptcy estate to the payment of the outstanding obligations: all creditors, whether or not they have a lien or privilege, have the right to be paid from the bankruptcy estate; the payment of credits must be made out of the income derived from the sale of the debtor's assets in accordance with the ranking set

out in the Civil Code; secured creditors have the right to receive payment from the sale of the collateral; secured creditors may not participate in the distribution of the bankruptcy estate unless they waive their security interest over the collateral; and secured creditors may nonetheless seek to recover any unsatisfied portion of their debt from the bankruptcy estate by participating with all of the unsecured creditors on a pro rata basis.

In bankruptcy, the credits will rank as to each other as follows:

- For movable property and assets of the bankrupt, the ranking of credits is:
 - credits for the construction, repair, preservation and appreciation of the sale price of movable property and assets in possession of the bankrupt, up to the value of the same;
 - credits for the transportation of the transported assets, for the price of the same, and preservation expenses and rights; and
 - credits for rents and leases of more than one year, over the movable assets located within the leased or rented property.
- For real estate property, assets and rights of the bankrupt, the ranking of credits is:
 - credits in favor of the Panamanian state in which the real estate is located, over the assets of taxpayers and for the amount of the taxes owed;
 - credits in favor of insurance companies, over the insured assets;
 - mortgage credits registered in the Public Registry, of mortgage assets; and
 - credits that have been pre-emptively registered in the Public Registry, due to a judicial order, attachment or execution of judicial sentence, over the assets that have been affected by said pre-emptive registration.
- Regarding other movable and real estate property, assets and rights of the bankrupt, the ranking of credits is:
 - credits in favor of any municipality for taxes owed by the bankrupt; and
 - credits owed in relation to expenses incurred by the bankrupt for purposes of judicial and administrative management of the insolvency and for the common interest of all creditors.

Bankruptcy proceedings in Panama and therefore the liquidation of a debtor may take a considerable amount of time.

In the event that the Panamanian Guarantor, Gaming & Services de Panama S.A., entered into bankruptcy proceedings, its Guarantee could be challenged. If any challenge to the validity of such Guarantee were successful, holders of the notes may not be able to recover any amounts under the Guarantee provided by Gaming & Services de Panama S.A. Likewise, upon such bankruptcy declaration, the Gaming Control Board could deny the court appointed curator the administration of Gaming & Services de Panama S.A. operation, in which case holders of the notes may not be able to recover any amounts under the Guarantee provided by Gaming & Services de Panama S.A. from operations that could otherwise continue until the bankruptcy proceedings are concluded.

Luxembourg Insolvency Law. The Issuer, which is incorporated in the Grand Duchy of Luxembourg, will issue the notes. Under Luxembourg insolvency laws, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws. Under Luxembourg law, the following types of proceedings (together referred to as insolvency proceedings) may be opened against an entity having its registered office or centre of main interest in Luxembourg:

- Bankruptcy proceedings (*faillite*), the opening of which may be requested by the company or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings if the company (i) is in a state of cessation of payments (*cessation des paiements*) and (ii) has lost its commercial creditworthiness. If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings *ex officio* (absent a request made by the company or a creditor). The main effect of such proceedings is the suspension of all measures of enforcement against the company, except, subject to certain limited exceptions, for secured creditors, and the payment of the creditors in accordance with their rank upon realization of the assets.
- Controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the company and not by its creditors.
- Composition proceedings (*concordat préventif de faillite*), which may be requested only by the company and not by its creditors. The court's decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.
- In addition to the proceedings described above, your ability to receive payment on the notes may be affected by a decision of a court to grant a stay on payments (*sursis de paiements*) or to put the Issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that is in violation of the commercial code or of the laws governing commercial companies. The management of such liquidation proceedings will generally follow the rules of bankruptcy proceedings.

The liabilities of Cirs Funding in respect of the notes will, in the event of the liquidation of the Issuer following, in particular, bankruptcy or judicial liquidation proceedings only rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the Issuer's debts entitled to priority under Luxembourg law. Preferential debts under Luxembourg law include:

- money owed to the Luxembourg Revenue in respect of, for example, income tax deducted at source;
- value added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and, only to the extent a surplus is realized).

During such insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited, in particular in the event of controlled management proceedings expressly providing that the rights of secured creditors are frozen until a final decision has been taken by the court as to the petition for controlled management and may be affected thereafter by any reorganization order given by the court.

Furthermore, you should note that declarations of default and any subsequent acceleration (such as acceleration upon the occurrence of an event of default) will not be enforceable during controlled management proceedings.

Luxembourg insolvency laws may also affect transactions entered into or payments made by a Luxembourg company during the pre-bankruptcy period (*période suspecte*) which is a maximum of six months (and ten days, depending on the transaction in question) preceding the judgment declaring bankruptcy, except that in certain specific situations a Luxembourg court may set the start of the suspect period at an earlier date. In particular:

- pursuant to article 445 of the Luxembourg Code of Commerce (*code de commerce*), specified transactions (such as, in particular, the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to article 446 of the Luxembourg Code of Commerce, payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt party's cessation of payments; and
- pursuant to article 448 of the Luxembourg Code of Commerce and article 1167 of the Civil Code (*action paulienne*) gives the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts, except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency were crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. As of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate.

Insolvency proceedings may hence have a material adverse effect on the relevant Luxembourg company's business and assets and the Luxembourg company's respective obligations under the notes (as Issuer).

Finally, any international aspects of Luxembourg bankruptcy, controlled management and composition proceedings may be subject to Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings.

We have not prepared, and we do not intend to prepare, financial information in accordance with U.S. GAAP or separate Guarantor financial data.

We have prepared our financial statements in accordance with IFRS-EU (and prior to 2008, we prepared our financial statements in accordance with Spanish GAAP), which varies significantly from the U.S. GAAP and results in significant differences in reported operating results and financial condition from those under U.S. GAAP. Moreover, the indenture for the notes does not require us to reconcile future financial statements to U.S. GAAP. We also have not presented separate financial statements or summary financial data for the Guarantors in this annual report, and are not required to do so in the future under the indenture for the notes.

You may be unable to enforce judgments obtained in U.S. courts against the Cirsa Funding, Cirsa or the other Guarantors.

The directors and executive officers of Cirsa Funding, Cirsa, and the other Guarantors are non-residents of the United States and the assets of these companies and their directors and officers are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and officers in the United States or to enforce judgments against them outside of the United States.

We have been advised by our Luxembourg, Spanish, Italian and Panamanian counsel, respectively, that there can be no assurance that a Luxembourg, Spanish, Italian or a Panamanian court would enforce a judgment against the Issuer, Cirsa and any of the other Guarantors obtained in the United States.

We may not be able to finance a change of control offer.

The indenture for the notes requires Cirsa Funding to make an offer to repurchase the notes at 101% of their principal amount if we experience a change of control, and Cirsa must make a payment to the Cirsa Funding under the funding loans in such amount. As described above, Cirsa depends on the cash flow of operating subsidiaries and the Cirsa Funding relies on payments by Cirsa under the funding loans to make payments on the notes, including offers to repurchase. The failure of Cirsa Funding to effect a change of control offer when required would constitute an event of default under the indenture. However, some important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a “change of control” under the indenture.

You may not be able to resell the notes easily.

We cannot assure you that an active or liquid trading market will continue for the notes. Future liquidity will depend, among other things, on the number of holders of the notes, our financial performance, the market for similar securities and the interest of securities dealers in making a market in the notes.

For a period of one year after the issue date of the Third Additional Notes, the Third Additional Notes issued under Rule 144A will not be fungible with the Initial Notes, the First Additional Notes and the Second Additional Notes issued under Rule 144A.

In addition, because the notes have not been, and are not required to be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction, they may not be offered or sold except to QIBs in accordance with Rule 144A or to non U.S. persons in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and all other applicable laws. These restrictions may limit your ability to resell the notes.

You may face foreign exchange risks by investing in the notes.

The notes are denominated and payable in euros. If you measure your investment returns by reference to a currency other than euros, an investment in the notes will entail foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which you measure the return on your investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which you measure the return on your investments could cause a decrease in the effective yield of the notes below their stated coupon rates and could result in a loss to you when the return on the notes is translated into the currency by reference to which you measure the return on your investments. There may be tax consequences for you as a result of any foreign exchange gains or losses resulting from an investment in the notes.

15. CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and consolidated capitalization, as of December 31, 2013, (i) on an actual basis and (ii) as adjusted to give effect to the offering of €120.0 million principal amount of 2018 Notes issued on January 14, 2014. This table should be read in conjunction with “Operating and Financial Review and Prospects,” the consolidated financial statements and “Description of Certain Indebtedness” included elsewhere in this annual report.

| | As of | |
|--|--------------------------|-----------------|
| | December 31, 2013 | |
| | As | As |
| | Actual | Adjusted |
| | (€ in millions) | |
| Cash and cash equivalents ⁽¹⁾ | 58.4 | 139.4 |
| 2018 Notes ⁽²⁾ | 770.0 | 893.0 |
| Bank loans | 145.5 | 103.5 |
| Capitalized leases ⁽³⁾ | 21.6 | 21.6 |
| Gaming tax deferrals | 12.5 | 12.5 |
| Other indebtedness | 17.3 | 17.3 |
| Total debt..... | 966.9 | 1047.9 |
| Total equity..... | (31.6) | (31.6) |
| Total capitalization | 935.3 | 1,016.3 |

(1) As adjusted reflects the application of the net proceeds of the 2018 Notes issued on January 8, 2014, after repaying €42.0 million of existing indebtedness, including €25.0 million principal amount of indebtedness under the Revolving Credit Facility (which was drawn on November 15, 2013 for the purpose of paying the CdC after Cirsa Italia reached a final; agreement with respect to the CdC’s claims), paying €3.0 million of fees and expenses related to the offering but including €6.0 million million of issue premium. The remaining amount was funded as cash on balance sheet for general corporate purposes. Excludes proceeds for payment of interest accrued from November 15, 2012 to the issue date.

(2) Represents (i) €780.0 million principal amount of the notes issued on May 5, 2010, January 18, 2011 and February 5, 2013 plus accrued interest (€8.5 million), net of amortized debt issuance costs (€14.5 million) and original issue discount (€4.0 million), as adjusted for the issuance of €120.0 million principal amount of notes issued on January 14, 2014, with deduction of amortized issuance costs of the offered notes (€3.0 million) but including €6.0 million of issue premium.

(3) Primarily represents capital leases for slot machines.